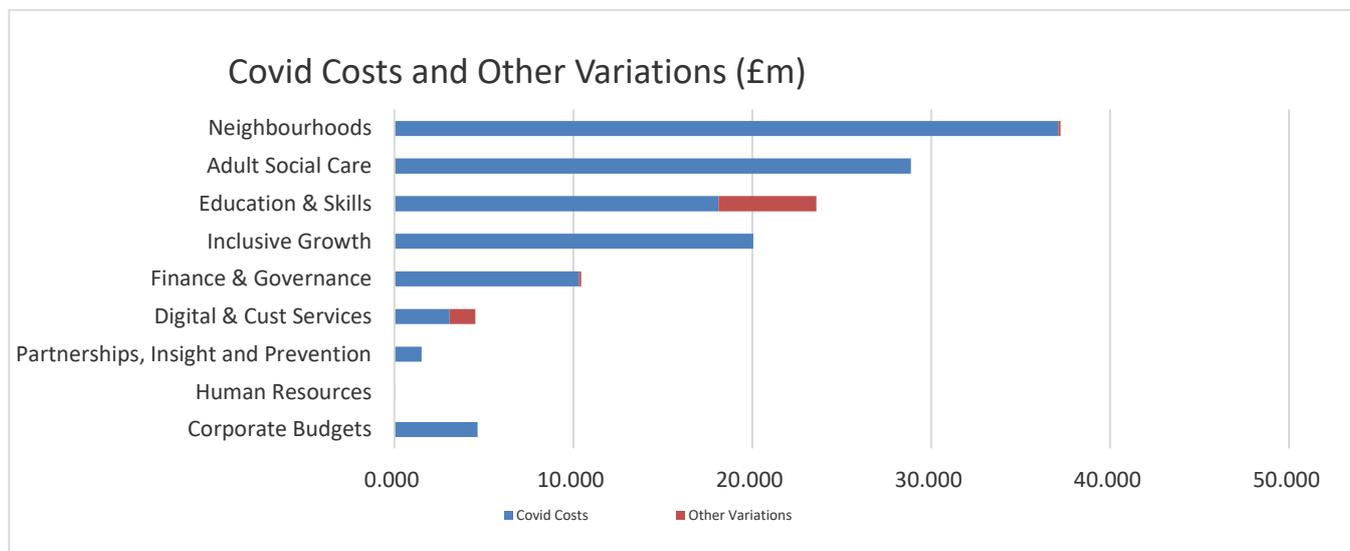


## Month 5 Financial Exception Report

### 1. High Level Summary Financial Position

- 1.1. This is an exception report on the major financial issues for the Council at Month 5. 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 October.
- 1.2. The assessment at the end of August is that the Council's **General Fund**, is facing a net **overspend** of **£19.5m** (Column C in table1) which represents 2.3% of the £852.9m budget. **£17.4m** (Column D in table1) of the overspend relates to the Covid-19 emergency after applying the £84.3m government grant and £22.1m income loss funding, an increase in forecast income of £6.5m from last month. The funding gap is being dealt with as a corporate issue. Directorates non Covid-19 net overspend is **£2.1m** (Column E in table1), an improvement of £2.4m on month 4.
- 1.3. In July 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 4 the net overspend has fallen by £18.6m (Column C). The cost of the Covid-19 emergency has decreased by further £9.6m (Column D) in month 5 and there has been an increase in the forecast Income loss scheme funding of £6.5m (also Column D). There was also a decrease of £2.4m in non covid-19 costs in month 5 (Column E).



**2020-21 ANALYSIS OF IMPACT OF COVID-19 BETWEEN INCREASED EXPENDITURE  
AND LOSS OF INCOME**

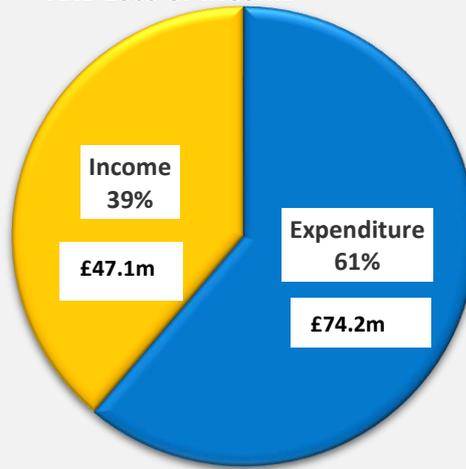


Table 1: High Level Summary	A	B	C	D	E	F	G	H
Directorate	Current Budget	Forecast Outturn	Total Over/(Under) Spend *	Covid 19 Financial Impact Included **	Over/(Under) spend Non Covid costs	Movement in Total Over/(Under) Spend***	Movement Covid 19 cost***	Movement in Non Covid cost***
	£m	£m	£m	£m	£m	£m	£m	£m
Neighbourhoods	125.646	162.872	37.226	37.100	0.126	(2.094)	(1.449)	(0.645)
Adult Social Care	329.344	355.251	25.907	28.865	(2.958)	(4.093)	(2.935)	(1.158)
Education & Skills	276.811	300.393	23.582	18.116	5.466	(3.918)	(3.884)	(0.034)
Inclusive Growth	105.494	123.513	18.018	20.063	(2.045)	(0.882)	(0.537)	(0.345)
Finance & Governance	9.669	20.103	10.434	10.311	0.123	0.234	0.011	0.223
Digital & Cust Services	29.263	33.787	4.523	3.088	1.435	(0.877)	(0.412)	(0.465)
Partnerships, Insight and Prevention	7.229	8.757	1.528	1.529	(0.001)	(0.096)	(0.095)	(0.001)
Human Resources	6.566	6.601	0.035	0.035	0.000	0.035	0.035	0.000
<b>Directorate Sub Total</b>	<b>890.023</b>	<b>1,011.276</b>	<b>121.253</b>	<b>119.107</b>	<b>2.146</b>	<b>(11.691)</b>	<b>(9.266)</b>	<b>(2.425)</b>
Corporate Budgets	(37.091)	(32.434)	4.657	4.657	0.000	(0.381)	(0.381)	0.000
Covid Funding	0.000	(84.278)	(84.278)	(84.278)	0.000	0.000	0.000	0.000
Income Loss Scheme Funding	0.000	(22.100)	(22.100)	(22.100)	0.000	(6.500)	(6.500)	0.000
<b>Corporate Subtotal</b>	<b>(37.091)</b>	<b>(138.812)</b>	<b>(101.721)</b>	<b>(101.721)</b>	<b>0.000</b>	<b>(6.881)</b>	<b>(6.881)</b>	<b>0.000</b>
<b>City Council General Fund</b>	<b>852.933</b>	<b>872.465</b>	<b>19.532</b>	<b>17.386</b>	<b>2.146</b>	<b>(18.572)</b>	<b>(16.147)</b>	<b>(2.425)</b>
Financial Position as at M4	852.933	905.005	38.104	33.533	4.571			
<b>Movement from previous M4</b>	<b>0.000</b>	<b>(32.540)</b>	<b>(18.572)</b>	<b>(16.147)</b>	<b>(2.425)</b>			
<b>Movement from previous M4 %</b>	<b>0.0%</b>	<b>(04)%</b>	<b>(49)%</b>	<b>(48)%</b>	<b>(53)%</b>			

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

\*\*this excludes Covid-19 risk, see [2.29 below](#)

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

## Analysis of Non covid pressure faced 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	1.2	3.5	2.4	(7.0)	0.1
Adult Social Care	0.0	(1.0)	(2.0)	0.0	(3.0)
Education & Skills	0.0	5.4	0.1	0.0	5.5
Inclusive Growth	0.6	0.1	0.0	(2.7)	(2.0)
Finance & Governance	0.0	0.3	1.2	(1.4)	0.1
Digital & Cust Services	0.0	1.4	0.0	0.0	1.4
Partnerships, Insight and Prevention	0.0	(0.0)	0.0	0.0	(0.0)
Human Resources	0.0	0.0	0.0	0.0	0.0
<b>Directorate Sub Total</b>	<b>1.8</b>	<b>9.7</b>	<b>1.7</b>	<b>(11.1)</b>	<b>2.1</b>

*There was no over delivery of saving identified by the directorates.*

*The one-off mitigations of £7m for Neighbourhoods are covered in paragraph 2.9*

### Capital spend

- 1.4 2020/21 Capital spend is currently projected to be £748.7m, after projected slippage of £107.6m (£104.6m Covid related, £3.0m non-Covid related). However, there are still a number of uncertainties as a result of Covid which are yet to be quantified and are expected to impact on the capital spend for the year. The full multi-year capital programme is projected at £3,317.2m.
- 1.5 At the end of March 2020 most construction work paused whilst safe working practices were introduced on the Major Projects (for example, Commonwealth Games (CWG), Paradise, Birmingham Municipal Housing Trust (BMHT), Transport schemes). Work on several sites has restarted but whilst adhering to social distancing guidelines. The impact of this on delivery timescale and costs is being quantified as the situation evolves. A second wave of Covid could cause further disruption however it is hoped that the measures now put in place to achieve social distancing will prevent a second period of full closure although there may be a further impact on imports and material costs.
- 1.6 One significant scheme, relating to the disposal of Brasshouse to the Council's wholly owned company, InReach, for housing redevelopment, will not now proceed and alternative disposal options for the site are therefore being considered. The InReach scheme was originally budgeted to be financed through a £43m loan from the Council to InReach on commercial terms, and alternative schemes that are financially attractive to both the Council and InReach are being sought for evaluation in accordance with the strategic plans for InReach and the Council's financial regulations for the provision of loans.
- 1.7 The Commonwealth Games is subject to a separate report, so is not covered in this report.

- 1.8 Early impacts of Covid across the broader programme have been identified and mitigations put in place where possible to offset costs of enhanced welfare provisions resulting in a net forecast reduction in expenditure of £23.6m over all years (£6.7m in 2020/21). The scope and forecast spend is likely to change further as a result of this ongoing review and will be reported as and when quantified.
- 1.9 Phase 2 Paradise Circus continues to progress and a change request to reflect a share of additional Covid costs is expected once verified and will be presented to the GBSLEP as funding approvers. Positive talks continue to be held with prospective occupiers and announcements will be made as these are confirmed.
- 1.10 Basic Needs Additional School Places programme of £53.7m has progressed despite Covid interruptions. However, there is an impact on resources, and these are being managed and the risk reducing over time. The full impact on any costs associated with COVID-19 against projects is not yet known but will be included in a future report. The Housing Improvements Programme of £73.5m is currently projecting to spend to budget.
- 1.11 The impact of Covid has delayed the introduction of the Clean Air Zone, 2020/21 budget of £52.1m. As a result, the majority of capital spend is likely to take place in the next financial year, resulting in a slippage of £30.3m

## **2. Key Issues**

### **Non Covid-19 Related Issues**

#### **Education and Skills**

- 2.1. There is a non Covid overspend forecast for the directorate of £5.5m and the majority of this (£5 million) originates from the Children's Trust. The Council did invest an additional £6.1m of one-off monies into the contract sum for the Trust for 2020/21. However, there are demographic pressures over and above that, manifested primarily in additional placement costs. Children in Care numbers have risen from 1,830 (April 2018) to an average of 1,955 by March 2020. A gross pressure of £7 million has been reduced by £2 million (ongoing) from the renegotiation of contracts and the commissioning of placements. There is a risk that placement costs may further spike in September, when children return to school and more cases are reported. This risk is not quantified in the forecast. Better trend information is expected next month.
- 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. At this stage it is anticipated that any financial impact on the Local Authority will be met from the Dedicated Schools Grant (DSG). The provisional 2021/22 DSG settlement has indicated another substantial funding increase (12%). There are substantial pressures from both demography (pupil numbers) and increased complexity of provision, but the additional funding provides scope to also address the improvements necessary outlined in the 'written statement of action'.
- 2.3. There is a growing 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 will fall to the Council. The Local

Authority has contacted all schools with deficits and will review the robustness of deficit recovery plans in September. In addition, specific actions (including regular monitoring, meetings with schools, implementation of Interim Executive Boards, negotiations with Department for Education and alternate funding sources) are all being implemented to minimise the impact on the Council's budget.

### **Neighbourhoods**

- 2.6. The 2019/20 outturn for Neighbourhoods was an overspend of £19.3m. For 2020/21 additional budget has been allocated to Neighbourhoods of £23m. This funding should address the issues that were present in 2019/20.
- 2.7. At the end of month 5 the forecast for the Neighbourhoods Directorate outside of Covid-19 is an overspend of £0.2m. The forecast improved by £0.6m on that reported last month.
- 2.8. The position outside of Covid-19 impacts is mainly due to pressures within the Street Scene service including pressure of £1.5m on vehicle maintenance and hire costs within the waste fleet due to delays in the procurement of a new fleet as the old and mechanically less reliable vehicles being used past their natural life, income pressure of £1.5m within the Trade Waste service and pressure of £0.5m within the waste procurement project due to the use of external legal advice. The main pressure outside of Covid-19 within the Housing service is the £0.5m income target against the Selective Licensing scheme which was not launched due to regulation changes and legal advice. A review is currently taking place to determine viability and a way forward. This is currently being managed within the service through holding vacant posts. The Regulation and Enforcement service is forecasting income pressure of £0.9m in Bereavement and Markets. These pressures are offset by £4.0m Prudential Borrowing underspend due primarily to delays in procurement of vehicles. These borrowing decisions are the ownership of the Directorate, so are reported as a Directorate underspend. There are also other net underspends of £0.7m largely related to a delay in the 'Love your Street' initiative
- 2.9. Neighbourhoods Directorate has £7.0m of one-off mitigations that have been identified for 2020/21. These are the £4.0m related to Prudential Borrowing, £1.0m other mitigations in Street Scene (including the "Love your Street" initiative delay), £1.5m in Housing General Fund where reductions in Bed and Breakfast costs and vacancies have mitigated delays in the Service Redesign, and £0.5m in Neighbourhoods primarily through holding vacant posts pending the implementation of a new operating model

### **Adult Social Care**

- 2.10. The underspend of £2.9m is a result of additional funding towards health funded packages and continued reduction in ongoing use of agency staff. The improvement in month 5 is due to the additional funding.
- 2.11. Health are currently meeting the costs arising from most hospital discharges and health will also meet the first 6 weeks costs of placements from 1st October. There has been a significant reduction in residential and nursing placements in the year to date although August numbers have shown an increase in nursing and residential placements. However, there are still significant costs to be quantified in relation to Covid support to the care market (estimated to be £8m) 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 eased.

- 2.12. Added to this is an expected significant increase in the net cost of care packages due to the impact of short-term demand on prices, temporary health funding and a reduction in client contributions. To date the reduction in residential and nursing numbers has led to a £3.5m fall in forecast costs for the year, there is likely to be some volatility in Adults Projections as the key assumptions are refined due to the nature of the service it provides.
- 2.13. The Directorate's Transformation Programme continues to positively progress with the roll-out of the Customer Journey Restructure and the Early Intervention Programme over the coming months in order to deliver existing planned sustainable savings. Ongoing system-wide service transformation with partners (NHS) is continuing but no additional savings are assumed at this stage.
- 2.14. The short-term impact of Covid-19 has led to the need to retain additional agency Social Work capacity for longer than originally planned but has also meant that the Early Intervention process has been refined in advance of wider implementation. Following the implementation of the Customer Journey Restructure in September 2020 the planned reduction in the ongoing use of agency staff will result in a saving of £3.2m.

### **Inclusive Growth**

- 2.15. The majority of the directorates underspend is due to staff vacancies that have not yet been filled. The issues covered below have not changed since Month 4.
- 2.16. 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.
- 2.17. 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. In the context of the national Covid-19 lockdown being eased activity is now progressing to enable implementation in 2021.
- 2.18. Property Services Commercial Property rental income - The Manhattan database is the Council's property information system, used to record and report on property interests and administer the raising of rent and service charge invoices. The current year-end forecast from the system is significantly lower than expected based upon the last financial year position and known/anticipated movements, (the forecast when compared to the commercial rent budget of £21.9m indicates a shortfall of circa £3.5m). A project has been initiated as a priority to establish the accuracy of the forecast and develop ongoing improvements, focussing on data integrity, process and reporting functionality. This is being supported by officers from Finance, ICT&D and Trimble (the Council's external system support provider). Additionally, external consultants Avison Young have been commissioned to provide detailed sector by sector analysis of the likely short and medium term impact of Covid-19 on income generation from the existing commercial property portfolio base.
- 2.19. The Directors of the Council's wholly owned company, InReach (Birmingham) Ltd, have made the decision not to progress with one of the planned schemes, Brasshouse, due to a combination of factors that have increased the level of risk. The Council expenditure

over the programme was budgeted at £43m, through a mix of equity and loan investments, and was to deliver an annual net income stream rising to £0.9m following the final loan drawdown. The company continues to deliver a net income stream resulting from the original Embankment scheme and current plans are to progress with the remaining smaller scheme.

### **Digital & Customer Services**

- 2.20. This variance is largely made up of £2.7m overspend on Agency staff, these additional staff costs are a direct result of the delayed restructure of the IT, this offset in the main by underspends on permanent staff budget and other minor items totalling circa £0.3m resulting the net £2.4m overspend. It is expected that the forecasted overspend in ICT&D will reduce and be dealt with as part of the centralisation of recharges work. This is expected to be cost neutral for other Directorates.

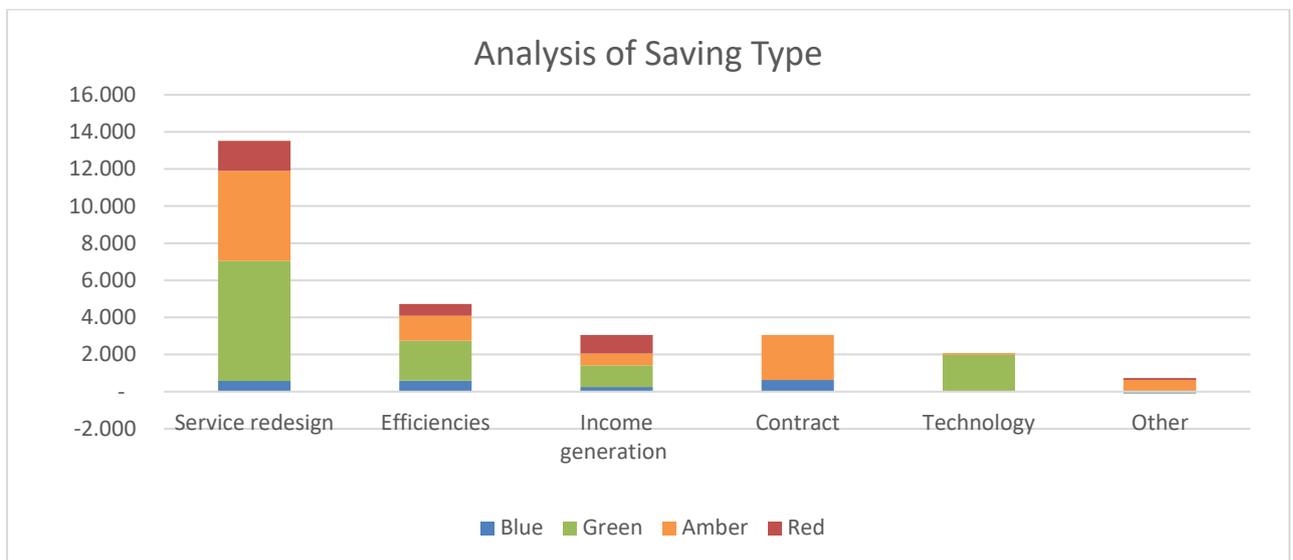
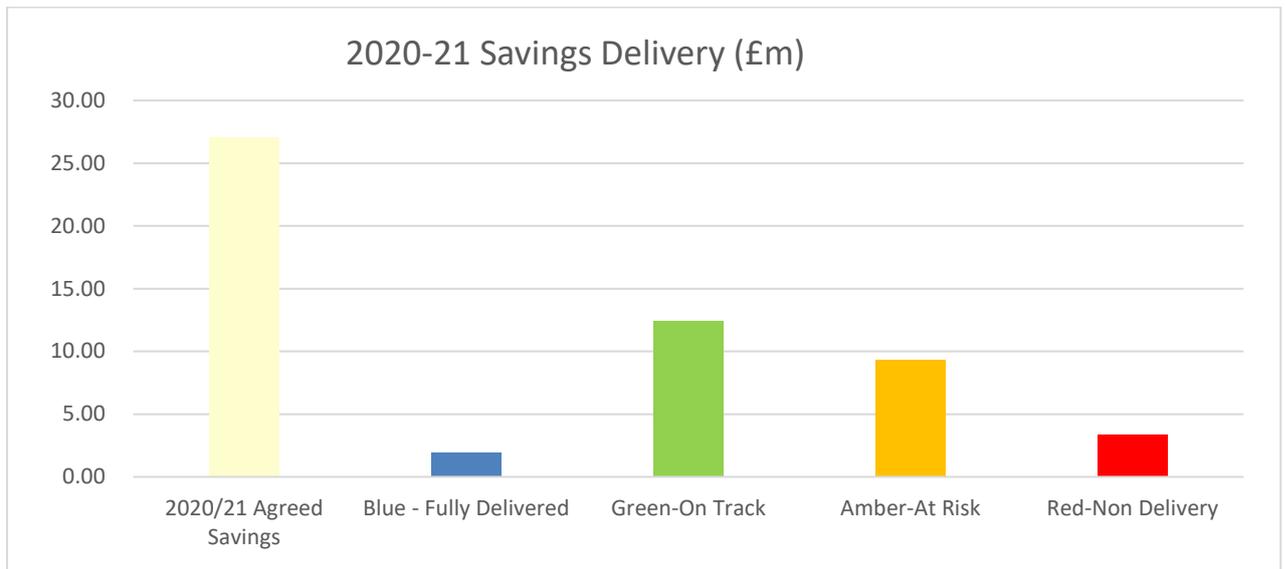
### **New Oracle Back office system (ERP)**

- 2.21. The programme, as a result of an assurance process, is going through a reset phase to establish and quantify financial and non-financial risks. A report to Cabinet is planned for December 2020.

### **Savings Programme**

- 2.22. The £27.1m savings programme for 2020-21 (shown in the following charts) has £9.3m at risk and £3.4m classed as undeliverable or non-delivered. Covid-19 has impacted savings delivery. The key non Covid-19 areas at risk or non-deliverable (those over £0.5m) are:

- **Contract** savings cut across all directorates. £0.6m has been delivered so far and while a delivery plan exists, the £2.4m remaining is now considered a risk as Covid-19 has caused services to reappraise their planned procurements. A report has been presented to CLT on a potential pipeline of savings from contracts, with recommendations for procurement to attend directorate DMT's to discuss these options and agree areas of focus.
- **Inclusive Growth** £0.6m saving from the reduction in Central Administrative Buildings (CAB) is at risk. In the interim period before a major CAB building was disposed of, this savings proposal would be partially mitigated from the revenue benefits from the disposal of a number of approved commercial properties. Unfortunately, the sale of two of the buildings has been delayed into 2020/21 and 2021/22, and the benefits reprofiled thereby creating a short term savings pressure. Any overall shortfall in savings achievement is being included in the overall IG revenue monitoring to see whether any alternative mitigations can be identified on a one-off basis.
- **Education** The target for Early Years has now been met as a result of the reconfiguration of the service and working in partnership with Public Health.



## Borrowing

2.23. The annual cost of servicing debt represents approximately 30% of the budget. Currently borrowing is £3,391m, with the year-end projection likely to be below the planned level of £3,832m. Some government grants have been received early and there is slippage in spending on the capital programme. There does remain uncertainty about the impact of Covid-19 on future cashflows.

## Level of Debt and Provision

2.24. The outturn for 2019/20 showed short-term net debt at £401m, higher than the £331m in the previous year. The net debt is made up of £577m owed to the Council less £176m set aside as a bad debt provision to cover the risk of non-collection. An additional £13m was included in the £176m bad debt provision to cover the increased risk of non-collection brought about by Covid-19. Finance are implementing deep dive reviews on debt to ensure we are effectively managing the overdue debt we have, minimising any future overdue debt and, wherever possible avoiding debt all together by ensuring payment at point of order.

## Policy Contingency and Use of Reserves

2.25. The policy contingency budget for 2020-21 is £40.8m. Given the significant financial pressures and the need to drive the new Chief Executives delivery plan there may be a

need to re-prioritise the use of the policy contingency budget. General Reserves are forecast to be £114.7m out of a total £668.2m. An assessment of the levels and use of reserves is being undertaken as part of the mid-year review of the Long-Term Financial Plan, which will go to Cabinet in the Autumn. Given the significant financial pressures facing the Council due to the Covid-19 emergency it may become necessary to utilise reserves in 2020-21 to support the budget, but only as a last resort. Consideration of in-year requests to use reserves will be considered on an exception basis.

### **Council Tax and Business Rates**

2.26. 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 £62.5m. The impact of this will be considered in setting the budget for 2021-22 (£16.1m deficit for Council Tax and a £46.4m deficit for Business Rates. This position will be updated at Quarter 2.

### **Covid-19 Major Incident Financial Impact**

2.27. The Council has now received £83.4m of un-ringfenced Covid-19 related grant funding from the government. The government has announced an income loss scheme where after 5% deductible, the council will be compensated for 75p in every pound in sales, fees and charges losses due to Covid-19. The council currently estimates that this could provide £22.1m of additional funding, however the government has yet to issue the precise mechanism for this claim. The government has also announced several ring-fenced grants for additional reliefs and support schemes which are being spent on the additional measures set out in government guidance.

2.28. The current assumption for the financial impact of the Covid-19 major incident is based on a 6-month forecast for the duration of the incident along with some residual costs. The financial impact of recovery and a potential new normal is not yet fully understood, it will be built into the mid-year review of the 2021-22 Long Term Financial Plan, to go to Cabinet in the Autumn.

2.29. There are further Covid-19 financial risks which have been quantified at £23.8m, which are reported through emergency cells on a weekly basis. There is an ongoing review of risks to ensure that they reflect the latest circumstances. This is a reduction of £11.7m on month 4. The key reductions are £4.9m for Adult Social Care related to demand and workforce pressures, £3.4m other expenditure risk across Directorates, and a £3.4m reduction in income risks.

2.30. The Council is engaged in ongoing discussions with the government around further funding support and additional freedoms and flexibilities that the government could provide to support the rectification of the budget gap caused by Covid-19 in both 2020-21 and 2021-22. This has culminated in a formal request, on the 31 July, for consideration by the government of a package of freedoms and flexibilities. Indications are that this consideration could take up to three months.