

Birmingham City Council

Report to Cabinet

13TH DECEMBER 2022



Subject: FINANCIAL MONITORING REPORT 2022/23
MONTH 7 (UP TO 31ST OCTOBER 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

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: 010524/2022		
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

The quarterly finance report attached as Appendix A is part of the City Council's robust financial management arrangements. Due to the extraordinary economic conditions, from Month 5 onwards, high level, exception based in year financial monitoring will be reported to Cabinet each month. The fuller quarterly in year financial monitoring reports to Cabinet will continue.

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 the forecast Capital spend has not changed since Month 6, as set out in paragraphs 4.5 to 4.10.

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 Month 7.

4 Key Issues

Revenue position

- 4.1 Table 1 in Appendix A in Section 1 shows the breakdown of risks to the value of £106.6m that have been identified at this stage in the year, a majority of which are expected to continue into future years. The table also shows that £64.3m of these risks are being mitigated through planned use of policy contingency budget and the financial resilience reserve, the latter in relation to economic shock.
- 4.2 The remaining identified risks of £42.3m are expected to be mitigated through continued due diligence on the risks themselves and through the rigorous spending controls introduced in July 2022.
- 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.
- 4.4 The Director of Council Management presented a Medium Term Financial plan update report to Cabinet on 11th October providing an update on the financial pressures the Council is facing and the mitigating actions being taken. This showed that the gap for 2023/24 has risen from £33m to £80m.

Capital Programme

- 4.5 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.
- 4.6 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.

- 4.7 At Quarter 2, Cabinet of 11th November approved an increase of £29.0m due to new projects being approved and new grant allocations from Government, giving a revised total Capital programme of £723.4m.
- 4.8 Slippage within the Capital programme of £46.9m was identified at Quarter 2 giving a forecast outturn of £676.5m.
- 4.9 As at Month 7 capital spend is projected to be £676.5m. This is the same position reported at Month 6.
- 4.10 During Month 7 and Month 8 work is being undertaken with Directorates and project managers to explore opportunities to reprofile or review capital projects. This will inform the 2022/23 projection as well as future year budgets.
- 4.11 Paragraph 7.5 of Appendix A covers progress against budgeted capital receipts. The 2022/23 budgeted target of capital receipts is £69.3m. At present £13.0m of receipts have been achieved. There are identified disposals at various stages of the disposal process for the remainder of the target. It should be noted that the majority of receipts are due to be received towards the end of the 2022/23 financial year and relate to a small number of high value cases.

Treasury Management

- 4.12 Gross loan debt is currently £3,276m, with the year-end projection estimated to be £3,392m, 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 currently includes over £200m borrowing for the Enterprise Zone (EZ), due to be financed from Business Rates growth within the EZ.
- 4.13 The Council resumed short-term borrowing in the last quarter, in line with the current Treasury Management Strategy, and this is currently at £313m. Short-term borrowing rates are currently higher than planned due to the unprecedented 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).
- 4.14 The outlook for borrowing costs remain uncertain as the Bank of England looks to bring inflation to target and further Bank Rate rises are expected. Treasury Management costs for 2022/23 are still expected to remain at budget based on mitigations being taken such as maintaining a balanced loans portfolio, seeking out optimal borrowing rates and ensuring accurate cash flow projections. However, there is a risk that further volatility in the financial markets could push treasury management costs up before the end of the financial year.

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 risks identified. 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 £46.9m was identified at Quarter 2. 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