

Birmingham City Council

Report to Cabinet

27 July 2021

Subject: Medium Term Financial Plan Update

Report of: Rebecca Hellard, Interim Director of Council Management

Relevant Cabinet Member: Councillor Ian Ward, Leader of the Council

Relevant O &S Chair(s): Councillor Carl Rice – Co-ordinating Overview and Scrutiny Committee

Report author: Beverley Sullivan, Financial Planning

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 type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, add Forward Plan Reference:		
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 This report provides an update to the Council's 10- year medium-term financial plan (MTFP) in order to inform the business and financial planning round for 2022/23, with the detailed planning horizon being extended a further year to 2025/26. The report considers the medium-term financial plan, including the impact of the 2020/21 outturn, any ongoing impact of COVID and other key financial assumptions together with national and local policy issues that the Council needs to consider in making its plans for the forthcoming period.
- 1.2 The report also sets out an approach for the 2022/23 budget process. The MTFP report has been produced a quarter early this year as part of our improved

financial processes; last year the update to the MTFP was done in Autumn. This improvement allows us to identify and respond to issues early.

- 1.3 This is a snapshot of changes required to the assumptions in the medium-term financial plan. It is recognised that the current financial and economic conditions are continually changing, particularly in the wake of the pandemic, as well as the government response to this.
- 1.4 As at February 2021, the indicative projected revenue budget funding gap was £80m by 2024/25.
- 1.5 A mid-year medium-term financial plan report will come back to Cabinet in October 2021 setting out a more developed response and containing plans to manage the budget gap, and work towards ensuring we continue to balance the 2022/23 budget in February 2022

2 Recommendations

- 2.1 That Cabinet:
- 2.2 Approves the approach for the development of the budget for 2022/23 which will continue to focus on the Delivery Plan generating cashable budget reductions. Proposals for the Delivery Plans will come forward in July and September 2021 for Cabinet approval and these will be reflected in the mid-year medium-term financial plan to Cabinet in October.
- 2.3 Approves the budget timetable, including the dates for budget consultation.

3 Background

- 3.1 The Medium-Term Financial Plan (MTFP) was last fully reviewed and approved by Council on 23 February 2021 as part of the annual budget setting cycle. Budgets were balanced up to 2022/23 provided that:
 - £20.1m of establishment savings were delivered on a permanent basis.
 - at least £38.5m of short-term expenditure reductions/ additional income was generated from activities in the Delivery Plan for 2022/23.
 - the Council was able to make use of £40.0m of capital receipts flexibility in 2021/22.
 - the existing savings programme as outlined in Appendix G of the Financial Plan 2021 - 2025 is delivered in full; and
 - managers are diligent in working within budgetary envelopes.
- 3.2 It is also important to understand that the above position is based on an assumption of 1.99% increase in the general council tax, the funding from Government (apart from that for COVID) remaining cash flat for future years, pay award of 2.5% annually from 2022/23 (no pay award assumed for 2021/22), price inflation of 2% and an assumption that in the main, income levels return to pre-COVID levels from 2022/23.

- 3.3 Beyond 2022/23, the Council's forecast expenditure exceeds its anticipated income by around £80m, producing a deficit. A reminder of the 2021/22 budget and MTFP is set out in Appendix 1

2020/21 Outturn and Impact on the MTFP

- 3.4 The Council's outturn reported elsewhere on this agenda is an underspend of £78.7m on services, outside of COVID. This is particularly impressive in a year when the Council has had to deal with the unexpected pressures caused by the pandemic, delays to planned savings and has had to radically change some of the ways that services have been provided.
- 3.5 The material underspend has meant that not only can resources be diverted to support Council priorities, but the Council's reserve position can also be strengthened providing further financial resilience. This includes the allocation of £36.4m to a Budget Smoothing Reserve to provide flexibility in addressing the budget gap over the short to medium term. An allocation of £10m was also made to a Community Recovery Plan Reserve to provide resource for activity to help our communities to recover from the effects of Covid-19. It should be noted that reliance on reserves is unsustainable beyond the medium term.

Updates

- 3.6 Most of the planning assumptions remain unaltered from February 2021. However, there are material areas for update around the Collection Fund, pay award assumptions, service pressures and Covid-19 impact, which are outlined below.
- 3.7 Government has now clarified and shared its calculation of the support that would be provided to Birmingham as part of its commitment to mitigate local tax losses due to the Covid-19 impact. It has been made clear that Government would not fund any changes arising from increasing bad debts even though Councils were not allowed to progress debt collection during the pandemic. This therefore means that in 2021/22 – 2023/24, the amount of reserves available to support the council tax and business rates deficit will be **£5.4m** lower per annum than previously assumed.
- 3.8 In addition to this, the anticipated position for the Collection Fund and related income streams is a deficit of **£14.7m** to be carried forward and taken into account in setting the budget for 2022/23 (a £5.0m deficit for Council Tax and a £9.7m deficit for Business Rates). After taking account of the grants provided for Business rates relief, the Council is forecasting a £7.3m in year deficit, mainly due to lower growth in businesses. Combined with this, there is a cumulative deficit that was brought forward from 2020/21 of £2.5m. The deficit on Council tax is mainly due to the cumulative deficit brought forward from 2020/21. Further details on Collection Fund movements are included in the Month 3 Revenue Monitoring report which is a separate item on this agenda.

- 3.9 The Council had planned for no inflation increase to pay on the basis of the Chancellor's announcement during the Spending Review that public sector pay would be frozen. However, since then the national pay award offer made by employers is a 1.5% pay award for local government officers at all levels. Whilst the offer has been rejected as Unions push for salary increases well above this, it is now prudent to build into the MTFP provision for a pay award from this year of at least 1.5% which gives rise to an ongoing annual pressure on pay of around **£7.0m** annually, including provision for the Birmingham Children's Trust. Each 0.5% increase will add around £2.3m to the pay bill.
- 3.10 New service pressures are also being forecast due to rising demand, changing market conditions and the need to upgrade existing infrastructure. Covid-19 has had a significant impact across the Birmingham economy, which inevitably extends to the Council's financial position and ongoing pressures on services such as commercial income. These service pressures rise from **£5.5m** in 2022/23 to **£9.9m** by 2025/26.
- 3.11 The Cabinet decision to progress the proposals set out in the 'Investing in our Future-Enabling Structures' report of 20 April 2021, included funding of two new functions, the Corporate Programme Management Office and the Chief Executive Delivery Unit at a cost of **£1.5m** annually.
- 3.12 The updated financial gap is set out in Table 1 below. It indicates that financial gap has increased from around **£80m** to around **£116m** across the medium term.

Table 1: Updated MTFP

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Financial gap as approved by Cabinet February 2021	(0.078)	76.329	80.521	97.412
<u>Expenditure changes</u>				
Pay award assumed to be 1.5%	7.129	7.307	7.490	7.677
Waste service - cost of upgrading old infrastructure and loss of income due to changing market conditions	-	-	4.500	4.500
Ongoing pressure on Home to School Transport budgets	3.000	3.000	3.000	3.000
Strengthened PMO and CE delivery unit (April Cabinet decision)	1.458	1.458	1.458	1.458
COVID impact	2.505	2.416	2.416	2.416
Total expenditure changes	14.092	14.181	18.864	19.051
<u>Resource changes</u>				
Reduced expectation from the local tax support	5.369	5.369	-	-
Business Rates and Council tax forecast deficit (Quarter 1)	14.735	-	-	-
Total Resources changes	20.104	5.369	-	-
Updated Financial Gap (July 2021)	34.118	95.879	99.385	116.463

Planning Uncertainties and Risks

- 3.13 This report is written in the context of unprecedented levels of uncertainty. The impact of easing Covid-19 restrictions is unknown, and the recovery process may be prolonged. Factors of concern are the potential increase in unemployment, particularly for hospitality and leisure sectors, as furlough ends and the impact

that this will have on our local tax base. It is currently difficult to forecast the support that residents may require from the Council, including additional demands for the homelessness service, mental health and social care.

- 3.14 Additionally, the Government have long signalled that there will be reform of the framework for funding local government – the Fair Funding implementation, Business Rates reset and the national move to 75% Business Rates retention and the reform of the New Homes Bonus grant. Combined with this, there is also uncertainty around the impact of the next Comprehensive Review on local government finances, Some of the reforms have been delayed for a number of years and therefore there is a need for the Council to continue to lobby for the reforms to come forward as soon as possible to allow for sustainable medium term planning. A consultation on potential changes to the New Homes Bonus did not give any significant indication of the direction that Government was taking in respect of this reform as several options were put forward for comment. There is a similar delay to the reform of Adult Social Care funding with a series of one- off interventions in recent years and the date for the promised Green Paper had been put back on numerous occasions. As we progress through the autumn, it is anticipated that there will be further clarity on our funding from Government for 2022/23 and whether there will be any change from the current 2% Council tax increase referendum cap.

Next Steps

- 3.15 The ongoing financial strategy continues to be based on transformative approach as outlined in the Council's Delivery Plan. Proposals for the Delivery Plan will be worked up over the summer, focusing on generating cashable budget reductions. These proposals will be brought for Cabinet approval in September 2021, and then incorporated within the MTFP Refresh due to be brought forward to Cabinet in October 2021. The MTFP Refresh report will also consider any further economic and financial developments. Public consultation will take place between November 2021 and January 2022 to inform the finalisation of the 2022/23 budget.
- 3.16 There is a strong financial management regime in place with monthly savings tracking and regular reporting to Directorate Management Teams (DMT), CLT, Cabinet and Overview and Scrutiny Committees. The current approaches around establishing due diligence via the Capital Board, Finance Star Chamber and budget challenges to DMTs will be maintained and strengthened where necessary to ensure that the financial gap is addressed, and strong budget discipline is maintained. The rolling budget approach will allow for attention to be kept on the budget across the year and provide time for the development of sustainable plans for closing the financial gap.
- 3.17 Further details of the budget setting process are outlined in Table 2 below.

Table 2 Budget Timeline

Activities	Date
Budget engagement with public on resourcing priorities. The outcome will inform the proposals for the budget development	Summer 2021
Delivery Plan business cases to Cabinet	September 2021
MTFP Mid-Year Refresh report to Cabinet	October 2021
Public consultation on budget proposals	November – December 2021
Scrutiny of budget proposals	November/December 2021
Cabinet consideration of the 2022/23 budget and Financial Plan	8 February 2022
Cabinet – setting of council tax and business rate tax base	18 January 2022
Council approval of budget and setting of Council tax	22 February 2022

Capital Programme

- 3.18 The Council's Capital programme was also approved as part of the budget setting process in February 2021 with planned investment of over £1.7bn in the four years to 2024/25.
- 3.19 The capital programme is large and complex and driven particularly by the Council Plan. Covid-19 has impacted the capital programme in 2020/21 resulting in significant slippage of schemes into future years, changes to a number of schemes and additional costs. These changes are continuing to occur as we recover from Covid-19 and the programme will be kept under close review and reported to cabinet as part of the financial monitoring in 2021/22.
- 3.20 The Council has committed to developing a 25-year Capital Programme which will be presented in February 2022 as part of the budget and will continue to invest in priorities such as Council owned assets, including buildings and roads, and facilitating the growth in the Birmingham economy through major projects and supporting businesses in the city.
- 3.21 The Capital Strategy priorities for new projects and programmes will focus on Council Plan driven expenditure, statutory requirements and proposals that support revenue savings, income or service transformation. Supporting the Capital Strategy are the Property Strategy and the Commercialisation Strategy.
- 3.22 The Council will manage its borrowing in accordance with CIPFA's Prudential Code and has a prudent policy for debt repayment set out in its Minimum Revenue Provision policy. Future council borrowing from the Public Works Loans

Board will need to comply with new lending terms that prevent local authorities from using its loans to buy investment assets for yield.

Options considered and Recommended Proposal

- 3.23 This update is part of the rolling budget process in order to inform on the changing financial position and key risks. The Council is operating in a very uncertain and quickly changing environment and therefore a key action will be detailed and regular financial monitoring and a frequent and regular refresh of the financial assumptions in the Medium Term Financial Plan.

4 Consultation

- 4.1 The Chief Executive, Corporate Leadership Team, relevant Cabinet Members and corporate officers are aware of the 2021/22 February MTFP gap and associated risks and are supportive of the Delivery Plan business cases and continuing that approach to the MTFP. The Monitoring Officer has also been consulted during the preparation of this report.
- 4.2 It is expected that there will be a public consultation in late autumn.

5 Risk Management

- 5.1 Budget planning is taking place in a period of uncertainty around local government financing. The Council's reliance on Government funding is one of the risks captured in the Financial Plan and the corporate risk register. Apart from the general decline in economic conditions, Business Rates are becoming a source of income that is increasingly difficult to predict with the growing shift in balance between physical property based and internet businesses. Economic conditions will also impact on unemployment levels and council tax collections. There remains considerable uncertainty about reforms to local government finance and any funding changes that will be faced in 2022/23 and beyond as a result of the Comprehensive Spending Review, business rates reforms, Fair Funding reviews and changes to grants such as the New Homes Bonus. There has been no indication from Government yet as to whether reforms will take place or whether local government will be given another one-year settlement, like the past two years.
- 5.2 Whilst some Covid-19 restrictions are easing, there is a risk that some of the impacts of Covid-19 will extend beyond the current year. Longer term, changing service user habits mean that lower levels of income are anticipated in the future, and there may be a need to review some of the base budget assumptions for some services for deliverability, for example car parking, leisure offers, and property investment income. Some degree of flexibility will need to be retained to deal with any emergent pressures because of irrecoverable financial positions.
- 5.3 Whilst the planning assumption is that services will find mitigations for any pressures, it is possible that the other non-Covid cost pressures may materialise during the 2022/23 budget planning process. Any such pressures will increase

the financial gap that will need to be closed. Services have already identified around £2.4m of ongoing pressures as indicated in Table 1 above, mainly around the commercial income portfolio. Similarly, other information may arise that may require planning assumptions to be varied.

- 5.4 The Council committed to reduce establishment costs by £20.1m on an ongoing basis through a series of measures including adopting new workforce management practices, establishment corporate and directorate controls and governance, deletion of vacant posts and reduced agency costs. To date, the Council has secured a total of £10.0m against this target - £7.0m being delivered on a one-off basis and a further £3.0m being delivered permanently. Further work will be undertaken to reduce the £10m shortfall and to ensure that sustainable plans are in place for delivery of this target.
- 5.5 The overall budget gap position will be kept under constant review throughout the budget planning process to inform changes to the MTFP. A midyear report will be brought to Cabinet in October 2021 before a final report to Cabinet in February 2022.

6 Compliance Issues:

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

- 6.1.1 The medium-term financial plan is intended to support the allocation of financial resources to meet the Council's priorities set out in its Council Plan, whilst maintaining financial stability into the medium and longer term. The preparation of the budget and four-year medium-term financial plan is the first stage of the annual business planning cycle for the forthcoming financial year 2022/23.

6.2 Legal Implications

- 6.2.1 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. This report forms part of the process that will enable the Council to set a balanced budget for 2022/23 in line with statutory requirements.
- 6.2.2 The Local Government Act 1999 places a duty on the Council as a 'Best Value' authority to secure continuous improvement in the way its functions are exercised to secure economy, efficiency, and effectiveness.

6.3 Financial Implications

- 6.3.1 This report sets out the proposed approach for achieving a balanced budget for 2022/23, as legally required to do, and addressing the deficit across the medium term. An initial high-level update has been made to the forecasts in the Medium-Term Financial Plan to reflect the outturn position etc and will continue to be reviewed through to the final MTFP report in February 2022. The Council is

undertaking budget planning against a backdrop of uncertainty around funding that will be available to the local government sector.

6.4 Procurement Implications (if required)

6.4.1 Not applicable

6.5 Human Resources Implications (if required)

6.5.1 There are no Human Resources implications arising from this update. Any Human Resources impact will be evaluated once final proposals for Delivery Plan proposals are brought back to Cabinet in October 2021.

6.6 Public Sector Equality Duty

6.6.1 There are no additional Equality Duty or Equality Analysis issues as a result of this report. Full consideration will be given to equality issues once the proposals for the Delivery Plan are fully developed. Equality Assessments will be carried out for any budget proposals requiring change or new services and policies to evaluate how the proposal will impact on all parts of the community and the associated mitigations to reduce any potential adverse impacts.

7 Background Documents

7.1 Financial Plan 2021 – 2025, approved by Council on 23 February 2021

Appendix 1

Summary of Financial Plan as at February 2021

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m
Base Budget 2020/21	852.933	852.933	852.933	852.933	852.933	852.933	852.933	852.933	852.933	852.933
Pay & Price Inflation	27.717	57.787	87.072	117.722	152.275	185.852	220.936	260.625	299.094	339.761
Meeting Budget Issues and Policy Choices	69.143	102.130	54.597	62.657	71.815	81.372	90.107	99.174	108.262	117.303
Savings Plans	(33.051)	(77.274)	(39.427)	(40.722)	(40.808)	(40.891)	(40.946)	(41.002)	(37.453)	(37.453)
Corporate Adjustments:										
Other net change in use / contribution to reserves	26.807	(44.077)	21.489	31.374	32.288	33.259	33.814	34.327	34.856	32.468
Corporately Managed Budgets	(53.803)	(23.011)	(9.839)	(13.901)	(16.693)	(26.091)	(31.343)	(45.928)	(49.600)	(38.597)
Changes in Corporate Government Grants	(61.075)	(16.348)	(18.105)	(19.827)	(20.791)	(21.779)	(23.559)	(25.376)	(27.230)	(28.299)
Total Net Expenditure	828.671	852.140	948.720	990.236	1,031.019	1,064.655	1,101.942	1,134.753	1,180.862	1,238.116
Business Rates	(411.693)	(432.135)	(445.154)	(456.877)	(468.890)	(481.198)	(493.811)	(506.736)	(519.980)	(533.551)
Business Rates Deficit in 20/21 funded by S31 grants	177.261	-	-	-	-	-	-	-	-	-
Use of S31 grant reserve to fund Business Rates deficit arising in 20/21	(177.261)	-	-	-	-	-	-	-	-	-
Business Rates Deficit from 2019/20	1.435	-	-	-	-	-	-	-	-	-
Business Rates Deficit 20/21 spread over three years	16.224	16.223	16.222	-	-	-	-	-	-	-
Council Tax	(382.923)	(394.022)	(405.362)	(417.027)	(428.729)	(440.758)	(453.126)	(465.841)	(478.913)	(492.350)
Council Tax Deficit from 2019/20	2.707	-	-	-	-	-	-	-	-	-
Council Tax Deficit 20/21 spread over three years	1.530	1.532	1.532	-	-	-	-	-	-	-
Top Up Grant	(55.951)	(57.070)	(58.212)	(59.376)	(60.563)	(61.774)	(63.010)	(64.270)	(65.555)	(66.866)
Top Up Grant - Reset	-	12.254	13.583	14.565	15.575	16.619	17.707	18.833	19.998	21.188
Potential impact of spending review	-	1.000	5.000	9.000	9.000	9.000	9.000	9.000	9.000	9.000
Total Resources	(828.671)	(852.218)	(872.391)	(909.715)	(933.607)	(958.111)	(983.240)	(1,009.014)	(1,035.450)	(1,062.579)
Gap	0.000	(0.078)	76.329	80.521	97.412	106.544	118.702	125.739	145.412	175.537