

Report to Resources Overview and Scrutiny Committee – 8th September 2022.

Month 4 Financial Monitoring Report 2022/23

1. High Level Summary Financial Position

- 1.1. At month 4 the City Council's strategic aim continues to be to deliver a balanced revenue position by the end of the financial year.
- 1.2. At the Council Meeting on the 22nd February 2022 Birmingham City Council approved a net revenue budget of £759.2m for the 2022/23 financial year as shown in table 1. This report sets out the high-level financial performance against that budget at the end of Month 4, along with a review of risks and mitigating factors to ensure a balanced budget is delivered.

Table 1 High Level 2022/23 Net Revenue Budget

Directorate	Budget
	£m
Children & Families	329.589
City Operations	192.682
City Housing	15.369
Place, Prosperity and Sustainability	61.844
Strategy, Equalities and Partnerships	3.253
Adult Social Care	357.744
Council Management	93.212
Directorate Sub Total	1,053.693
Corporate Budgets	(294.461)
Corporate Subtotal	(294.461)
City Council General Fund Budget	759.232

- 1.3. The budget for 2022/23 when approved by full Council in February 2022 was balanced, however there was a gap for future years of £33m. An approach to balance the budget has been developed and agreed by the Corporate Leadership Team (CLT) and work is underway for this year and future years through the rolling Medium Term Financial Plan (MTFP) process. Cabinet will receive a report in October 2022 providing an update on the MTFP, and progress to close this future budget gap.
- 1.4 While we have seen other Councils failing due to poor governance and decision making, weak procurement, low levels of reserves and over borrowing, Birmingham City Council is in a strong robust position with strong financial planning processes in place. Reserves are healthy and within recommended

limits. Borrowing is not excessive and is reducing, and the Council scores well on the CIPFA Resilience Index Indicators.

- 1.5 The Council is a CIPFA 3 Star Financial Management Authority recognising the significant financial management improvements made across the organisation since 2019 and we are continuing to further improve and aim for a 4 Star rating by April 2023.
- 1.6 The City Council like all other local authorities is facing a number of financial challenges in 2022/23. The current cost of living crisis is impacting on our citizens, businesses, and the services we deliver, resulting in a greater demand for our services and reducing income generating opportunities. Examples including, rising energy costs, increases in the costs of goods and services and the impact from the war in Ukraine.
- 1.7 We continue to recognise that there are a number of risks to the balancing the budget. These risks must all be carefully gripped and managed at pace and offset by opportunities to make savings. Rigorous spend controls introduced last year remain in place to reduce and minimise costs.

2 Capital

- 2.1 A capital budget of £531.7m was approved by full Council on the 22nd February 2022. Like all financial year's capital spend is weighted towards the later end of the year, and often spend will slip into the following year due to the complex nature of many of the capital projects.
- 2.2 Following slippage of £162.7m at the end of 2021/22 which was approved by Cabinet on 26th July 2022 the Capital budget for 2022/23 is now £694.4m.
- 2.3 There remain risks to delivery, particularly relating to cost pressures and material shortages for construction projects as a result of Brexit. These will be kept under review and appropriate action taken to mitigate where possible.
- 2.4 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.
- 2.5 A more detailed Capital Programme monitoring report will be provided at quarter 2.

3 Housing Revenue Account (HRA)

- 3.1 The HRA Revenue budget for 2022/23 is £431.485m of which £287.738m is revenue expenditure and £143.747m is capital expenditure. Overall, the HRA spend is forecast to remain within budget this year. Any variation to this will be managed from the ring fenced HRA reserve.

4 Dedicated Schools Grant (DSG)

- 4.1 The total DSG for 2022/23 is £1,374.2m before deductions. The allocation after deductions is £686.9m. This is allocated as follows: school block £377.2m, High Needs block £210.4m, Early Years block £83.0m and £16.3m Central School Services Block. It is anticipated that there will be a balanced position for the total DSG this financial year.

5 Borrowing

- 5.1 Gross loan debt is currently £3,164m, compared to £3,035m at quarter 1, with no foreseen risks to the year-end projection, which remains unchanged and estimated to be £3,272m, this is below the planned level of £3,452m. The annual cost of servicing debt represents approximately 29.5% 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.
- 5.2 The Council's treasury investments are currently £85m, against a planned level of £40m. The Council's cash balances are no longer at elevated levels from government support for Covid and energy relief and the Council has resumed short-term borrowing this month, as per the Treasury Management Strategy.
- 5.3 We will continue to closely review interest rates and where possible lock in rates, minimising risk and over exposure.

6 Risks

- 6.1 All budgets contain risks and a number of risks were identified when setting the budget (as shown in Appendix E of the Financial Plan agreed by Council on 22nd February 2022).
- 6.2 In Appendix E, after weighting the risks for probability, there was a total risk of £118m. Given that not all risks would be expected to happen at the same time, a deflator of 70% was applied, leaving a total risk of £34.5m. This is more than covered by the General Fund Balance of £38.4m and the Financial Resilience Reserve (FRR) balance of £125.5m.
- 6.3 Like quarter 1 the City Council is continuing to deal with a number of financial risks at month 4 and is undertaking further due diligence to verify and mitigate these. The new risks or risks where further information is now available are shown below. Further detail will be provided at quarter 2.

Children and Families

- 6.4 **Special Educational Needs Assessment and Review Service (SENAR) Service.** As previously reported the Ofsted inspection in May 2021 reported that the SENAR service was extremely under resourced and unable to meet its

statutory responsibilities and additional funding was allocated to the service in 2021/22 and 2022/23.

- 6.5 The additional funding of £5.1m in 2021/22 and £5.3m in 2022/23 was based on the activity and backlogs of statutory tasks identified at that point, however further due diligence has identified a pressure of £4.9m.
- 6.6 The Directorate have a reserve that will be used to offset this pressure as a one off for 2022/23.
- 6.7 The service has undertaken extensive resource planning to ensure there is a sustainable structure. There will be a Cabinet report in October 2022.
- 6.8 **Children & Young People Travel Service, formerly Home to School Transport (H2ST).** Significant improvements are being made which include work that will enable financial projections to be calculated from September onwards. Additional budget has been allocated to the service for 2022/23 due to significant financial pressures incurred in 2021/22. There remains a risk of overspend this year for the service of circa £5m which will be confirmed by the end of September 2022.
- 6.9 **Birmingham Children's Trust.** Placement costs continue to represent the single biggest pressure for the Trust in 2022/23. The Trust operates CareFirst Financials for care pay, including payments to care leavers, care providers and foster carers. Based on data extracted from the CareFirst system the Trust are forecasting an in-year pressure which they are working with the City Council to manage and mitigate and a more detailed report will be provided at quarter 2 as to the analysis of care costs and the management response to this.

Adult Social Care

- 6.10 **Demand for Adult Social Care** continues to remain hard to predict as the impact of the last two years of coronavirus has created the risk of a surge in numbers beyond the current high levels of referrals we are currently seeing. Prevention, Early Intervention, and hospital discharge schemes are picking up the bulk of the demand increases and the forecast is for packages of care costs to remain within the 2022/23 budget. So while pressure on adult social care services remains challenging it is currently being managed within existing budgets.

Housing

- 6.11 **Temporary and Emergency Accommodation.** As reported previously demand for housing continues to increase as more citizens are struggling to manage in the current financial climate. The City Council is continuing to work at pace with citizens to prevent crisis, however based on current demand trends there is a risk that costs will exceed budget by around £5m this year. Work is underway and will continue throughout the year to manage and reduce costs

wherever possible. Further details on the action being taken will be presented in the quarter 2 report to Cabinet.

Corporate items

- 6.12 **The Pay Award.** The 2022/23 budget included a 2.5% increase for pay. It is estimated that the pay award of £1,925 per full time employee that has been offered by the National Employers for Local Government Services will cost the Council general fund in the region of £14m more than the budgeted provision. This will be funded from the Financial Resilience Reserve.
- 6.13 The Housing Revenue Account, Public Health Grant and Dedicated Schools Grant will all be financially impacted by the pay award as they fund staff who will receive the pay award. The estimated total impact is £3.8m and the increased cost will need to be funded from within these grants.
- 6.14 **Energy costs.** As reported at quarter 1 energy costs are rising and are expected to be greater than budgeted for this year. Policy Contingency will be used to fund additional costs where they cannot be contained by directorates through reducing energy consumption or implementing other savings to offset these costs. We will continue to work with providers and where possible through new contract arrangements as they arise to mitigate against rising future costs.
- 6.15 **Income Collection.** Income remains a risk for many services as habits have changed following the pandemic. It is forecast that the number and value of debtors will increase as citizens and businesses struggle financially. The City Council has provision to manage bad debt and will continue to work with individuals and businesses to help them manage their debts. At this stage of the financial year it is difficult to put a financial value to this. Services including Parking and Leisure are working on income strategies to manage delivery of services with less income to ensure they remain within budget.

7 Potential Opportunities.

- 7.1 Whilst we have a number of financial risks there are also opportunities to off set these risks which must continue to be maximised. It must be recognised that as detailed above in paragraph 6.2 while there are significant balances in both the Financial Resilience Reserve and General Fund Balance these are one off funding sources and use of them should be the last resort once all other mitigations have been exhausted.
- 7.2 There is currently a review of reserves and balances taking place to ensure that monies are being fully utilised for example Section 106 and Community Infrastructure Levy (CIL) and specific grants including Public Health.
- 7.3 We are returning to rigorous spend controls focusing on staffing, facilities management and procurement. We will explore opportunities to ramp up the benefit of these controls and look for opportunities to implement other spend control panels focusing on specific areas of spend.

- 7.4 The MTFP contains a number of budget savings that are currently due to be delivered in future years and we will continue to explore the opportunities to deliver future years savings sooner.
- 7.5 The City Council is implementing a number of transformation programmes under the three pillars of People, Place and Fit for Purpose Council and where safe to do so these need to be delivered faster, meaning that the financial benefits are achieved ahead of schedule.

8 Savings / Income Targets

- 8.1 Like previous financial years the Financial Plan for 2022/23 includes budgeted savings, these total £40.8m. In addition, there are undelivered savings from last year of £2.1m. Work must continue at pace to ensure all savings are delivered this year.
- 8.2 The individual forecasts for each savings / income target for the whole of the City Council have been RAG rated and are summarised in table 2 below.

Table 2: Savings Risks 2022/23

Risk Profile for Delivery	Quarter 1 (£m)	Month 4 (£m)	% of Target
Delivered	2.549	5.036	12%
Low Risk	19.260	16.773	39%
Medium Risk	8.688	9.496	22%
High Risk	12.368	11.560	27%
Total	42.865	42.865	100%

- 8.3 At this stage in the financial year, this risk profile is as expected and reflects the known challenges in delivering these targets.
- 8.4 Table 2 shows that of the £42.9m savings / income to be delivered in 2022/23, £11.6m is currently rated high risk. Savings scored as high risk are not deemed as undeliverable and work is in progress to realise these targets. This is an improvement of £0.8m since Quarter 1 due to City Operations Business as Usual initiatives, mainly allocation of workforce savings and review of managerial arrangements now being rated as medium risk. There is also an improvement of £2.5m in savings ranked as delivered due to City Housing savings related to Dispersed Rental Income now having been delivered
- 8.5 The main theme that results in savings targets being scored as high risk is the delivery of transformation dispersed savings from corporate initiatives including: Automation / Debt Recovery / Traded Services / Corporate Landlord / New Ways of Working (NWOW) / Customer Services / Workforce Transition / Procurement Savings.

- 8.6 These transformation programmes are at risk because these are corporately driven activities to release dispersed savings across services. These targets will be re-allocated to Directorates as programme work progresses.
- 8.7 Full details of these savings were presented in the quarter 1 report and full details will continue to be presented on a quarterly basis throughout the remainder of this financial year.

