

Reports not on the Forward Plan / Late Report / Confidential or Exempt Information not Notified

Birmingham City Council

Cabinet – 14th November 2023

Notice Published – 8th November 2023



Subject: Section 151 Officer Update on the Financial Position of the Council – November 2023

Report of: Fiona Greenway, Interim Director of Finance and Section 151 Officer

Report author: Fiona Greenway, Interim Director of Finance and Section 151 Officer

1) Key Decisions not on the Forward Plan / Urgent Decisions

To be completed for Key Decisions not on the Forward Plan 28 days before the Cabinet meeting at which the decision is to be taken.

<i>Reasons for Urgency / why not included on the notification</i>	N/A
<i>Reasons for Immediate Implementation (if applicable)</i>	N/A
<i>Date Chief Executive Agreement obtained</i>	N/A
<i>Date of Leader's Agreement</i>	N/A
<i>Name, Date and any comments of O&S Chair agreement obtained:</i>	N/A

2) Key Decisions not notified on the Notification of Intention to Consider Matters in Private

To be completed for Key Decisions not on the Forward Plan 28 days before the Cabinet meeting at which the decision is to be taken.

<i>Reasons for Urgency / why not included on the notification</i>	N/A
<i>Date of Leader's Agreement</i>	N/A
<i>Name, Date and any comments of O&S Chair agreement obtained:</i>	N/A

3) Late Reports

To be completed for all late reports, i.e. which cannot be despatched with the agenda papers i.e. 5 clear working days' notice before meeting.

<i>Reasons for Urgency / why late</i>	Due to the unprecedented financial position the Council is currently in, and at the request of Commissioner for Finance, an urgent late report is required to present a baseline financial position to Cabinet in November 2023.
<i>Date Chief Executive Agreement obtained</i>	8th November 2023
<i>Date of Leader's Agreement</i>	8th November 2023

Birmingham City Council

Report to Cabinet

14 November 2023



Subject: Section 151 Officer Update on the Financial Position of the Council – November 2023

Report of: Leader, Councillor John Cotton

Relevant Cabinet Member: Cabinet Member for Finance & Resources, Councillor Brigid Jones

Relevant O&S Chair(s): Chair of Finance & Resources Overview & Scrutiny, Councillor Jack Deakin

Report author: Fiona Greenway, Interim Director of Finance and Section 151 Officer

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, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential : N/A		

1. Executive Summary

- 1.1 This report outlines the financial situation of Birmingham City Council as of November 2023. The City faces very significant underlying financial challenges and this report outlines the issues being faced during each financial year, the challenges in terms of the Council's reserves position, and the proposed savings targets which must be met to address recover the Council's finances.
- 1.2 This report comes off the back of statutory notices issued during September and October 2023:

- 1.3 The Council's financial position is challenging, marked by the issuance of two Section 114 notices under Section 114 (3) and (2) of the Local Government Finance Act 1988 on 5th September 2023 and 21st September 2023. These notices outlined the financial challenges for the Council in relation to Equal Pay liabilities impacting both the value of financial resources available to the Council in prior year accounts, as well as the ability of the Council to stem the flow of additional Equal Pay liabilities.
- 1.4 On Friday 29th September 2023, the Council's External Auditors Grant Thornton issued Statutory Recommendations to the Council under Schedule 7 of the Local Audit and Accountability Act 2014. The External Auditor outlined 12 Statutory Recommendations, with significant and widespread implications across the Council. These recommendations are contained with the report titled 'Birmingham City Council External Audit 2020-21 to 2023-24'.
- 1.5 On the 5th October 2023, the Secretary of State announced that he was using his powers under the Local Government Act 1999 to intervene at Birmingham City Council. As such, directions have been made under Section 15(5) and (6) of the Local Government Act 1999 in respect of Birmingham City Council, including the appointment of Commissioners and mandating immediate action by the Council in relation to several significant matters.
- 1.6 It is important now to provide an update on the financial situation of the Council, which will form a baseline of the significant financial challenge the Council faces, and against which any improvement actions can be measured.

2. Recommendation(s)

- 2.1 Cabinet is recommended to:
 - 2.1.1. Note the current financial position of the Council as set out in this report;
 - 2.1.2. Endorse the total Council savings target issued for the 2024/25 and 2025/26 financial years;
 - 2.1.3. Commit the Council to the delivery of a budget for 2024/25 which provides a robust plan to deliver against the savings target for the 2024/25 financial year;
 - 2.1.4. Commit the Council to the delivery against the annual total savings target for the City Council over the next two financial years, 2024/25 and 2025/26.

3. Background

- 3.1 As outlined within the Section 114 subsection 3 notice under the Local Government Finance Act 1988, the Council is facing a challenging financial situation. The Council has insufficient resources to meet the expenditure required in relation to the costs of providing for Equal Pay claims.
- 3.2 As a result of our current situation, the Section 151 Officer is unable to write a supporting going concern statement for prior year draft accounts for 2020/21 and 2021/22. They are also unable to make a Section 25 statement under the Local Government Act 2003 in relation to the adequacy of our reserves.
- 3.3 This leaves the Council in a precarious financial situation, across multiple financial years. Due to the timeline over which these issues have arisen, the overspend and budget gap does not just impact the previous and current financial years. The impact of the financial challenge is multi-year.

2022/23 Financial Year - £86.1m overspend

- 3.4 At the end of January 2023, the 2022/23 General Fund outturn showed an underlying deficit of £86.1m. This was before applying the use of reserves, which are being used to offset the overspend within the previous financial year.
- 3.5 As at, October 2023, the forecast outturn for 2022/23 shows an overspend of £78.2m, which is an improvement on the position forecast in January 2023. This means that although there is an overspend for the previous financial year, there will be marginally less use of reserves for that year.
- 3.6 The final outturn position will be developed in November 2023, with the intention to present to Cabinet in December 2023.

Note: The financial position outlined for 2023/24, 2024/25 and 2025/26 is the forecast position as of Quarter 1 2023/24. We continue to update figures in-year, and an updated Quarter 2 2023/24 position is being developed and will refine our overspend and future year budget gap position. Indicatively, this position continues to worsen, and other risks need to be considered within future year budgets such as the impact of Equal Pay costs.

2023/24 Financial Year - £87.4m overspend

- 3.7 On 25th July 2023, Cabinet received a high-level Quarter 1 forecast for 2023/24. This showed a forecast overspend of £87.4m, which has been used as an additional in-year savings target for CLT Directors to address a potential deficit.
- 3.8 The overspend is built up of the following:
- 3.8.1 Demand and complexity growth, excluding inflation, with additional demands such as Oracle Costs, increased Temporary Accommodation Costs, Children's and Families pressures, and increased Adult Social Care demand pressures;
 - 3.8.2 Inflation has been greater across both General Price Inflation and Contract Inflation, which was forecast to be significantly lower in future years;
 - 3.8.3 Non-delivery of savings, with a significant element of the savings programme either High Risk or Written Off due to their likelihood and confidence of delivery;
 - 3.8.4 Business Rates and Council Tax impacts as a result of a collection fund deficit and estimated impacts of future increases of business rates income.
- 3.9 Many of these items should have been considered within the base budget for the Council in prior years. Since these items continue to result in overspend and budgets gaps in future years, this suggests a structural deficit in the underlying budget for the Council which has not been addressed in prior years. The underlying budget needs to be re-based.
- 3.10 Despite best efforts of the Council during the financial year, it is highly likely that the majority of the additional savings identified to address the in-year overspend will be a one-off. Any one-offs used to address the overspend will need to be addressed in the next year.
- 3.11 Further work will continue on the current financial year, 2023/24, to identify methods of addressing the forecast overspend through the use of reserves which are being centralised from Directorates, stopping or pausing revenue projects, reviewing large contracts with key suppliers, and addressing in-year savings targets through Spend Control Boards.

2024/25 Financial Year - £164.8m budget gap

- 3.12 The 25th July 2023 high-level Quarter 1 forecast for 2023/24 presented to Cabinet also included a forecast budget gap for future financial years. The forecast for 2024/25 also showed an additional budget gap of £77.5m in-year, making this £164.8m cumulative across the two years.
- 3.13 This overspend is built up the items outlined in 3.8.
- 3.14 Since the in-year overspend is expected to be addressed through one-off savings or use of reserves, there is a £164.8m budget gap to be addressed in one financial year. This is a significant challenge that needs to be addressed with urgency.
- 3.15 We are currently re-basing the budget for 2024/25, and indications are that the £164.8m budget gap is certainly going to increase. When budgets are re-based, this will be brought back to Cabinet with updated savings targets.
- 3.16 Current budget targets for the 2024/25 financial year are outlined within this report.

2025/26 Financial Year - £177.1m budget gap

- 3.17 The forecast for 2025/26 also showed an additional budget gap of £12.3m in-year, making this £177.1m cumulative across the three years. However, this will almost certainly be higher as historically growth has been understated in latter years of the Medium Term Financial Plan (MTFP).
- 3.18 This overspend is built up the items outlined in 3.8.
- 3.19 We need to develop a Medium Term Financial Plan (MTFP) with a two-year balanced forecast, and as such further work is required to refine the potential budget gap as of savings challenges and budget pressures.
- 3.20 We must also note that potential capitalisation of Equal Pay will mean higher borrowing costs and therefore increase this budget gap. *A summary of the financial position is laid out at Appendix 1.*

Negative Reserves Position

3.21 As a result of significant overspends in previous financial years, and ongoing forecast budget gaps in future years, we must address the reserves available to the Council.

3.22 Based on latest estimates for the year-end position at 31st March 2022, 31st March 2023, and the estimates reserves usage in 2023/24 before the overspend in 3.4 above, the following table outlines a forecast Usable Reserves position at 31st March 2024 of £235.0m.

Useable Reserves	Value (£m)
Balance at 31st March 2022	£596.8m
Reserves used in 2022/23	(£336.2m)
Latest forecast 31st March 2023	£260.6m
Estimated reserves usage in 2023/24	(£25.6m)
Latest forecast 31st March 2024	£235.0m

3.23 Usable reserves is defined as the sum of the Delivery Plan Reserves, Financial Resilience Reserve, Other Corporate Reserves, and Earmarked Reserves. Of these reserves, a smaller total is available for use during 2023/24 to address the challenges above.

3.24 When looking at the use of reserves for additional draw downs, over reserves position is as follows.

Useable Reserves	Value (£m)
Reserves available for Overspend and Other Items	£172.2m
Overspend for 2023/24	(£87.4m)
Oracle Costs (multi-year)	(£46.5m)
Extra Pay Award Costs 23/24 (assuming 6.5%)	(£11.2m)
Equal Pay Liability, midpoint £650m-£760m future yr	(£705.0m)
Negative Reserves	(£677.9m)

3.25 This is before the impact of the costs of borrowing to fund Equal Pay, and does not address reserves usage for other risks such as Highways PFI.

3.26 This means, from an accounting perspective, we are in a significant negative general fund position of over £670m negative. This is an unprecedented position for the Council to be in and highlights the importance of meeting the savings targets being issued for the 2024/25 and 2025/26 financial years.

Capital Programme

- 3.27 The Council has a significant capital programme, of a value of £1.6bn from 2023/24 to 2026/27. However, a significant volume of this programme relates to items which are ringfenced in specific funds, such as City Housing within the Housing Revenue Account (HRA) of £820m, transformation projects within Council Management of £54m, and the Enterprise Zone of £52.9m. This means the addressable capital programme is less than £800m over four years.
- 3.28 Capital is financed from a number of sources, including ringfenced sources such as the HRA. A reduction in financing from Prudential Borrowing and Revenue Resources will have a direct impact on the Council's revenue budgets. Prudential Borrowing makes up £600m of the capital programme, and revenue resources constitute £320m of the capital programme. Current interest rates are high, and any new borrowing would be subject to high borrowing rates, and any reduction in borrowing would be beneficial to the Council's revenue budget. Borrowing forms 37% of the capital programme, which aligns to comparisons to core cities who borrow for between 35%-50% of their capital programmes.
- 3.29 We are currently reviewing our capital programme, to reduce prudential borrowing and the impact on the Council's revenue budget. This will take the form of sale of assets and pausing or deleting capital schemes. This will be completed with a medium-term view to ensure the value of assets is preserved to have the greatest impact on the revenue budget.
- 3.30 The Council also has opened conversations with the Department for Levelling Up Housing and Communities (DLUHC) with regards to Exceptional Financial Support, and the potential use of Capital receipts to finance revenue liabilities for the Council. Conversations will continue over the coming months, with a provisional conclusion before the Council formally concludes on Council Tax setting for 2024/25.

4. Options considered and Recommended Proposal

Savings Targets

- 4.1 We are estimating the need to address a £200m savings targets over the next two financial years. This means delivering £165m of savings in the 2024/25 financial year, and delivering an additional £35m of savings in the 2025/26 financial year.
- 4.2 The savings target for 2025/26 will almost certainly be higher as historically growth has been understated in latter years of the Medium Term Financial Plan (MTFP). As such, focus should also be given to identifying pressures which impact services over the lifetime of the Medium Term Financial Plan (MTFP).
- 4.3 Savings have been split out between Directorates on the basis of adjusted net budget figures. This means adjusting controllable income for all grants, removing the impact of Council Tax and Business Rates on both income and expenditure, and removing the impact of the Public Health Grant on both income and expenditure.
- 4.4 Grants have been removed from income as there is no basis against which the City Council can significantly influence increasing grant income. However grants have been included within expenditure as there may be opportunities to maximise the expenditure on grants through optimisation of grant spend and inclusion of General Fund spend where allowable. This would result in a General Fund saving, and as such grant expenditure is included.
- 4.5 Using this basis, targets for 2024/25 and 2025/26 combined are calculated to be 17% of the Net Budget figures adjusted for controllable income above. This gives targets which total £200m over two financial years, found at Appendix 2.

Budget Timeline

- 4.6 A timeline of key milestones to deliver a MTFP which achieves these savings targets has been given to both CLT and EMT. There is agreement that CLT will deliver against the targets to the 14th November 2023, and then continue to deliver against the 19 week timeline to achieve a budget for 2024/25. The full timeline can be found at Appendix 3.
- 4.7 The key deadlines are as follows:
- 4.7.1 A first draft of savings will be presented to CLT on 7th November 2023;
 - 4.7.2 During 7th and 14th November 2023, due diligence will be given to the savings, ahead of presentation of full proposals;
 - 4.7.3 This will lead to a full day workshop for CLT on 14th November 2023 to work through a line-by-line review of the savings budget;
 - 4.7.4 Fully developed proposals will be presented to CLT and EMT during w/c 20th November 2023;
 - 4.7.5 An iterative process will be used to develop these proposals between w/c 20th November 2023 and w/c 18th December 2023;
 - 4.7.6 An all member briefing will be completed during w/c 8th January 2024, following the provisional Local Government Finance Settlement, to reflect the latest budget position;
 - 4.7.7 Throughout this process there will be continuous engagement between CLT and Cabinet Members, and key Overview and Scrutiny engagement at three stages throughout the process as outlined in Appendix 3.
- 4.8 Future papers will be presented which update on the financial position of the Council at key stages of progress against the above timeline, with expectation that Full Council will complete Council Tax Setting on 27th February 2024.

5. Consultation

5.1 This report has been written in consultation of CLT members, and has been discussed with EMT.

6. Risk Management

6.1 Risks are considered within previous reports to Full Council. All savings presented against the 2024/25 and 2025/26 savings targets will be fully risk assessed.

7. Compliance issues

7.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies? All implications and priorities will be considered in the development of savings proposals alongside CLT and Cabinet Members.

7.2 Legal Implications: The Council will comply with all relevant legal requirements to complete Council Tax Setting in February 2024, including consultation with the public where appropriate on the implications of proposals as part of this process. The council will make sure that Equality Impact Assessments and all appropriate consultation takes place in the development of savings proposals. This will be referenced in future reports to Cabinet.

7.3 Financial Implications: Financial implications of proposals will be considered as part of the process of developing savings, however this report does not contain any financial commitments.

7.4 Public Sector Equality Duty: The Council will ensure that all actions taken in response to these recommendations are in line with the Public Sector Equality Duty, this includes aligning to Equality Impact Assessments completed in the development of savings proposals, and ensuring the impact of savings proposals are aligned to the Public Sector Equality Duty.

8. Appendices

15.1 Appendix 1 – Summary Financial Position November 2023

15.2 Appendix 2 – 202425 and 202526 Saving Targets

15.3 Appendix 3 – Budget Timeline for 202425 and 202526 as of November 2023

Finance Position (General Fund)

2022/23

£86.1m overspend

January 2023 outturn

- At the end of January 2023, the 2022/23 General fund outturn was an underlying deficit was £86.1m, offset by the use of reserves;
- As at today, the forecast outturn for 2022/23 shows an £78.2m overspend.

2023/24

£87.4m overspend

Quarter 1 2023/24 forecast

- On 25th July 2023, Cabinet received a high-level Quarter 1 forecast for 2023/24. This showed a forecast overspend of £87.4m.
- Any one-offs used to address the overspend will need to be addressed in the next year.

2024/25

£164.8m budget gap

Quarter 1 2023/24 forecast

- The forecast for 2024/25 also showed an additional budget gap of £77.5m in-year, making this £164.8m cumulative across the two years.
- This is being reviewed and updated.

2025/26

£177.1m budget gap

Quarter 1 2023/24 forecast

- The forecast for 2025/26 also showed an additional budget gap of £12.3m in-year, making this £177.1m cumulative across the three years.
- However, this is almost certainly going to be higher as historically growth has been understated.
- Capitalisation of Equal Pay will mean higher borrowing costs.

From an accounting perspective we are in a negative general fund position.

Next Steps

- Outturn report being presented in November with final position.

Savings & Next Steps

- 1) Reserves centralisation
- 2) Stop revenue projects
- 3) Contract review
- 4) In-year cash targets through Spend Control Boards

Savings & Next Steps

- 2024/25 budget targets to be issued.

Savings & Next Steps

- Additional savings to be identified.
- *Next Steps: Develop refreshed 2025/26 forecast assumptions, to identify true budget gap.*

2024/25 and 2025/26 savings targets

(all figures in £ million)

Directorate	Adults Social Care	City Operations	Places, Prosperity & Sustainability	City Housing	Council Management	Strategy, Equalities & Partnerships	Children and Families	Total
Total Expenditure	548.5	312.6	128.3	64.5	148.7	8.3	463.4	1,674.3
Controllable Income	-110.8	-106.4	-73.6	-40.1	-117.3	-0.1	-34.6	-482.8
Net Budget (Adjusted for controllable income)	437.7	206.2	54.7	24.5	31.4	8.2	428.8	1,191.5
Allocation of £200m target based on Net Budget	73.5	34.6	9.2	4.1	5.3	1.4	72.0	200.0 : Savings Target 17% : Percentage
2024/25 Target	60.62	28.55	7.58	3.39	4.34	1.13	59.38	165.00
2025/26 Target	12.86	6.06	1.61	0.72	0.92	0.24	12.60	35.00*

Notes

- Controllable Income = Income less Council Tax & Business Rates and Grants, and removing Public Health Grant expenditure
- Saving percentage of 17% against total Net Budget (adjusted for controllable income)

*This is almost certainly going to be higher as historically growth has been understated.

Appendix 3 - Budget Timeline for 2024/25 and 2025/26 as of November 2023

Week	Date	Milestone
1	26 th October 2023	Issue 2024/25 and 2025/26 savings targets to CLT
2	1 st November 2023	Commissioner Finance Board
2	3 rd November 2023	Draft communications plan for budget
3	w/c 6 th November 2023	Review and update inflation model
3	w/c 6 th November 2023	Review pressures and growth for 2024/25 and 2025/26
3	w/c 6 th November 2023	Review and rebase 23/24 budget
3	w/c 6 th November 2023	List of assets and potential capital receipts available
3	w/c 6 th November 2023	Review of Capital Programme available
3	7 th November 2023	Saving options return to finance
3	7 th November 2023	CLT discussion on savings options – Presentation by each Director
4	14 th November 2023	CLT Full day – line by line, work through budget
4	14 th November 2023	Cabinet - position statement on 24/25 and 25/26 budgets
3-4	7 th - 16 th November 2023	Due diligence of savings options
4	15 th November 2023	Commissioner Finance Board
5	w/c 20 th November 2023	O&S Task & Finish Group Phase 1 – Budget gap and timeline
5	w/c 20 th November 2023	CLT and EMT to discuss savings – Fully developed proposals
5	22 nd November 2023	Autumn Statement
6	w/c 27 th November 2023	Commence drafting of report (General Fund, HRA, Capital, Treasury Management Strategy)
6	29 th November 2023	Commissioner Finance Board
7	w/c 4 th December 2023	O&S Task & Finish Group Phase 2 – Draft proposals
7	w/c 4 th December 2023	CLT and EMT
8	13 th December 2023	Commissioner Finance Board
9	w/c 18 th December 2023	CLT and EMT – Lock in of budget
9	TBC December 2023	2024/25 Provisional Local Government Finance Settlement and EFS Discussion
-	TBC December 2023	Budget Consultation
11	w/c 1 st January 2023	Commissioner Finance Board
12	w/c 8 th January 2024	All member briefing post-settlement
12	w/c 8 th January 2024	Political group briefings
12	w/c 8 th January 2024	O&S Task & Finish Group Phase 3 – Final Budget
13	w/c 15 th January 2023	Commissioner Finance Board
13	16 th January 2024	Cabinet Meeting – Council Tax Base 2024/25
14	w/c 22 nd January 2024	2024/25 Final Local Government Finance Settlement
14	w/c 22 nd January 2024	Business Rates consultation

Appendix 3 - Budget Timeline for 202425 and 202526 as of November 2023

Week	Date	Milestone
14	w/c 22 nd January 2024	Finalise budget reports
15	w/c 29 th January 2024	Commissioner Finance Board – Final budget
-	TBC January/February 2024	Exceptional Financial Support 'minded to' letter from DLUHC / Council tax discussion with DLUHC and internally
17	13 th February 2024	Cabinet – Receives budget
19	27 th February 2024	Full Council – Council tax setting