

Birmingham City Council

Report to Cabinet

10 NOVEMBER 2020



Subject: Medium Term Financial Plan (MTFP) refresh
Report of: Chief Executive and Interim Chief Finance Officer
Relevant Cabinet Member: Councillor Ian Ward – Leader of the Council
Relevant O &S Chair(s): Councillor Sir Albert Bore – Resources
Report author: Chief Finance Officer – 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:		
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. This report provides an update on the Council's medium-term financial position which was reported to Full Council in February 2020. In February 2020, the Council set a balanced budget for 2020/21 and had anticipated a balanced position across the 4 years within the planning horizon (2020-2024). However, this pre-dated the COVID-19 pandemic which has had a significant financial impact on the Council.
- 1.2. The most significant impact of COVID-19 has been felt in 2020 and despite Government financial support the Council has been regularly reporting a net projected overspend on its 2020/21 budget. This report seeks to agree budget measures to achieve a balanced budget for 2020/21 based on current forecasts and set out financial contingencies that could be utilised should there be further

pressure from COVID-19 on the budget which is not financially supported by the Government.

1.3. Looking beyond this financial year COVID-19 has forced the Council to review and revise where necessary its planning assumptions. As normal the Council rolls forward its planning horizon a further year to 2024/25. The current financial and economic conditions continue to change along with Central Government's response to it. This leads to a significant degree of uncertainty and challenges to producing forecasts with a high degree of confidence. Therefore, the position set out should be seen as provisional with a further report on the Medium Term Financial Plan due in February 2021 which will be informed by the further development of proposals under the Council's Delivery Plan and the outcome of the Local Government Financial Settlement.

1.4. To inform discussion about the budget position, the report also:

- sets out details of the latest information about the wider financial context for the Council, including the anticipated impact of the Government's Provisional Local Government settlement announcements in December 2020.
- assesses the current financial impact of Covid-19
- reviews other key financial assumptions which are shaped by local or national policies.
- summarises the position on emerging and existing service budget pressures, the delivery of existing savings
- highlights key areas of risk and uncertainty in the planning of the budget.
- describes the overall approach to business planning for 2021-22 and a summary of the budget strategy for the medium term.

1.5. The indicative provisional funding gap at this stage is as shown in the table below:

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Projected Budget Gap	10.816	92.903	94.481	113.457	109.887

2. Recommendations

That the Cabinet:-

- 2.1. Approves the recommended actions set out for closing the gap for 2020/21
- 2.2. Considers the latest assumptions around resourcing, expenditure and income
- 2.3. Notes the revised medium-term financial forecast to 2024/25, and
- 2.4. Notes how the development of the Medium Term Financial Plan is linked to the Council's Delivery Plan and achievement of its priorities and vision

3. Background

National Context

- 3.1. The Covid-19 pandemic has had a considerable impact on the UK economy, and consequently on public sector finances.
- 3.2. Data from the OECD September report suggests that the UK economy is forecast to see a 10.1% reduction in GDP in 2020, with growth of 7.6% in 2021. However, the forecasts will depend on the nature and length of any restrictions and lockdowns in response to the pandemic.
- 3.3. At a national level, Government has put in place a number of schemes to support businesses and individuals in responding to the pandemic for example the Job Retention Scheme, Business Rates grants, etc. At the same time tax revenue has been declining. Both scenarios have significantly increased government borrowing. The latest OBR forecasts are that the UK's borrowing is likely to reach around £300bn this year, more than five times the £55bn predicted at the budget in March. This will increase the Government's debt servicing by around £3.5bn per year. The Institute for Fiscal Studies in its September 2020 report on the outlook for English council funding forecast that financial pressures would exceed available funding this year by around £3.1 billion and over the medium-term by up to £7.7 billion in cash terms.
- 3.4. The outcome of the Brexit negotiations may also create additional shocks to the UK economy within the current year and the next. The Council will continue to review and monitor costs associated with the impact of the Brexit outcome and will reflect in future updates of the MTFP.
- 3.5. As a result of the above, the Council faces significant uncertainty around the level of national funding. On 21 July, the Government announced a consultation on the next Comprehensive Spending Review (CSR) which will cover the three financial years to 2023/24 for revenue and four financial years for capital allocations. Whilst welcomed from a financial planning perspective, a rushed CSR may not give the best solution for local government, particularly when other key reforms around Business Rate Retention and the Fair Funding Review are delayed. However, the Chancellor on 21 October announced that the government would be conducting a one-year spending review setting government department resource and capital budgets for 2021/22. Multi-year NHS and schools resource settlements will be funded as will priority infrastructure projects. The Review is promised to be in the last weeks of November. Birmingham has made representations as part of the consultation response, namely:
 - A significant increase in the allocation of revenue funding for local government. Birmingham has supported the West Midlands region in requesting an additional £1bn of additional resources over a 3 year period for the seven local authorities. The request for increased funding has also been supported by the LGA in its submission to the CSR consultation. The LGA has called on Government to provide an extra £10.1bn of core funding

to councils by 2023/24 made up of £5.3bn to maintain services, £1.9bn for services struggling with increased demand e.g. Children's social care and homelessness and £2.9bn to help improve services and reduce inequalities.

- Additional capital funding to support post Covid transition and transformation and investment in housing and other priorities.
- Completion of Fair Funding in a way that ensures the distribution of local government funding is fair and takes account of deprivation and not just population.
- Additional support and flexibilities, including opportunity to spread Collection Fund deficits over a longer period, freedom to undertake commercial activity to achieve better outcomes for residents, the power to implement a visitor levy at a later date and support for preventative services

3.6. The recovery from this pandemic presents the Council with an opportunity to develop strategies for dealing with longstanding issues, for example rough sleeping. With the support of Government funding, rough sleepers have been temporarily accommodated for an extensive period, and there are opportunities to assess and deliver sustainable options for this group beyond 31 March 2021. There are also opportunities for the Council to review how and what services it provides in light of residents' priorities and to harness new and better ways of working as it establishes the new business as usual for Council services.

3.7. The pandemic has also provided increased opportunities to forge closer links with health and joint responses around discharge from hospital, but the longer term national plans for intermediate care post discharge is not certain. Government has recently confirmed that there will be ringfenced funding for those discharged up to 31 August with a care package and those discharged from 1 September to 31 March 2021, which removes the pressure from local authorities albeit temporarily. Nationally, the plans for the funding of adult social care are still being developed.

MTFP 2020/21 to 2023/24

3.8. The Council approved its 2020/21 Budget and MTFP in February 2020. This was based on a one-year funding allocation for 2020/21 which was confirmed by the Final Local Government Settlement in January 2020. Funding for 2021/22 onwards remains a subject of uncertainty, with the Government undertaking consultations on the Comprehensive Spending Review in September 2020. It is not yet clear the level of resources that will be made available to local government or whether they will be confirmed beyond 2021/22.

3.9. The MTFP approved by Council in February 2020-2024 was fundamentally robust. The Plan included the requirement to deliver savings of £56.1m from the General Fund budgets by 2023/24, approximately 6.6% of the total General Fund budget. Savings totalling £56.0m were proposed, leaving a minor gap of

£0.128m. This means that the budgets were effectively balanced in each of the financial years. This is summarised in the table below.

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Base Budget 2019/20	851.590	851.590	851.590	851.590
Pay & Price Inflation	21.493	42.211	65.576	87.503
Meeting Budget Issues and Policy Choices	41.874	51.955	97.387	52.506
Savings Plans	(22.066)	(50.295)	(54.682)	(55.965)
Corporate Adjustments:				
Net change in use of / contribution to reserves to balance budget	0.000	0.910	1.910	2.910
Other net change in use / contribution to reserves	(22.658)	4.055	(29.930)	9.476
Corporately Managed Budgets	19.204	4.394	(7.068)	7.231
Changes in Corporate Government Grants	(36.504)	(40.118)	(42.293)	(45.303)
Total Net Expenditure	852.933	864.702	882.490	909.948
Business Rates	(425.844)	(454.655)	(466.218)	(478.484)
Top Up Grant	(55.334)	(37.844)	(33.986)	(30.013)
Council Tax	(371.755)	(379.932)	(390.479)	(401.323)
Total Resources	(852.933)	(872.431)	(890.683)	(909.820)
Gap	0.000	(7.729)	(8.193)	0.128

4. Key Issues

2020/21 Financial Position

- 4.1. The current financial year has been particularly challenging for the Council, mainly as a result of having to respond to the pandemic. There have been material expenditure pressures, losses of general income and an impact on the Council's business rates and council tax income.

General Fund

- 4.2. The 2020/21 net budget is **£852.9m** which is inclusive of **£22.1m** of savings that were identified for this year.
- 4.3. As reported in the financial report for Quarter 2 there is a forecast overspend for the financial year of **£10.8m**. This overspend is, after taking account of the four tranches of emergency unringfenced funding provided by Government (**£128.5m**), and a forecast claim the Council can make under the income compensation scheme (**£19.6m**). The Government on 22 October confirmed that Birmingham had been allocated £44.2m for the fourth tranche of the unringfenced

funding. It is proposed that this £44.2m will be held in a specific Covid reserve to manage the ongoing pandemic through the higher risk winter months. As has been reported in previous financial reports the forecast overspend has come down in recent months following action by Directors to review COVID-19 emergency decisions with financial consequences and further government support provided.

- 4.4. The Government has also provided a number of ringfenced grants, totalling £33.6m to date. The grants will be committed to meeting response and recovery costs in line with the grant conditions.
- 4.5. While it is difficult to forecast with any precision the future financial implications of Government restrictions or local lockdowns through to the end of the financial year it is prudent to take decisions at this point in the financial year to balance the budget based on current forecasts and set out reasonable financial measures that could be called upon if further COVID-19 financial impacts are experienced by the Council beyond those currently forecast.
- 4.6. A review has taken place of the financial options available to balance the budget in 2020/21. The following are the financial options recommended for approval:

Table 1: Balancing the 2020/21 Budget Proposals

	Proposal	£m
1.	Eligible additional food and school meal costs to be recovered from uncommitted balance on the Hardship Fund. (The use of the Hardship Fund has been forecast through to the end of 2020/21 and sufficient uncommitted funding remains on the £17m grant)	6.4
2.	Release the sum earmarked in the Policy Contingency Budget for Modernisation Fund – Other. Note that there are no modernisation funding bids against this sum.	3.9
3.	Release the sum earmarked in the Policy Contingency Budget based on an estimate of additional employee costs relating to the National Living Wage. Note this is not related to the Birmingham Living Wage and actual costs will be already reflected in the financial forecast for the year.	0.4
4.	Release £0.1m of the £0.3m earmarked in the Policy Contingency Budget for Superannuation – Auto-enrolment Pension Fund costs. – Other funding. Note there are no costs forecast for 2020/21	0.1
	Total	10.8

- 4.7. The following sums will remain uncommitted in the budget to provide a measure of financial resilience should there be further financial pressures stemming from COVID-19.

Table 2: Further Financial Resilience Measures Available

Measure	£m
Of the £18m in the Policy Contingency Budget relating to the Modernisation Fund – Social Care. there remains an uncommitted sum of £10.7m This is ringfenced for social care spending However it can be used to fund unfunded social care pressures incurred in the year.	10.7
The Corporate Budget contains three contributions relating to increasing maintenance reserves. These reserve contributions could be suspended for the year.	5.1
There is £5.2m of ringfenced Public Health Grant that has been carried forward from previous years that could be utilised to fund eligible expenditure	5.2
Total	21.0

- 4.8. In addition to the proposals set out and with the exception of key frontline services, workforce controls have been introduced, to stop vacant roles being filled this year, and alongside this reduce agency spend by 10%. The expectation is that this can provide further budget resilience.

Council Tax

- 4.9. The overall net budget for Council Tax income including Parish and Town Council Precepts is £367.6m in 2020/21. In addition, the Council collects the precepts on behalf of the Fire and Police Authorities.
- 4.10. There is a deficit forecast for the year of which the Council's share is £19.1m. This is made up of a cumulative deficit brought forwards from 2019/20 of £3.1m of which Council's share is £2.7m, (comprised of £3.9m final surplus position for 2019/20 compared with a £7.0m deficit anticipated when the budget was set for 2020/21) plus an additional in year deficit relating to 2020/21 of £16.4m. This in year deficit is primarily due to a forecast deficit of £13.9m in Council Tax Support of which £8.7m is funded from Hardship Fund. In addition, there is forecast of higher non collection rate as a result of COVID 19. This position may change and will be kept under close review in light of the announced end to the furlough scheme. The total net deficit for the year including brought forward deficit from 2019/20 is, therefore, forecast to be £10.4m. (forecast deficit of £19.1m less £8.7m funded from Hardship Fund)

Business Rates

- 4.11. Under the 100% Business Rates Pilot that came into effect on 1st April 2017 the Council continues to retain 99% of all Business Rates collected with 1% being paid over to the West Midlands Fire Authority. The overall budgeted level of Business Rates in 2020/21 is £445.7m (excluding the Enterprise Zone), of which the Council's retained share is £441.2m.

- 4.12. There is a deficit anticipated, in year, of which the Council's share is £211.5m. This is mainly due to reliefs of £182.7m of which primarily relates to Small Business Reliefs that the Council granted to small businesses in the leisure, retail and nursery sectors which were affected by COVID 19. The forecast gross rate yield is £14.0m lower than the budget relating to a lower growth in businesses. To be prudent the original growth which was assumed when the budget was set has not been factored in the forecast due to economic uncertainties. In addition, an increase in bad debt provision of £10.0m is forecast as a result of COVID 19.
- 4.13. The total additional grants compare to budget anticipated to offset this deficit is £176.8m, which will be received in the General Fund in 2020/21. This will be required to be set aside as a contribution to reserves in the current year to be used to offset the £211.5m forecast deficit in the Collection Fund.
- 4.14. Government has announced that any residual deficits on a council's Collection Fund (the fund through which business rates and council tax is accounted for) for 2020/21 can be paid over three years rather than all in one year. Normally the deficit (or surplus) has to be taken fully into account when setting the following years budget. The Government measure will allow the Council to spread the forecast deficit of £42.3m over the years 2021/22, 2022/23 and 2023/24 at £14.1m per annum instead of a one-off cost in 2021/22.
- 4.15. Government also committed to sharing the burden of lost council tax and business rates income as part of the Communities Secretary, Robert Jenrick's comprehensive package for council finances announced in July 2020, with details to follow in the Spending Review. It is not yet clear what this commitment amounts to as no details have yet been released.

Medium Term Financial Plan 2021/22 to 2030/31

- 4.16. The Council is rolling forward its financial plan to cover the period 2021-2031. As part of this process the financial assumptions for 2020-2031 are revisited. The COVID-19 pandemic has made it difficult to forecast the financial impact on some areas of the assumptions. Modelling has been done in those cases and the position outlined in this report is a provisional central case scenario. However, there is still a significant degree of uncertainty around many of the assumptions and the position presented should be seen as a provisional early indication. The assumptions will be updated February 2021 following the Local Government Finance Settlement due normally in December and the availability of worked up Delivery Plan proposals.
- 4.17. Detailed below are the main provisional assumptions that have currently been made:

Key Funding Assumptions

Settlement from Central Government

- 4.18. The 2020/21 Local Government Finance Settlement was for one year only. Whilst the outcome of the Comprehensive Spending Review is not known, it would be

imprudent for Local Government to assume a significant improvement to recent funding settlements. Therefore, it has been assumed that the resources from Government will increase in line with inflation from the 2020/21, including an assumption that grants which were previously announced on a one – off basis for example the Social Care Support Grant (£36.7m) and the Homelessness Grant (£1.4m) would continue or be replaced by a grant of a similar value. It has also been assumed the New Homes Bonus Grant will continue to be provided to local authorities to incentivise house building.

- 4.19. If indicative funding anticipated to be announced in December 2020 is worse than these planning assumptions this could pose a material risk to the Council's financial resilience.

Local Resources

- 4.20. The figures currently assumed in the MTFP are based on the latest likely position after analysis of five months of data. There are significant uncertainties around each income stream and therefore forecasts will be reviewed and refined up to January 2021.

Business Rates

- 4.21. In respect of Business Rates, the Council has entered into an agreement with Government to Pilot 100% business rates retention locally. This means that all business rates generated in Birmingham support local investment, providing a greater financial incentive to grow businesses. Historical trends have indicated that the pilot has been successful in returning growth above the baseline. However, Government has confirmed its intention to allow Councils to only retain 75% of Business Rates, which may potentially impact on the pilot, meaning that around 25% of currently retained Business rates are at risk of being subject to national redistribution. These plans have been delayed due to Covid. The MTFP assumption for now is that the pilot continues indefinitely.
- 4.22. There are also plans to reset Business Rates growth which will redistribute real terms growth in Business Rates amongst local authorities based on need. The MTFP assumes that this reset will now take place in 2022/23 and estimates that the Council could lose £12.3m from such a reset. The previous assumption was this reset took place in 2021/22.
- 4.23. The current Central Case assumption is that available income from business rates will be around £422.6m, a reduction of around £32.1m since the budget was approved in February 2020. Combined with the deficits for prior years, the overall reduction in Business Rates for 2021/22 is £45.1m since February 2020. The forecast of Business Rates income is based on several variables which will be kept under constant review during the next few months.

Table 3: Business Rates

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Business Rates as per Financial Plan 2020-2024	(454.655)	(466.218)	(478.484)	(491.053)
Business Rates Forecast as at Quarter 2	(422.558)	(434.060)	(447.127)	(458.899)
Business Rates collection fund deficit 2020/21 & Reallocation	11.547	11.547	11.546	0.000
Business Rates collection fund deficit 2019/20	1.435	0.000	0.000	0.000
Latest Business Rates Forecast	(409.576)	(422.513)	(435.581)	(458.899)
Reduction to Business Rates Income Forecast	45.079	43.705	42.903	32.154

Council Tax

- 4.24. The MTFP includes an increase in Council Tax of 1.99% across all years, which is the current maximum increase allowed without a referendum. It has been assumed that there will be no Social Care Precept. It should be noted that this is a planning assumption. The actual increase in Council Tax will be subject to Council approval in February 2021.
- 4.25. The budget approved in February 2020 included an assumption that there would be a £4m annual budget reduction arising from the Council's review of the amount of Council Tax Support awarded. In light of the impact COVID-19 has had this budget reduction has been written out of the plans, and it is assumed that no changes will be made to the Council Tax Support system.
- 4.26. Council Tax income is estimated to be £369.4m in 2021/22, a reduction of £10.6m lower than the estimate at the time the budget was approved in February 2020. This is largely as a result of changes to the taxbase from an increase in Council Tax Benefit caseload due to the impact of COVID and the £4m adjustment as a result of the changes to the Council Tax Support Scheme not progressing. Combined with the deficits brought forward from prior years of £5.3m, the overall reduction in the forecast Council Tax income is £15.9m.

Table 4: Council Tax

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Council Tax as per Financial Plan 2020-2024	(379.932)	(390.479)	(401.323)	(412.472)
Council Tax Forecast as at Quarter 2	(369.354)	(379.089)	(391.005)	(403.284)
Council Tax collection fund deficit 2020/21 & Reallocation	2.567	2.569	2.569	0.000
Council Tax collection fund deficit 2019/20	2.707	0.000	0.000	0.000
Latest Council Tax Forecast	(364.080)	(376.520)	(388.436)	(403.284)
Additional Reduction to Council Tax Income Forecast	15.852	13.959	12.887	9.188

Expenditure Assumptions**Pay pressures**

- 4.27. There are no agreed pay awards beyond 2020/21. The national pay award for 2020/21 was 2.75%. In the absence of any long term agreed pay awards, annual uplifts of 2.5% are assumed for all staff, in line with previous planning assumptions. In recent months, the Chancellor has been signalling that some pay restraint for the public sector may be on the agenda in the future, so this area will be kept under review. It is anticipated that there will be no material changes in the levels of National Insurance rates or thresholds. An actuarial review of the Local Government Pension Scheme (LGPS) took place during 2019/20, and employer contributions totalling £369.2m for the period 2020/21 to 2022/23 were paid in advance to WMPF in accordance with the Cabinet decision of 21 January 2020, securing an early payment discount of £25.8m from the normal monthly payments.
- 4.28. It is assumed that any costs associated with staff progression will be met within existing service budgets.
- 4.29. Forecast pay pressures also allow the Council's Apprenticeship Levy to increase in line with general pay uplifts. Apprenticeship Levy costs are estimated to be in the region of £1.1m.

Price Inflation

- 4.30. The Council's approach is that 2% uplift would be applied to general expenditure and income. Wherever there are specific contractual arrangements, inflation has been provided for in line with contract specifications. Reflecting the impact COVID-19 is having on the care market the assumptions now allow for higher levels of inflation for the care packages within social care.

- 4.31. Whilst there is a planning assumption that income will rise in line with inflation, the actual fees and charges will be subject to a market review and separate approval by Cabinet.

Table 5: Inflation Rates

Category of expenditure/income	% rate applicable in 21/22
Employees	2.50%
Premises	2.00%
Transport	2.00%
Supplies & Services	2.00%
Grants to Voluntary Organisations	2.50%
Third Party Payments	2.00%
Transfer Payments	2.00%
Capital Financing/Recharges/Appropriations	0.00%
Grants & Contributions	2.29%
Fees & Charges	2.00%
Rents	2.00%
Other Income	2.29%

Table 6: Inflation Assumptions

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Inflation in Financial Plan 2020-24	20.718	44.083	66.010	88.617
Increase in provision	5.202	12.868	21.036	29.852
Revised Inflation Provision	25.920	56.951	87.046	118.469

Demographic Pressures

- 4.32. Birmingham is growing rapidly. The ONS 2016 Population Projections estimate a population of 1.16 million in 2020, increasing by 7.7% to 1.25 million by 2032, leading to a continued increase in demand for services. The key areas of forecast additional demographic growth, and the associated financial impact over the period 2021/22 – 2024/25 are summarised in the following table. Work will be ongoing to review and justify demographic pressures with the final position presented in the February 20021 budget.

Table 7: Changes in Demography Pressures

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Children's Social Care	0.200	0.400	0.600	1.000
New Demographic Pressures	0.200	0.400	0.600	1.000

Existing Savings Programme

- 4.33. As set out earlier in the report the Financial Plan 2020-2024 approved by the Council in February 2020 included savings of £22.066m in 2020/21 rising to £55.965m by 2023/24

Table 8: Savings Plans 2020-2024

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Savings Plans	(22.066)	(50.295)	(54.682)	(55.965)

- 4.34. The Quarter 2 financial report sets the position on savings delivery for 2020/21. Directorates have undertaken an initial assessment of the deliverability of savings planned for future years and the impact COVID-19 has had on these plans. The table below sets out the results of the initial assessment of savings non-delivery from Directorates.

Table 9: Savings Non-Delivery

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Prior Year savings non-delivery	2.430	4.155	3.549	3.655
2021/22+ savings non-delivery	15.370	13.974	14.604	12.337
Total Savings non-delivery	17.800	18.129	18.153	15.992

- 4.35. These assessments will be subject to rigorous challenge and scrutiny as part of the budget process. Given the financial pressures faced by the Council there will be a strong emphasis on directorates producing proposals for alternative savings where existing savings are non-deliverable. The updated position and alternative proposals will be presented in the February budget report.

Service Pressures

- 4.36. Despite the financial challenges, the Council intends to invest in its services in order to ensure that sufficient resources are available to improve the outcomes for residents.
- 4.37. This will include rebasing of budgets for historic shortfalls, costs of responding to new legislative requirements or adjustments to changing operations.
- 4.38. The figures included the table below makes various assumptions, including that:
- the Early Help project with the Birmingham Children’s Partnership will be a one-year pilot in 2020/21 only. Therefore, the MTFP assumes that no additional resources will be provided to support this project.

Table 10: New Pressures

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
New Pressures	37.097	23.905	27.197	26.878

Corporate Costs

- 4.39. The Council has a number of costs which are not Directorate specific and are managed corporately. These include, but are not limited to, costs of Treasury Management, redundancy, superannuation, Airport dividends and Equal Pay. The table below summarises the changes in corporate costs up to 2024/25 from the approved 2020/21 base budget.

Table 11: Changes in Corporately Managed Budgets

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Movement in Corporately Managed Budgets	(2.831)	(0.850)	(0.255)	(2.398)

Provisional Financial Position 2021/22 – 2024/25

- 4.40. Bringing together the current financial assumptions into an overall summary position results in a provisional financial gap for 2021/22 £93m, representing 10% of the 2020/21 base budget. It should be noted that this in advance of the Local Government Finance Settlement expected in December, worked up proposals from the Delivery Plan and scrutiny and challenge of directorates indicated savings non-delivery and service pressures.
- 4.41. The Budget gap is set out below.

Table 12: Provisional Updated Financial Position

	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Gap as per Financial Plan 2020-2024	(7.729)	(8.193)	0.128	2.547
Business Rates	45.079	43.705	42.903	32.154
Council Tax	15.852	13.959	12.887	9.188
Top Up Grant	0.775	0.790	0.806	0.821
Business Rates reset/spending review delays	(18.542)	(10.232)	(9.998)	(6.147)
Net Resourcing Reductions	43.164	48.222	46.598	36.016
Additional Inflation	5.202	12.868	21.036	29.852
Non delivery of prior year savings	2.430	4.155	3.549	3.655
Step up savings non-delivery	15.370	13.974	14.604	12.337
New pressures (incl. demography)	37.297	24.305	27.797	27.878
Corporately Managed Budgets	(2.831)	(0.850)	(0.255)	(2.398)
Total Pressures and risks	57.468	54.452	66.731	71.324
Budget Gap per MTFP	92.903	94.481	113.457	109.887

Reserves

- 4.42. To ensure that the MTFP considers the full financial picture, it is important to set out the expected position on Reserves and the General Fund Balance.
- 4.43. The Council has a number of reserves that have been set aside for specific reasons. These reserves can be split into three categories:
- Those required to be kept by statute or accounting guidance. For example, revenue grants reserve, school balances etc. These reserves can only be utilised for the purpose for which they have been set aside.
 - Those set aside for a future event that has a high probability of occurring. For example, the Highways PFI Reserve;
 - Those useable reserves held for non-specific events that cannot yet be foreseen.
- 4.44. In light of the increasing level of risk and uncertainty identified within the MTFs and the need to finance the COVID pressures, a full review of useable reserves and provisions was undertaken in recent months. That review identified £50m of ringfenced reserves that are not needed in the short term and therefore available to support the budget. Any use being repaid in future years.
- 4.45. The table below shows the forecast position over the MTFs period in relation to reserves which are not held for specific purposes is as follows:

Table 13: Unringfenced Reserves – Current Forecast

	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
	£m	£m	£m	£m	£m
General Fund Balance	32.3	32.3	32.3	32.3	32.3
Invest to Save Reserve	10.6	13.8	20.2	26.2	27.6
Financial Resilience Reserve	80.2	69.5	65.3	67.3	69.8
General Reserves	123.1	115.7	117.8	125.8	129.8

- 4.46. The non-earmarked balances are forecast to be £123m at the end of 2020/21 providing the current year financial overspend is addressed. The required level of balance is determined by assessing the level of risk the Council faces.
- 4.47. As the Council is increased demand for key services and uncertainties around its funding position for the medium term, the level of risk is heightened. The assessed minimum balance will be reviewed for the MTFs update in February 2021, taking into consideration both quantification of risk and affordability. However, in light of the growing uncertainty about public finances, it is recommended that for prudence, the general reserves are increased to 4.5% of its net budget. As a consequence it is recommended that the Council's General Fund Reserve is increased to £38.4m representing 4.5% of the Council's net General Fund Budget and that this increase is funded from a transfer from the Financial Resilience Reserve.
- 4.48. If the transfer is agreed the unringfenced reserves will be as set out below.:

Table 14: Unringfenced Reserves – Revised

	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
	£m	£m	£m	£m	£m
General Fund Balance	38.4	38.4	38.4	38.4	38.4
Invest to Save Reserve	10.6	13.8	20.2	26.2	27.6
Financial Resilience Reserve	74.2	63.5	59.3	61.3	63.8
General Reserves	123.1	115.7	117.8	125.8	129.8

Budget Strategy

- 4.49. The Council's Delivery plan presents a joined up and comprehensive plan for establishing how we can make change happen; and, ensuring we deliver proposals which over the medium-term delivers an ongoing balanced base budget
- 4.50. The Delivery Plan outlines the council's improvement journey to date and clearly sets out how we will centre equality and aspiration in our long-term vision and in what we do as a council to create a more inclusive, more resilient, and more

sustainable city. The plan describes two types of activity which will be delivered in parallel through to May 2022, ensuring we deliver our short and medium-term commitments alongside shaping our approach for realising our longer-term goals. The plan sets out specific commitments we will achieve over the next 18 months and how we will do this, aligned to our finances and accompanied by our revised Performance Management Framework. It also outlines longer term work and plans that will be undertaken over the next 18 months and beyond which will seek to tackle inequality and address long-standing challenges facing the city.

- 4.51. 2020/21 will be a transitional year while longer-term proposals in the Delivery Plan are worked up. The provisional financial position set out in this report can be managed through a combination of releasing assets to bring forward revenue benefits, establishment controls that don't impact service delivery and the limited use of reserves. Alongside these proposals as soon as COVID allows the Council will look to deliver already agreed savings and where these do not prove deliverable, recovery proposals will be brought forward.
- 4.52. As set out in paragraph 4.8 workforce controls have been introduced across services, with the exception of key frontline services. It is proposed to replicate this in 2021/22 to deliver further savings. This means, maintaining establishment controls, undertake 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.
- 4.53. Proposals will be brought forward to make better use of Council assets to enable Council led growth and bring forward revenue benefits. There are opportunities where the Council can potentially develop sites to create new homes or employment spaces which can generate rents or a disposal surplus on completion. Additional capital receipts can enable the Council to utilise the current flexibility to capitalise transformation activity.
- 4.54. While some of the 2021/22 budget measures are one-off in nature the strategy is to have a three-year approach to balancing the budget which over the medium-term delivers an ongoing balanced base budget and the paying back of any reserves used.

Timetable

- 4.55. A budget timetable is set out below. Final reports will be brought back to Cabinet and full Council in February 2021.

November	MTFP Refresh Report Delivery Plan Quarter 2 Finance Report	Cabinet Cabinet Cabinet
December	Provisional Local Government Finance Settlement (estimate)	
January	Council taxbase, Business Rates baseline and Collection Fund estimate Final Local Government Finance Settlement (estimate)	Cabinet
February	Council Budget 21/22 and Medium Term Financial Strategy Council Budget 21/22 and Medium Term Financial Strategy	Cabinet Council

5. Options considered and Recommended Proposal

- 5.1. This report forms part of a framework for developing proposals for balancing the General Fund budget for 2021/22 and creating a sustainable financial strategy for the medium term. At this stage, no proposals have been agreed, and therefore a range of options remain open, including changing assumptions within the MTFP, changing allocation of funding and savings between services or consideration of alternative budget proposals, having due regard to the time constraints needed to fully develop proposals and undertake the necessary consultations and assessments.
- 5.2. Final decisions on the budget will need to be taken in February 2021. These decisions will be informed by the Local Government settlement figures.

6. Consultation

Internal

- 6.1. Cabinet Members, Directors, the City Solicitor, and Assistant Directors of Finance have been consulted in the preparation of this report.

External

- 6.2. In previous years, budget proposals will have been formulated in the Autumn and the Council has engaged in a large-scale public consultation. The impact of the COVID-19 pandemic and the new Delivery Plan approach has forced a change to this approach and a broader consultation will take place on the Delivery Plan and resourcing priorities.

7. Risk Management

- 7.1. The Council continues to plan its budget in a period of uncertainty. There remains considerable uncertainty about reforms to local government finance and any funding changes that will be faced in 2021/22 and beyond as a result of the Comprehensive Spending Review.
- 7.2. The impact and financial costs of the Covid-19 outbreak will be highly dependent on the length of time that the pandemic continues, the impact of any local

lockdowns, the severity of any second wave and the actions taken by Government nationally in response. There will be a need to operate with some flexibility in the Council's response to the emerging situation, and therefore pressures in relation to Covid may change.

- 7.3. It is also possible that the other non-Covid cost pressures may materialise during the 2021/22 budget planning process, which could increase the gap to be closed. Similarly, other information may arise that may require planning assumptions to be varied. Government funding decisions may also impact on the level of the budget gap that will need to be addressed
- 7.4. Assumptions made in the MTFP have been examined for risks and estimates of expenditure and income have been made on a prudent/most likely occurrence. This has been informed by previous experience, evidence in the current financial year, market factors and service intelligence known at the time of drafting this report.
- 7.5. The overall budget gap position will be kept under constant review throughout the budget planning process to inform changes to the MTFP position. Final updates will be taken to Cabinet in February 2021.

8. Compliance Issues:

How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

- 8.1. The budget is integrated with the Council's Delivery Plan, and resource allocation is directed towards policy priorities.

Legal Implications

- 8.2. 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. This report forms part of the process that will enable the Council to set a balanced budget for 2021/22 in line with statutory requirements, including those relating to setting council tax.

Financial Implications

- 8.3. This report sets out the proposed approach for addressing the budgetary gap that has emerged due to the COVID-19 pandemic for the current financial year, 2020/21. A provisional update has been made to the forecasts in the Medium Term Financial Plan which will continue to be reviewed through to the finalisation of the budget in February 2021. The Council is legally required to set a balanced budget annually and should plan to achieve this using a prudent set of assumptions. It should be recognised that this planning is being done against a backdrop of uncertainty around the funding that will be available to the local government sector, the ongoing impact of Covid-19 and the resultant increase in demand for the Council's services. The Delivery Plan proposals will require time to be worked up and the financial impacts understood. As a result, the final budget proposals will be presented in February 2021.

Procurement Implications (if required)

- 8.4. N/A

Human Resources Implications (if required)

- 8.5. There are no direct staffing implications arising from this report. Any Human Resources impact will be evaluated once final proposals for balancing the budget are brought back to Cabinet in February 2021.

Public Sector Equality Duty

- 8.6. There are no additional Equality Duty or Equality Analysis issues as a result of this report. Equality issues will be given full consideration as budget proposals are developed.

9. Background Documents

- 9.1. City Council Financial Plan 2020-2024 approved at Council 25th February 2020
- 9.2. Delivery Plan
- 9.3. Quarter 2 Financial Monitoring Report