Month 8 Financial Exception Report

1. High Level Summary Financial Position

1.1. This is an exception report on the major financial issues for the Council at Month 8. It is not a full financial forecast and the assumption is that there are no significant variances beyond the issues highlighted. The next full forecast will be reported in January.

1.2. The assessment at the end of November is that the Council's General Fund, will have a net underspend of £3.5m (Column E in table1) which represents -0.4% of the £852.9m budget. There is a £6.5m overspend relating to the Covid-19 emergency after applying the £84.3m government grant and an estimated for income loss funding £19.6m which has remained unchanged, (Column C in table1). The funding gap is being dealt with as a corporate issue. This is offset by a non Covid-19 net underspend of £10.0m (Column D in table1).

1.3. Directorates are reporting that £20.1m of the £27.1m savings targets are either delivered or on track. This represents 74.3% of the total target. A further £4.3m of savings are considered to be at risk. Directorates will continue to work to ensure these savings are brought on track.

1.4. The Adult Social Care Directorate's Transformation Programme is now substantially complete. It has achieved the existing planned substantial savings and will achieve further savings this year from the early delivery of savings planned for 2021/22.

1.5. The net underspend reflects proposal to balance the budget within the **MTFP Refresh Report** approved by the Cabinet in November 2020, principally to release £6.4m for eligible additional food and school meal costs to be recovered from uncommitted balance on the Hardship Fund (Column C in Table 1). The other proposals relating to utilising potential savings from earmarked Policy Contingency have not yet been committed and are not factored into the forecast position.

1.6. On 22nd October the Council was informed of a further £44.2m of un-ringfenced Covid-19 related grant. It was approved by Cabinet on November 10th in the Month 6 Report that this is transferred to specific Covid reserve to manage the ongoing pandemic through the higher risk winter months.

1.7. On 31st October the Government announced further national lockdown measures. Any impacts will be reflected in future reports.

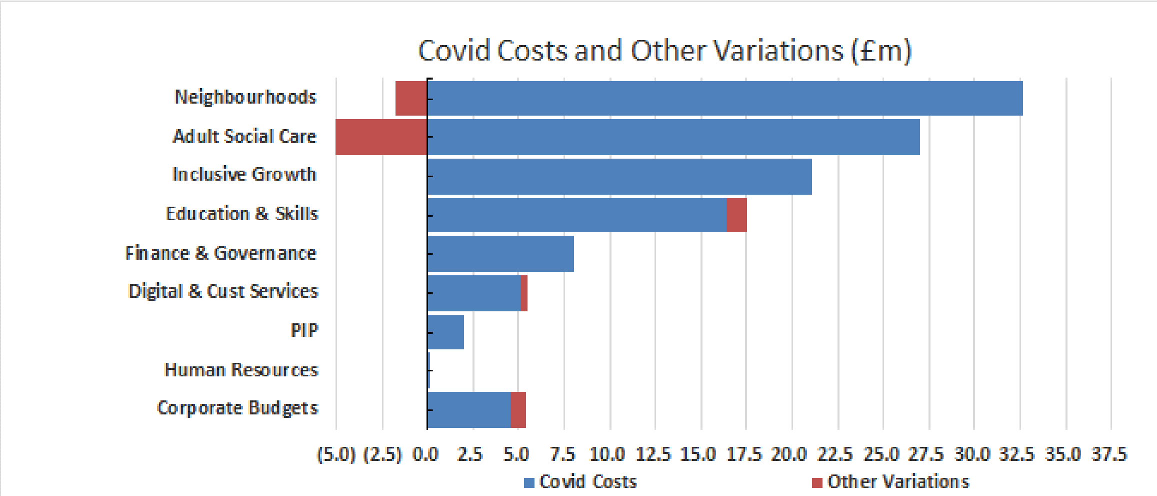
1.8. £1m funding to support the transformation project from policy contingency

1.9. The Government has also announced £100m of national funding to support leisure centres. No details are yet available, so this has not been factored into this report. There will be a bidding process.

1.10. Brexit: Two key risks have been identified: EU citizens are losing access to certain benefits and services on January 1st 2020. The Council is developing plans to deal with the impact of this. There are Business & Service Continuity Assessments being conducted for a number of issues such as economic impact, EU settlement scheme, new Immigration bill, border plans, and new regulations.

1.11. A review of Establishment (Workforce) is currently underway and this will have a part year impact on budget delivery in 2020-21 and the full impact of the changes will be seen in 2021-22. With the exception of key frontline services, workforce controls have been introduced, to stop vacant roles being filled this year, and reduce agency spend by 10%. This will provide further budget resilience. This will be replicated in 2021/22 to deliver further savings. This will mean maintaining establishment controls and undertaking necessary restructures to permanently reduce the establishment without impacting services. There will be no compulsory redundancies as natural turnover is 7.5% and there is a high use of agency staff.

1.12. Directors were asked to review their Covid-19 decisions and assumptions and where there is choice to look to curb spending. There are also a range of other measures under consideration. Since Month 7 there has been an increase in net underspend of £4.4m (Column E). The cost of the Covid-19 emergency has increased by further £1.1m (Column C) since Month 7 largely due to a deteriorating forecast shortfall of £1.7m in parking income. Non Covid-19 costs has largely remained unchanged since month 7 (Column D),



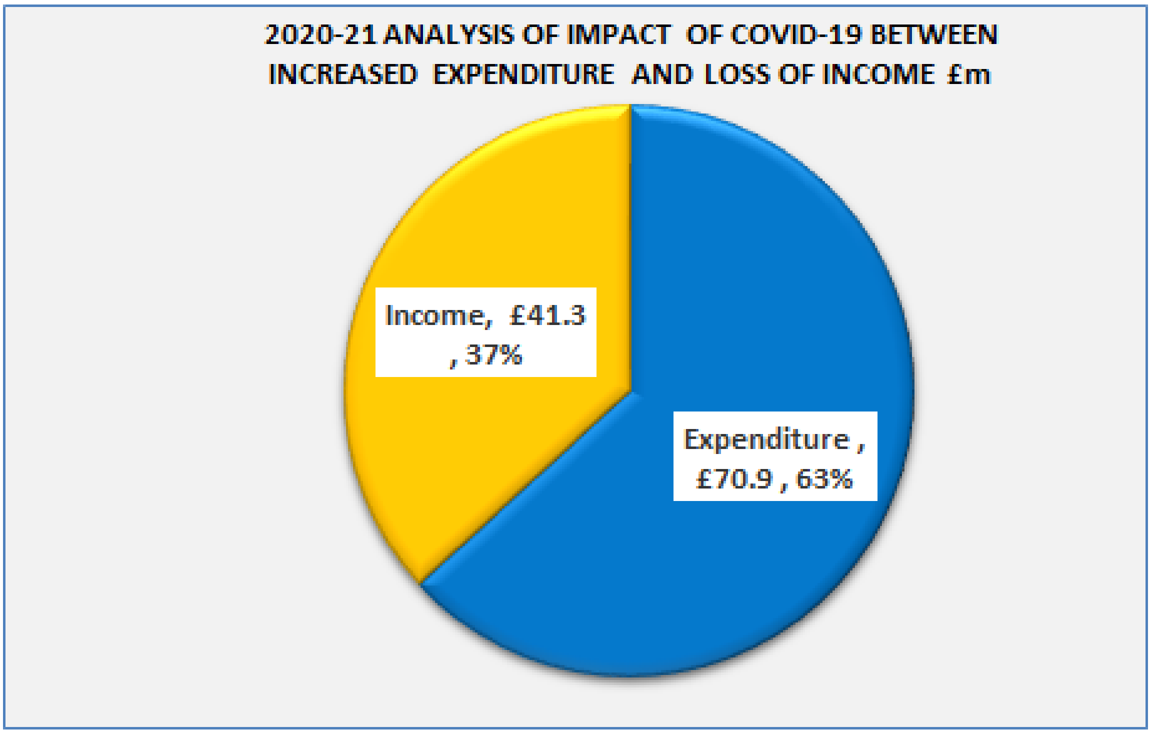


Table 1:High Level Summary	A	B	C	D	E	F
Directorate	Current Budget	Forecast Outturn	Covid 19 Financial Impact Included *	Over/(Under) spend Non Covid costs	Total Over/(Under) Spend **	Movement in Total Over/(Under) Spend From M7***
	£m	£m	£m	£m	£m	£m
Neighbourhoods	125.938	156.859	32.675	(1.754)	**30.921**	**(0.705)**
Adult Social Care	329.344	346.094	27.045	(10.295)	**16.750**	**(0.095)**
Inclusive Growth	105.699	126.634	21.049	(0.114)	**20.935**	**2.170**
Education & Skills	277.822	295.292	16.370	1.100	**17.470**	**0.006**
Finance & Governance	16.210	24.183	7.996	(0.023)	**7.973**	**(0.082)**
Digital & Cust Services	29.263	34.743	5.061	0.419	**5.480**	**0.151**
Partnerships, Insight and Prevention	7.427	9.328	2.007	(0.106)	**1.901**	**(0.106)**
Human Resources	6.566	6.508	0.036	(0.094)	**(0.058)**	**0.041**
Directorate Sub Total	**898.269**	**999.642**	**112.240**	**(10.867)**	**101.373**	**1.380**
Corporate Budgets	(45.337)	(39.931)	4.500	0.905	**5.405**	**0.557**
Proposed School Meals Funding	0.000	(6.400)	(6.400)	0.000	**(6.400)**	**0.000**
Covid Funding	0.000	(84.278)	(84.278)	0.000	**(84.278)**	**0.000**
Income Loss Scheme Funding	0.000	(19.600)	(19.600)	0.000	**(19.600)**	**0.000**
Corporate Subtotal	**(45.337)**	**(150.209)**	**(105.778)**	**0.905**	**(104.873)**	**0.557**
City Council General Fund	**852.933**	**849.433**	**6.462**	**(9.961)**	**(3.500)**	**1.937**
Financial Position as at M7	852.933	847.496	**4.483**	**(9.919)**	**(5.437)**	
Movement from previous M7	0.000	1.937	1.979	(0.042)	**1.937**	
Movement from previous M7 %	0.00%	0.23%	44.14%	0.42%	**(35.62)%**	

** the above table has been sorted according to the total over/under spend (largest to smallest)*

***this excludes Covid-19 risk, see [2.16 below]*

**** This shows the movement from the previous month.*

Table 2:High Level Summary	A	B	C	D	E	F	G	H	I	J	K
Directorate	**Current Budget**	**Forecast Outturn**	**Covid 19 Financial Impact Included ***	**Over/(Under) spend Non Covid costs**	**Total Over/(Under) Spend ****	**Covid 19 Financial Impact Included M7**	**Over/(Under) spend Non Covid costs M7**	**Total Over/(Under) Spend M7**	**Movement Covid 19 cost from M7**	**Movement in Non Covid cost From M7**	**Movement in Total Over/(Under) Spend From M7*****
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Neighbourhoods	125.938	156.859	32.675	(1.754)	**30.921**	33.159	(1.533)	**31.626**	(0.484)	(0.221)	(0.705)
Adult Social Care	329.344	346.094	27.045	(10.295)	**16.750**	27.045	(10.200)	**16.845**	0.000	(0.095)	(0.095)
Inclusive Growth	105.699	126.634	21.049	(0.114)	**20.935**	19.195	(0.430)	**18.765**	1.854	0.316	2.170
Education & Skills	277.822	295.292	16.370	1.100	**17.470**	16.291	1.173	**17.464**	0.079	(0.073)	0.006
Finance & Governance	16.210	24.183	7.996	(0.023)	**7.973**	8.055	0.000	**8.055**	(0.059)	(0.023)	(0.082)
Digital & Cust Services	29.263	34.743	5.061	0.419	**5.480**	5.029	0.300	**5.329**	0.032	0.119	0.151
Partnerships, Insight and Prevention	7.427	9.328	2.007	(0.106)	**1.901**	2.007	0.000	**2.007**	0.000	(0.106)	(0.106)
Human Resources	6.566	6.508	0.036	(0.094)	**(0.058)**	0.036	(0.135)	**(0.099)**	0.000	0.041	0.041
Directorate Sub Total	**898.269**	**999.642**	**112.240**	**(10.867)**	**101.373**	**110.818**	**(10.825)**	**99.993**	**1.422**	**(0.042)**	**1.380**
Corporate Budgets	(45.337)	(39.931)	4.500	0.905	**5.405**	3.943	0.905	**4.848**	0.557	0.000	0.557
Covid Funding	0.000	(84.278)	(84.278)	0.000	**(84.278)**	(84.278)	0.000	**(84.278)**	0.000	0.000	0.000
Income Loss Scheme Funding	0.000	(19.600)	(19.600)	0.000	**(19.600)**	(19.600)	0.000	**(19.600)**	0.000	0.000	0.000
Proposed School Meals Funding	0.000	(6.400)	(6.400)	0.000	**(6.400)**	(6.400)	0.000	**(6.400)**	0.000	0.000	0.000
Corporate Subtotal	**(45.337)**	**(150.209)**	**(105.778)**	**0.905**	**(104.873)**	**(106.335)**	**0.905**	**(105.430)**	**0.557**	**0.000**	**0.557**
City Council General Fund	**852.933**	**849.433**	**6.462**	**(9.961)**	**(3.500)**	**4.483**	**(9.919)**	**(5.437)**	**1.979**	**(0.042)**	**1.937**
Financial Position as at M7	852.933	847.496	4.483	(9.919)	**(5.437)**						
Movement from previous M7	0.000	1.937	1.979	(0.042)	**1.937**						

Table 3: Analysis of Non covid variations by Directorate

Directorate	non delivery of savings £m	expenditure variations £m	income variations £m	one-off mitigations £m	Non Covid 19 Financial Impact Included £m
Neighbourhoods	0.6	0.2	4.0	(6.6)	(1.8)
Adult Social Care	0.0	(0.4)	(1.3)	(8.5)	(10.2)
Inclusive Growth	0.9	0.0	1.5	(2.4)	0.0
Education & Skills	0.0	1.2	(0.1)	0.0	1.1
Finance & Governance	0.0	(0.7)	1.8	(1.1)	0.0
Digital & Cust Services	0.0	0.4	0.0	0.0	0.4
Partnerships, Insight and Prevention	0.0	3.7	(3.8)	0.0	(0.1)
Human Resources	0.0	0.9	0.3	(1.3)	(0.1)
Directorate Sub Total	**1.5**	**5.4**	**2.4**	**(19.9)**	**(10.9)**

One off mitigation: actions taken by Directorates to deliver a balance budget for 2020-21, which also includes mitigation for non-delivery of savings target. (over £0.5m).

1.11 Neighbourhoods: mitigations of £6.6m have been identified for 2020/21. These are the £4.0m related to delayed Prudential Borrowing, £1.6m other mitigations in Street Scene (including the “Love your Street” initiative delay), £0.5m in Housing General Fund through reductions in temporary accommodation costs and £0.5m in Neighbourhoods service area primarily through holding vacant posts pending the implementation of a new operating model.

1.12 Adult Social Care: there is a one off impact in 20/21 as a result of a combination of reduced occupancy in residential and nursing homes and Health funding for hospital discharge and preventative packages.

1.13 Inclusive Growth: One-off measures are mainly from not filling the vacant positions**.**

1.14 Finance and Governance: One-off mitigations actions have been taken, £1.0m saving due vacancies not been filled.

1.15 Human Resources: There are one-off mitigations actions that have been identified but not yet approved including £1.0m from reserves carried forward from previous year.

Capital spend

Capital Expenditure

Table 4 Overall Capital Budget position as at the end of period 8

	Spend to date	Quarter 2 Approved Budget	New Schemes & Resources	Revised Budget period 8	Forecast net underspend	Forecast Outturn
	£m	£m	£m	£m	£m	£m
General Fund	156.0	742.2	8.0	750.2	148.4	601.8
HRA*	45.8	114.9	0.0	114.9	2.9	112.0
TOTAL	**201.8**	**857.1**	**8.0**	**865.1**	**151.3**	**713.8**

NB: HRA = Housing Revenue Account

1.16 **Forecast Outturn**: overall capital expenditure for the year is forecast to underspend against the revised capital budget by £151.3m. The underspend comprises £146.8m of net slippage and £4.5m of forecast net savings. The forecast outturn of £713.8m has decreased from that reported at Month 7 (of £715.7m) by £1.9m. The change to last month's forecast outturn is the net result of the following:

- Slippage on new Coroners Court (£0.9m) due to delays in gaining possession of the building and more works resulting from initial surveys. A Full Business Case is being prepared following a full requirements assessment.
- £0.4m slippage against the Adults IT budget due to the delay in the implementation of the Eclipse project.
- £0.4m slippage on the replacement Leisure Flex (till system) which is delayed until next financial year.
- £0.2m slippage on Adults Property due to Covid resulting in delayed access to user homes to install a new nurse call alarm system at 3 residential homes.

1.17 **Spend-to-date:** is £201.8m (27% of the revised budget) and is an increase of some £32m from the amount spent at the end of month 8

1.18 **Budget movements**: the revised 2020/21 period 8 capital budget has increased from the Quarter 2 (period 6) budget by £7.99m. The increases are in Table 5 and all relate to the Council's General Fund services.

Table 5: Approved increases to the Capital Budget

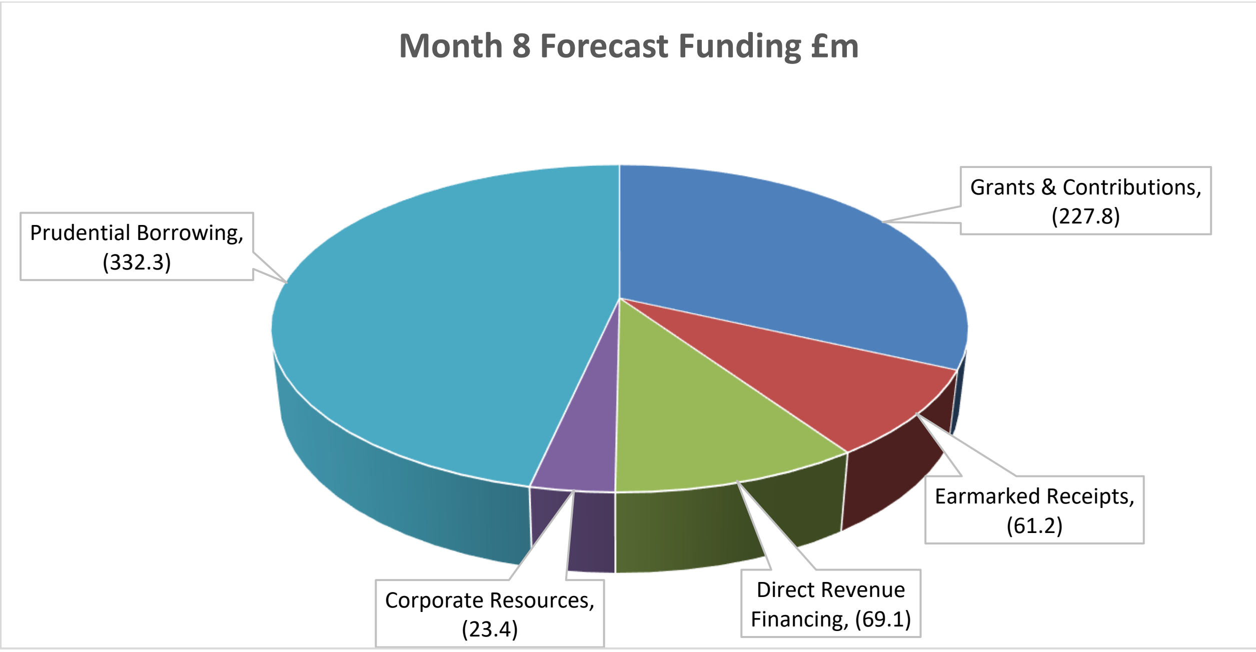
Directorate	Amount in 21/22	Total amount	Capital Project	Funding	Approval
	£m	£m			
Neighbourhoods - Waste Management Services	0.9	1.1	Relocation of Montague Street & Redfern Road	Capital receipt from sale of Montague Street	13/10/20
Neighbourhoods – Parks & Nature Conservation	0.3	2.1	Ward End Park Lakeside Renewal Project	Community Infrastructure Tariff, Corporate Resources, ERDF, HS2, & BMHT	17/03/20
Neighbourhoods – Illegal Money Lending Team	0.1	0.1	Acquisition of vehicles	Direct Revenue Funding	08/09/20
Inclusive Growth – Emergency Active Travel Fund	4.1	4.1	To fund emergency interventions to make cycling & walking safer	Tranche 2 of Emergency Active Travel Fund grant from DfT	08/09/20
Inclusive Growth – Property Services	0.7	0.0	Feasibility study for Council House Major Works of 26m	Policy Contingency Reserve	13/10/20
Inclusive Growth – other projects	1.9	5.7	Wholesale Market Enabling works	Prudential borrowing	8/09/20
Total	**8.00**	**13.9**			

1.19 **Financing of the capital programme**

Table 6: Summary of Capital Project Funding for Month 8	General Fund £m	Housing Revenue Account (HRA) £m	Total £m
Forecast Capital expenditure	601.9	112.0	713.9
Forecast Funding			
Grants and contributions	(223.5)	(4.3)	(227.8)
Earmarked Receipts	(39.2)	(22.0)	(61.2)
Direct Revenue Financing	0.0	(69.1)	(69.1)
Corporate Resources	(23.4)	0.0	(23.4)
Prudential Borrowing	(315.6)	(16.7)	(332.3)
Total Funding	(601.9)	(112.0)	(713.9)

1.20 The pie chart below shows how the forecast outturn at period 8 of £713.9m is planned to be financed.

Pie Chart showing planned financing of the period 8 forecast outturn



2. Key Issues

Non Covid-19 Related Issues

Education and Skills

2.1. There is a non Covid overspend forecast for the directorate of £1.1m (a reduction of £0.1m from Month 7) and the majority of this £1.0m originates from the Children's Trust. The latest forecast from the Children's Trust consists of pressures primarily around pay (caseloads and Independent Reviewing Officers) and placement costs. Children in Care numbers have remained fairly static recently, with no spike yet (contrary to initial expectations when schools reopened, and more referrals were expected). Savings have arisen from reductions around external residential placement, the cessation of the Priory contract and reduction in external fostering placements.

2.2. The Education and Skills Directorate together with Birmingham and Solihull Clinical Commissioning Group published a 'written statement of action' in July 2019, in response to the DfE, to make improvements to the special educational needs and disability (SEND) service. As previously reported, it is anticipated that any financial impact on the Local Authority will be met from the Dedicated Schools Grant (DSG).

2.3. There continues to be a concern around schools with financial deficits. The number of schools in deficit has only grown by a small amount (from 38 to 40), but the total deficit amount has risen substantially from £7.2m to £9.0m; where maintained schools convert to Academy status with a sponsor the licenced deficit falls to the Council. The Local Authority has contacted all schools with deficits and is reviewing the robustness of deficit recovery plans.

Neighbourhoods

2.4. The 2019/20 outturn for Neighbourhoods was an overspend of £19.3m. For 2020/21 additional budget has been allocated to Neighbourhoods of £23m. At the end of Month 8 the directorate is forecasting underspend of £1.8m on non Covid-19. The forecast has improved by £0.7m since Month 7. These pressures have been managed by one off measures, delay in purchase of vehicles and by holding vacant posts pending the implementation of a new operating model.

Adult Social Care

2.6. The overall Adults non Covid-19 is forecast underspend of £10.2m, which has not changed since month 7. The underspend is largely a result of the following:

2.7. Packages **of Care - £6.2m underspend -** The current packages of care forecast includes Health funding for hospital discharges and prevention packages up to the end of October 2020. It is anticipated that the funding and support will continue until it is reassessed (or to 31st March at the latest), as clients are reassessed in respect of their on-going needs. However, there is risk of significant costs still to be quantified in relation to support to the care market in respect of actual costs incurred and it is anticipated that there is currently a significant level of hidden demand which will impact when lockdown is fully eased. To date the Council has claimed £8.7m from Health which is one-off due to temporary arrangements put in place during Covid. The Council has also now received a £1.2m inflationary increase in BCF funding to packages of care which has just been agreed with CCGs.

2.8. **Community & Operational - £5.3m underspend-** The Directorate's Transformation Programme is now substantially complete with the roll-out of the Customer Journey (CJ) Restructure in September and the Early Intervention (EI) Programme over the coming months in order to deliver existing planned sustainable savings. Further savings will be achieved, £1.3m due to the early delivery of 2021/22 savings and £3.9m due to the phased reduction in the use of agency staff through to the end of October.

Inclusive Growth is forecasting a balanced budget.

2.9. The Council is currently working with Birmingham Highways Ltd to re-procure the subcontract for its Highway Maintenance and Management PFI (HMMPFI) contract. Affordability will be assessed taking account of the total cost of a re-procured contract and available resources, with the outcome being factored in as part of setting future Council budgets.

2.10. On the 6th April 2020 the Council received approval from Government to delay the implementation of the Birmingham Clean Air Zone (CAZ) until no earlier than January 2021 and activities associated with delivery were scaled back reflecting the delays experienced and also the need for the Council to redeploy staff to support the Covid-19 response. The Council has remained committed to the CAZ and the implementation date has now been set for 1st June 2021.

2.11. The forecast for commercial property rental income is lower than anticipated when considering the prior year outturn position and known variations. Property Services are undertaking a review to confirm the accuracy of the forecast. This uncertainty in conjunction with the yet to be confirmed impacts of Covid-19 mean that there is a real risk that the current forecast pressures could increase.

New Oracle Back office system (ERP)

2.12. The programme, as a result of an assurance process, is going through a reset phase to establish and quantity financial and non-financial risks. A report to Cabinet is planned for early 2021.

Savings Programme

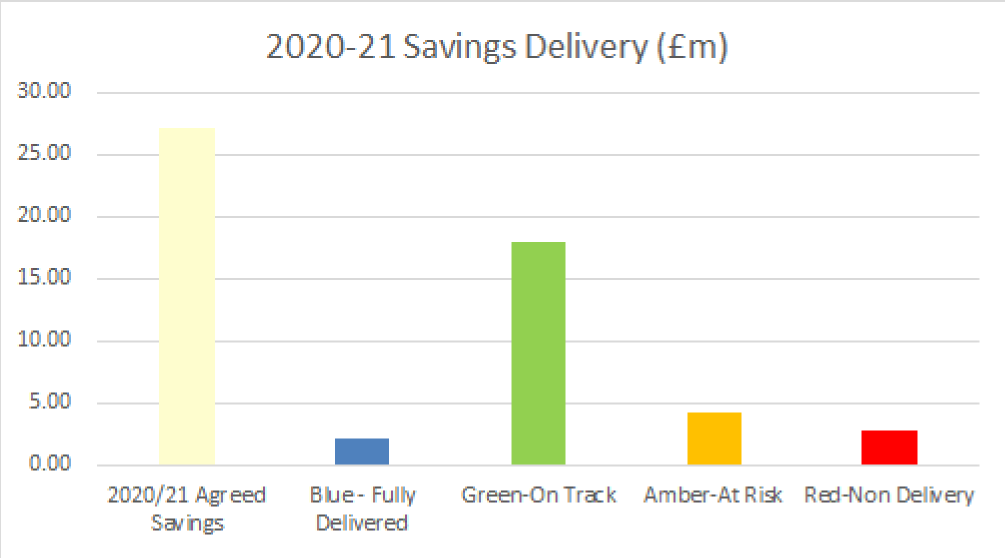
Table 7: Breakdown of Savings Delivery and Non-Delivery

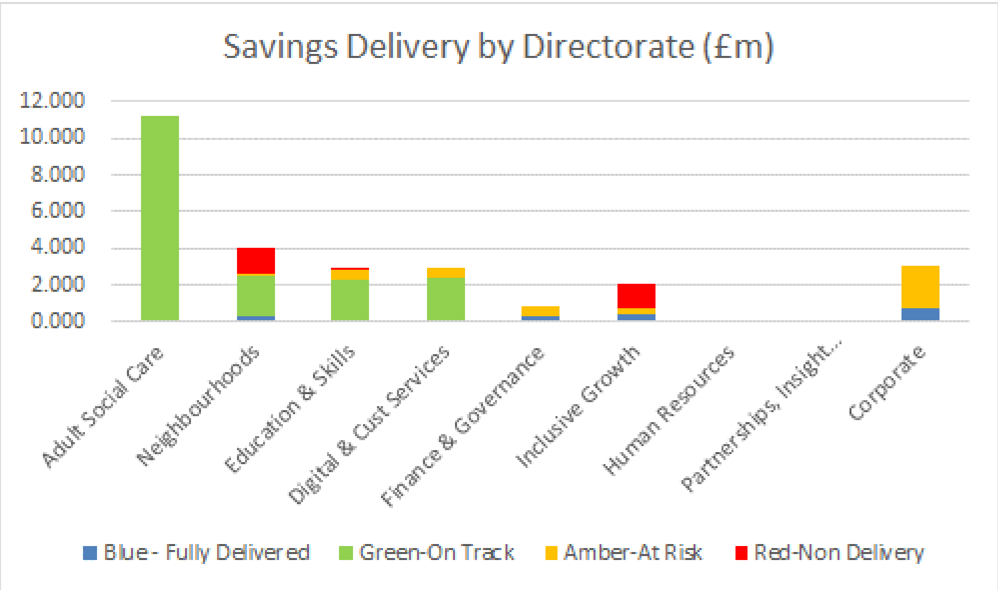
	Non-Delivery of Saving				
Directorate	**Delayed Because of Covid-19**	**High Risk & Undeliverable**	**Saving at Risk**	**Saving Delivered and on Track**	**Total Saving**
	£m	**£m**	**£m**	**£m**	**£m**
Neighbourhoods	0.7	0.6	0.2	2.5	**4.0**
Adult Social Care	-	-	-	11.2	**11.2**
Inclusive Growth	0.5	0.9	0.3	0.5	**2.1**
Education & Skills	-	-	0.5	2.3	**2.9**
Finance & Governance	-	-	0.5	0.4	**0.9**
Digital & Cust Services	-	-	0.5	2.4	**2.9**
Partnerships, Insight and Prevention	-	-	-	0.1	**0.1**
Human Resources	-	-	-	0.1	**0.1**
Corporate	-	-	2.3	0.7	**3.0**
Total	**1.2**	**1.5**	**4.3**	**20.1**	**27.1**

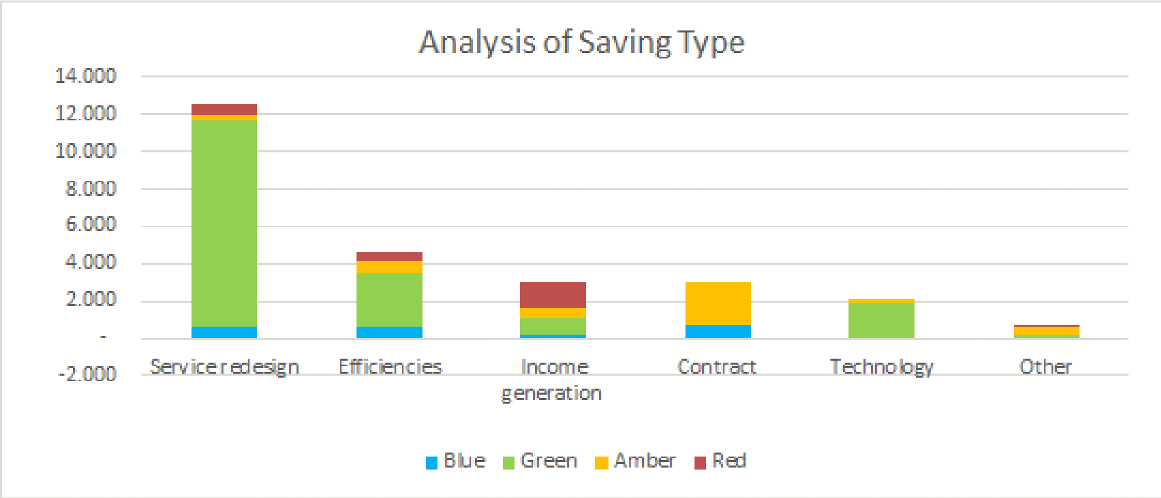
2.13. The £27.1m savings programme for 2020-21 (shown in the following charts) is now showing £20.1m as delivered or on track (£19.0m at Month 7). This improvement of £1.1m is almost all related to Neighbourhoods savings that was considered at high risk at Month 7 has now been rated as on track. There are £4.3m of savings at risk (no change since Month 7) and £2.7m (£3.8m at Month 7) classed as undeliverable or non-delivered. Covid-19 has impacted savings delivery. The key areas at risk or non-deliverable (those over £0.5m) are:

- **Neighbourhoods has £0.2m** savings that are at risk and **£1.3m** savings that are unlikely to be achieved, of which £1.1m are related to Covid. One-off mitigations have been identified in 2020/21 to fully meet this target. The savings are planned to be achieved from 2021/22 after the completion of the Housing Service Redesign.
- **Contract** savings cut across all directorates, and are shown corporately. The target is **£3.0m** of which **£0.7m** has been delivered so far, leaving £2.3m at risk. While a delivery plan exists, this is now considered a risk as Covid-19 has caused services to reappraise their planned procurements.
- **Finance & Governance has £0.5m** savings at risk, mainly related to savings based on reducing external legal spend. If not achieved, these will be mitigated from general underspends, mainly from vacancies.

- **Education & Skills has £0.5m** savings at risk - these largely relate to an increased commercialisation target for the Adult Education Service that was set in 2019/20 at £1.2m and reduced this year to £0.8m, but which is still unlikely to be fully delivered. It is being partly mitigated this year through a restructure of the service and savings from elsewhere in Skills & Employability.
- **Digital & Customer Services has £0.5m** savings at risk mainly due to delays and potential income losses related to Covid-19.
- **Inclusive Growth has £0.3m** savings at risk and **£1.4m** that are unlikely be achieved, some of which are due to delays and risks to income caused by Covid-19







Council Tax and Business Rates

2.14. The Collection Fund collects business rates and council tax income and pays it over to the precepting body. Council tax and business rates income has been heavily impacted by Covid-19. The forecast for the Collection Fund is a deficit of £46.5m (£10.4m deficit for Council Tax and a £36.1m deficit for Business Rates).The Government announced in the spending review 2020 proposal to compensate to local authority for 75% of irrecoverable loss of council tax and business rate revenue in 2021-22. Precise details are expected in the local government settlement. Impact of this will be considered in setting the budget for 2021-22. This position will be updated at month 9.

Covid-19 Major Incident Financial Impact

2.15. The Council has received £128.5m of un-ringfenced Covid-19 related grant funding from the government. This includes £44.2m that was received in month 8. Cabinet on November 10th in the Month 6 Report approved the proposal to transfer this to a specific Covid reserve to manage the ongoing pandemic through the higher risk winter months. The council also estimates that the Governments income loss scheme will provide £19.6m of additional funding. The first payment of £6.5m was received in month 8 based on our quarterly bid submission. The government has announced several ring-fenced grants for additional reliefs and support schemes which are being spent on the additional measures set out in government guidance.

2.16. Further Covid-19 financial risks which have been quantified at £18.3m, are reported through emergency cells on a weekly basis. There is an ongoing review of risks to ensure that they reflect the latest circumstances. There is a small increase from the £18.2m reported at Month 7.

2.17. On 31st October the Government announced further national lockdown measures. Any impacts will be reflected in future reports.