

Birmingham City Council

Report to Cabinet

9TH NOVEMBER 2021



Subject: FINANCIAL MONITORING REPORT 2021/22
QUARTER 2 (UP TO 30TH SEPTEMBER 2021)

Report of: Director of Council Management – Rebecca Hellard

Relevant Cabinet Member: Councillor Tristan Chatfield – Finance & Resources

Relevant O &S Chair(s): Councillor Mohammed Aikhlaq - Resources

Report author: Director of Council Management – Rebecca Hellard

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: 009034/2021		
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 The quarterly finance report attached as Appendix A is part of the City Council's robust financial management arrangements.

2 Recommendations

That the Cabinet:-

- 2.1 Notes the City Council's 2021/22 forecast at 30th September 2021 of a net overspend of £10.2m, comprising of £32.9m direct covid related expenditure and

reduction in income, partially offset by revenue budget non-Covid underspends of £22.7m.

- 2.2 Notes that corrective action will take place to ensure the budget is balanced by March 2022.
- 2.3 Notes that Directorates are reporting that £19.8m of the £36.7m savings targets are either delivered or on track. This represents 54% of the total target with a further 38% (£14.1m) anticipated to be delivered. Directorates are continuing to work towards ensuring that these savings are brought on track and are delivered.
- 2.4 Notes that the forecast capital expenditure in 2021/2022 is £709.2m.
- 2.5 Notes that reporting is now in the new Council Directorate structure.
- 2.6 Notes the allocation of Specific Policy Contingency as set out in paragraph 4.14.
- 2.7 Approves the allocations of General Policy Contingency as set out in paragraph 4.15.
- 2.8 Notes the expected underspend on Specific Policy Contingency as set out in paragraph 4.17
- 2.9 Notes the Treasury Management and Investment Portfolio Reports that are included in Appendix A.
- 2.10 Approves the use of £10.0m of the Delivery Plan Reserve as set out in paragraph 4.19.
- 2.11 Approves the writing off of debts over £0.025m as described in paragraph 4.12.
- 2.12 Approves the allocation of £0.745m Corporate Capital Contingency for investment in CCTV as set out in paragraph 4.7.

3 Background

- 3.1 At the meeting on 23rd February 2021, the Council agreed a net revenue budget for 2021/2022 of £828.7m to be met by government grants, council tax and business rates. Appendix A sets out the full financial position at Quarter 2.

4 Key Issues

- 4.1 The Council is forecasting a net revenue overspend of **£10.2m** which represents 1.2% of the £828.7m budget. This represents an improvement of £17.2m since Quarter 1.
- 4.2 This is the second full financial forecast for the year. There is still sufficient time for corrective action to be taken over the course of the year which will bring the budget back into balance by March 2022. This includes looking to maximise the use of ring fenced Covid funding to mitigate the current Covid overspend. Progress will be monitored by the Director of Council Management and the Cabinet Member for Finance and Resources, and reported to Scrutiny via monthly exception reporting.

- 4.3 The direct covid related expenditure and reduction of income of **£32.9m** is after applying funding; **£17.5m** of un-ringfenced Covid-19 related grant funding from the government received in 2020/21 carried forward into 2021/22, release of **£3.0m** from specific grant funding, **£6.0m** of Public Health Grant to fund Covid related spending in 2021/22, an estimate of funding for income loss of **£3.2m** and **£12.5m** pressures funded in the 2021/22 budget from the application of Tranche 5 of Government Covid funding. It is also after applying an estimate of **£38.0m** cost from the redeployment of staff on a similar basis to that reported in the 2020-21 outturn. This is partially offset by a net revenue budget non-Covid underspend of **£22.7m**. This is shown in the table below:

Table 1 : High level position.	Covid Variation	Non-Covid Variation	Total Variation
	£m	£m	£m
Directorate Sub Total	25.7	10.5	36.2
Corporate Budgets	11.5	4.8	16.3
Application of Tranche 5 Funding Budget 2021/22	(12.5)	0.0	(12.5)
Covid Funding	(17.5)	0.0	(17.5)
Specific Grant Funding	(3.0)	0.0	(3.0)
Public Health Grant	(6.0)	0.0	(6.0)
Income Loss Scheme Funding	(3.2)	0.0	(3.2)
City Council General Fund Sub Total	(5.1)	15.3	10.2
Transfer of Indirect Covid Costs	38.0	(38.0)	0.0
General Fund after transferring indirect costs	32.9	(22.7)	10.2

- 4.4 There are also several ring-fenced grants for additional reliefs and support schemes which are being spent on the additional measures set out in government guidance.

Capital Programme

- 4.5 Capital expenditure for the year 2021/22 is forecast at £709.2m against the revised capital budget of £754.8m, representing a net variation of £45.6m.
- 4.6 This is a decrease in forecast spend of £56.9m from Quarter 1. This is largely due to slippage in relation to Transportation & Connectivity within the City & Municipal Development Directorate (£26.0m) and within the Education and Skills Directorate (£9.0m). The Corporate Contingency budget is being slipped by half (£12.5m) at this half year stage too. Further details for these variations are provided below.
- 4.7 Cabinet is asked to approve an allocation of £0.745m from the Corporate Capital Contingency budget to support the procurement of 20 new CCTV cameras and an upgrade to 30 existing cameras, as set out in Appendix A paragraph 2.25.
- 4.8 Details of the Capital Programme are set out in Appendix A in Section 2 and Annex 4.

Treasury Management and Investment Portfolio

4.9 The Covid-19 pandemic has had a significant impact on Treasury Management decision making in the quarter. Details are set out in the Appendix A Annex 3.

4.10 During the quarter, the Director of Council Management and the Council's Treasury Management Panel considered the following treasury related issues:

- Reviewed the Council's interest in the partnership between Arlingclose and UK Municipal Bond Agency (MBA) to provide a short-term loan solution to local authorities by issuing Commercial Paper. This would allow the Council to diversify its sources of short-term funding and manage refinancing and liquidity risks.
- Reviewed the industry wide removal of the London Interbank Offered Rate (LIBOR) as an interest rate benchmark for financial contracts and its replacement by the Bank of England administered Sterling Overnight Index Average (SONIA). The Council intends to use SONIA as the new reference rate for deposits held with the Council.
- The Panel assessed the impact of environmental, social and governance (ESG) issues on Treasury Management and agreed to include ESG considerations as part of the Council's future investment and borrowing strategies.

4.11 The Investment Portfolio is reported in Appendix A Annex 5.

Write-Offs

4.12 The schedule at Appendix A, Annex 2 part D summarises debts recommended for write off of over £0.025m.

Policy Contingency

4.13 The original policy contingency budget for 2021/22 was £44.6m, excluding savings that will be allocated to directorates in 2021/22. Following use of reserves and allocations approved by Quarter 1, the budget excluding savings was £38.3m.

4.14 Cabinet is asked to note as shown below the allocation of Specific Policy Contingency. Further details are provide in the relevant paragraph in Appendix A.

Use of	Reason	Value (£m)	Reference to Paragraph in Appendix A
Specific Policy Contingency	Inflation	0.055	3.52

4.15 Cabinet is asked to approve the following allocations of General Policy Contingency as shown below. Further details are provided in the relevant paragraph in Appendix A.

Use of	Reason	Value (£m)	Reference to Paragraph in Appendix A
General Policy Contingency	City Housing JNC Posts	0.362	3.54
General Policy Contingency	Communications-Commonwealth Games	0.593	3.54
General Policy Contingency	City Serve price freeze	0.494	3.54
General Policy Contingency	Digital mail and Bank charges	0.600	3.54

4.16 If these uses are approved, the Policy Contingency budget excluding savings will be £30.3m.

4.17 Cabinet is asked to note that following a review of Policy Contingency, there is a forecast underspend of £9.3m related to savings on redundancy and exit costs due to the number of redundancies being lower than forecasted, and any costs that do materialise will be funded using capital receipts flexibility. These savings will help to mitigate the cost of the pay award pressure.

Reserves

4.18 Cabinet in April 2021 and July 2021 approved the draw down of £10.0m in total from the Delivery Plan Reserve. After taking into account actual and forecast expenditure, there remains £0.3m uncommitted.

4.19 Given the success of the pump priming of transformation at pace to date, Cabinet is asked to approve a further £10.0m draw down from the Delivery Plan Reserve. Further requests are expected in the coming months and it is important to keep up the pace and scale of transformation enabling work, which is increasingly focussing on invest to save initiatives that will improve citizen outcomes whilst reducing net service delivery costs.

5 Options considered and Recommended Proposal

5.1 Directors, in striving to manage their budgets, have evaluated all the options available to them to maintain balance between service delivery and a balanced budget.

6 Consultation

6.1 The Leader, Deputy Leader, other Cabinet Members, Directors, the City Solicitor and Human Resources Director 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 2021/22.

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.

8.3 Financial Implications

8.3.1 The Corporate Revenue and Capital Budget Monitoring documents attached give details of monitoring of service delivery within available resources.

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 2021-2025 approved at Council 23rd February 2021

9.2 Quarter 1 Financial Monitoring Report approved by Cabinet 27th July 2021