

Birmingham City Council

Report to Cabinet

8TH FEBRUARY 2022



Subject: FINANCIAL MONITORING REPORT 2021/22
QUARTER 3 (UP TO 31ST DECEMBER 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: 009035/2022		
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 31st December 2021 of a net overspend of £4.2m, comprising of £35.9m direct covid related expenditure and

reduction in income, partially offset by revenue budget non-Covid underspends of £31.7m.

- 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 £31.5m of the £36.7m savings targets are either delivered or on track. This represents 86% of the total target with a further 7% (£2.7m) anticipated to be delivered. Directorates are continuing to work towards ensuring that these savings are brought on track and are delivered.
- 2.4 Approves the allocation of an additional £0.4m service funded prudential borrowing for the Atlas Works project as set out in paragraph 4.7
- 2.5 Approves the reduction in the capital programme by the £108.9m identified from the savings exercise as set out in paragraph 4.9.
- 2.6 Notes that the forecast capital expenditure in 2021/2022 is £675.7m.
- 2.7 Notes the allocation of Specific Policy Contingency as set out in paragraph 4.16.
- 2.8 Approves the use of £6.1m of the Financial Resilience Reserve as set out in paragraph 4.18.
- 2.9 Approves the use of up to £3.3m of the Financial Resilience Reserve as set out in paragraph 4.19.
- 2.10 Notes the Treasury Management and Investment Portfolio Reports that are included in Appendix A.
- 2.11 Approves the writing off of debts over £0.025m as described in paragraph 4.14.

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 3.

4 Key Issues

- 4.1 The Council is forecasting a net revenue overspend of **£4.2m** which represents 0.5% of the £828.7m budget. This represents an improvement of £6.0m since Quarter 2.
- 4.2 This is the third 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 **£35.9m** 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 **£1.0m** 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 **£2.8m** 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 **£31.7m**. 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	26.2	7.6	33.8
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	(1.0)	0.0	(1.0)
Public Health Grant	(6.0)	0.0	(6.0)
Income Loss Scheme Funding	(2.8)	0.0	(2.8)
Corporate funding for Home to School Transport	0.0	(6.1)	(6.1)
City Council General Fund Sub Total	(2.1)	6.3	4.2
Transfer of Indirect Covid Costs	38.0	(38.0)	0.0
General Fund after transferring indirect costs	35.9	(31.7)	4.2

- 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 £675.7m against a revised capital budget of £770.7m, representing a net variation of £95.0m – of which £45.6m was reported and approved in the Quarter 2 monitoring report.
- 4.6 This is a net decrease in forecast spend of £49.4m since Quarter 2 against the revised Quarter 3 budget. This is mainly due to net forecast slippage within the Council Management Directorate (£11.7m), slippage within the City Operations Directorate (£6.3m), slippage in the City & Municipal Development Directorate (£27.5m) and slippage within the Education & Skills Directorate (£3.1m). Further details and narrative explaining the reasons for this additional variation are provided in Appendix A paragraphs 2.6 to 2.31.
- 4.7 Approval is also being sought for an additional £0.4m service funded prudential borrowing for the Atlas Works project for the relocation of Montague Street and Redfern Road Depots due to additional remediation works and delays in

demolition. The Capital Board agreed to the additional funding on 5th January 2022 and an updated project report will be submitted to Cabinet in March 2022.

- 4.8 The 4-year+ Capital Budget has decreased by a net £75.8m from £3,171m at Quarter 2 to £3,096m at Quarter 3 due to an increase of £33.1m for new budget allocations and a decrease of £108.9m following a review of the capital programme to identify savings and remove budgets that are no longer required.
- 4.9 This report seeks to approve the reduction in the capital programme by the £108.9m identified from the savings exercise. Further details are provided in Appendix A in Section 2 and Annex
- 4.10 Details of the Capital Programme are set out in Appendix A in Section 2 and Annex 4.

Treasury Management and Investment Portfolio

- 4.11 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.
- 4.12 During the quarter, the Director of Council Management and the Council's Treasury Management Panel considered the following treasury related issues:
- In November 2021, economic concerns over the impact of the Omicron variant caused gilts yields and long term borrowing rates to fall significantly. During this time, the Council in line with its Treasury Management Strategy, took £30m of loans from the PWLB. This helped to secure fixed rate debt at a low rate and obtain some budget certainty over the long term whilst improving its liquidity position
 - The Council's draft Treasury Management Strategy for 2022/23 was considered by Audit Committee at the end of November 2021. This allowed members to review the adequacy of treasury risk management arrangements before the final reports are approved by Full Council in February 2022.
 - In December 2021, CIPFA published its revised Prudential Code and Treasury Management Code with a soft launch for 2022/23 and full implementation by 2023/24. A review of the draft guidance ensured the Council's Treasury Management Strategy for 2022/23 will comply with the core principles of the revised Prudential Code and has already adopted changes to the Treasury Management Code which it considers to be good practice, such as Environmental, Social and Governance (ESG) risk considerations.
- 4.13 The Investment Portfolio is reported in Appendix A Annex 5.

Write-Offs

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

Policy Contingency

- 4.15 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 2, the budget excluding savings was £30.4m.
- 4.16 Cabinet is asked to note as shown below the allocation of Specific Policy Contingency. Further details are provide in paragraphs 3.72 and 3.73 in Appendix A.

Use of	Reason	Value (£m)	Reference to Paragraph in Appendix A
Specific Policy Contingency	Short-term Improvement in the Council House	0.500	3.72
Specific Policy Contingency	Highways Maintenance	0.609	3.73

- 4.17 After these uses, the Policy Contingency budget excluding savings will be £29.3m.

Reserves

- 4.18 Cabinet is asked to approve the use of £6.1m of the Financial Resilience Reserve to fund one-off pressures on Travel Assist as set out in Appendix A paragraphs 3.5 and 3.6.
- 4.19 Cabinet is also asked to approve the use of up to a maximum of £3.3m of the Financial Resilience Reserve to fund pressures on Travel Assist related to additional costs of procuring an alternative provider after terminating the contract with North Birmingham Travel, as set out in Appendix A paragraph 3.8. The use of this reserve was detailed in the quarter 2 report financial monitoring report (Appendix A paragraph 3.5) and formal approval is now requested via this report in recommendation 2.9.

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 a 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
- 9.3 Quarter 2 Financial Monitoring Report approved by Cabinet 9th November 2021