

Public Report

# Birmingham City Council

## Report to Cabinet

08 February 2022



**Subject: DRAFT FINANCIAL PLAN**

**Report of: Director Council Management**

**Relevant Cabinet Member:** Councillor Ian Ward, Leader of the Council  
Councillor Tristan Chatfield, Cabinet Member  
Finance & Resources

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

**Report author:** Lisa C Taylor, Interim Head of Financial Planning

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: 009031/2022		
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** This report sets out the budget for 2022/23 and financial planning context for the Council for the period 2022/23 to 2031/32, with particular emphasis on the period to 2025/26. It summarises the pressures and growth proposals, savings and additional income proposals across the medium term and the cash limited budgets for each of the Directorates for 2022/23. The work undertaken throughout the 2022/23 budget setting process has enabled the identification of robust savings proposals across the medium term to improve the financial resilience of the Council and further work will be carried out in the early part of 2022 to develop further transformative proposals in order to close the remaining

gaps for 2023/24 and 2024/25 as part of the rolling budget process. The Council has also made additional investment in some key service areas to improve outcomes for users of the service. Birmingham City Council is due to consider and approve its Budget and Medium Term Financial Plan on 22 February 2022.

- 1.2 The Financial Plan sets out the Council's medium term financial plan for the next four years, which is based on the following core principles:
- Allocating resources in accordance with the priorities as set out in the Council Plan.
  - Ensuring that the Council sets a balanced budget for 2022/23 and has robust plans for the long term financial health and viability of the Council
  - Ensuring that capital investment plans are set at an affordable and sustainable level
  - Protecting the Council's reserves – in line with its Reserves Policy - for 'rainy day' events and not seeking to use them to meet ongoing pressures or where savings have not been achieved
  - Ensuring that there is strong governance, assurance and accountability for delivery of service outcomes and savings proposals within budget
  - Mitigate against uncertainty in the near and medium term.

## **2 Recommendations**

Cabinet agrees to:

- 2.1 Review the findings of the public engagement sessions on resource prioritisation and the Council's response to that engagement as outlined in Appendix I of the Financial Plan.
- 2.2 The level of risk and budget assumptions set out in the Section 25 Statement from the Chief Finance Officer as detailed in Chapters 7 of draft Financial Plan, as these underpin the revenue and capital budget decisions and planning assumptions.
- 2.3 Recommend the attached draft Financial Plan for consideration by the City Council on 22 February 2022, which lays out a net revenue budget of £759.2m and a capital budget of £1.2bn for 2022/23.
- 2.4 Note that Corporate Directors will continue developing transformative budget proposals to meet the shortfalls in the period 2023/24 to 2025/26, with a view to balance up to 2024/25 by the end of March 2022 and bringing reports back to Cabinet early in summer 2022.
- 2.5 Delegate authority to the Chief Finance Officer, in consultation with the Leader and Cabinet Member for Finance and Governance, to make any amendments or corrections to the draft Financial Plan 2022 - 2026 as detailed in section 3.3.

### **3 Background**

#### **3.1 Council Financial Plan**

- 3.1.1 The Council's approach to medium term financial planning is based on a rolling framework with regular updates on the financial position, and which culminates with an annual budget agreed each year. This report provides the actions to deliver a balanced budget for 2022/23 and a sustainable medium term financial plan.
- 3.1.2 Appendix 1 of this report brings together a range of information including in year Cabinet decisions, updates to the savings programme, service plans and reviews, responses to the public engagement and the latest information about the provisional Local Government Settlement. The report also details proposals for closing the financial gap in 2022/23 and recognises that further work needs to be undertaken across the medium term.
- 3.1.3 The report is intended to enable Cabinet to consider how the proposals contribute to delivering a robust budget and sustainable medium term financial strategy, and to take a considered view of all relevant factors in order to recommend to Council to agree the final 2022/23 budget and medium term financial plan.
- 3.1.4 The proposals included in this report allow for setting a balanced budget for 2022/23 with a financial gap of £33m by 2025/26. Work is on-going as part of the rolling budget process to balance the budget for future years.

#### **Approach to developing the budget**

- 3.1.5 For more than 10 years the Council has delivered against a series of challenging financial targets following a prolonged period of austerity as well as disproportionate growth in demand for services, through a combination of effective financial management and cost control and more innovative approaches to investment and demand management. CIPFA, in the summer of 2021, recognised that the City Council has strong robust financial management processes in place and awarded the city a 3 star rating for Financial Management. This is an excellent achievement and recognises the work undertaken to strengthen financial management across the whole council including the introduction of a robust rolling budget setting process which is designed to provide an earlier view of future year budget pressures so that the Council can take action accordingly through transformative rather than reactionary measures.
- 3.1.6 During 2021/22, the focus for Corporate Directors was to deliver transformational change across the organisation, via the Delivery Plan. This transformational change is designed to improve outcomes for residents, whilst delivering a reduced cost base and additional income for the Council. Delivery Plan work focused on three pillars:

- People – shifting the focus from crisis to prevention
  - Place – increasing the pace and scale of growth
  - Fit for Purpose Council - delivering new ways of working
- 3.1.7 Recognising that robust transformative change can take time to materialise, some, mainly one-off, Directorate budget proposals have been proposed in order to allow for the balancing of the 2022/23 position.
- 3.1.8 Work will continue on developing further transformative budget proposals to close the medium term gap, with the focus being on bringing 2023/24 and 2024/25 into balance by summer 2022.

## Resources

- 3.1.9 The Department for Levelling Up, Housing & Communities released the provisional Local Government Finance Settlement on 16 December 2021. The funding data released was for 2022/23 only, and although this does not give certainty about resourcing for medium term financial planning, it provides an opportunity for Birmingham to continue to lobby for funding beyond 2022/23. Government has pledged to commit to work with local government and other stakeholders to consult on funding over the coming months, including in relation to the future distribution of the £822m new Services Grant that has been made available to the sector, in 2022/23.
- 3.1.10 Indicative allocations for Birmingham City Council in the recently announced Provisional Local Government Finance Settlement include:
- **£66.8m** of Social Care grants, which represents an increase of £16.9m on the previous year's values and current planning assumptions
  - Improved Better Care Fund of **£67.9m**, which is an inflationary increase on the 2021/22 values and current planning assumption of £2.0m
  - Top Up Grant of **£59.4m**, which is £2.3m higher than previously assumed.
  - New Services Grant of **£24.7m**, representing 3% of the £822m national allocation. This new grant has been distributed in proportion to the business rates and grant funding councils received in 2013/14 and is intended to be unringfenced and to compensate local authorities for the increase in employer National Insurance contributions. The settlement announcement confirms that this grant will be one-off, although Government has committed to consulted on the national distribution of this £822m pot of funding for 2023/24 and beyond. For financial modelling purposes for the medium term, it has been assumed that Birmingham will receive an equivalent level of funding from any future redistribution, but there is obviously an element of risk associated with this assumption.
  - New Homes Bonus Grant of **£3.7m**, which is £3.9m less than the 2021/22 values due to the fall out of the legacy payments. New

Homes bonus allocations were previously identified as an area of risk within our financial modelling, due to the planned reforms to funding stream.

- Continuation of the Lower Tier Grant at a value of **£2.4m**. This grant was intended to be one-off in 2021/22 and therefore no assumptions were made regarding its continuance in the original financial plans.

3.1.11 Compared to the MTFP Refresh report approved by Cabinet on 12 October 2021, this represents additional net resources of **£5.4m** above what was been previously assumed. Any additional funding has been applied in the budget proposals for 22/23.

3.1.12 A review has been undertaken of the income to be generated from Business Rates and Council Tax, particularly considering the ongoing impact of Covid on businesses, household income and economic conditions generally. Reports were taken to Cabinet on 18 January 2022 which identified the following basis for the forecasting of both income streams:

#### **Business Rates Income 2022/23**

- Collection rate of 97.0% has been assumed. This is, 1% lower than the pre Covid-19 rate and 1% more than the 2021/22 rate because whilst collection is gradually improving, the impact of the Covid-19 pandemic and the economic uncertainty is still ongoing. Whilst this is a cautious planning assumption, the Council will continue in its endeavours to ensure that liabilities in relation to Business Rates are settled. Should this collection rate be improved, the resulting surplus will become available to assist in budget setting in future financial years.
- Central Government support for small businesses, retail and hospitality sectors will continue into 2022/23. In the Autumn 2021 budget, the Government announced a 50% relief on business rates bills for eligible retail, hospitality and leisure properties up to £110,000 per business. An estimate of £62.8m excluding the Enterprise Zone has been included in the 2022/23 business rates forecast, although detailed guidance notes of the scheme are yet to be published by the Government. Local Authorities will be compensated by additional Section 31 grants for this relief.
- It is prudent for the Council to make an assumption about the level of successful appeals that will be made each year against the rateable value of properties and set aside adequate provision for repaying appeals. The Council is assuming that these will be £21.9m, an increase of £4.25m from the 2021/22 budget due to an increase in the appeals in 2021/22. Should the provision prove to be inadequate, the Council has reserves set aside for Business Rates volatility of over £12.6m that can provide extra cover if required

#### **Council Tax 2022/23**

- Collection rate of 96.85% has been assumed, which is 0.25% more than the 2021/22 budgeted levels, but lower than the pre-Covid levels of 97.1%. Whilst collection trends have been improving, there is a cautious assumption in the collection rates for 2022/23 to reflect the ongoing impact of the Covid-19 pandemic and the economic uncertainty.
- Net increase of 4,367 Band D properties
- Tax base for Birmingham of 258,362 Band D equivalent properties

3.1.13 The budget proposals are based upon a general Council Tax increase of 1.99% in 2022/23. In addition, to fund significant social care pressures, it is proposed that the City Council will increase Council Tax by a further 1% through the Social Care Precept, making an overall Council Tax increase of 2.99%. This increase will not require a referendum as it is below the threshold set by the Government for 2022/23. Money raised from the Social Care Precept will be invested in adult social care services as shown on page 32 of the Financial Plan. Beyond 2022/23, Council tax increases have been assumed for planning purposes to be 1.99%, but subject to approval annually by the City Council.

#### **Expenditure**

3.1.14 The assumptions that underpin the budget for 2022/23 and across the medium term are as follows:

- Pay increase of 2.5% has been included for 2022/23 and beyond. However, the salary settlement for 2021/22 remains outstanding at the time of writing this report, and therefore there is an assumption of 1.75% in the financial plans for this. It is assumed that any cost for incremental progression will be funded from existing service budgets.
- In the main, 2% has been built into the financial plans as non-pay inflationary uplifts.
- Expenditure agreements and contracts have been increased by the relevant indices in line with contractual arrangements and available market data.
- Energy prices continue to be volatile, and ongoing provision has been made in the financial plans to reflect the anticipated additional costs. New contractual arrangements will be put in place in 2022/23 to limit the Council's exposure.
- Funding of demographic and demand led pressures, along with invest to save activity to deliver transformational change in the future.
- All fees and charges have been reviewed for 2022/23. Increases have been applied in line with inflation, national guidance or local market conditions. The schedule of fees and charges changes can be found at Appendix S of this report.

- 3.1.15 Managing ongoing demand-led pressures and requests for further investment in services remains a key aspect of the medium term financial plans. The impact of COVID-19 will be felt beyond 2021/22 and will have a legacy impact on the MTFP making it highly unlikely that a number of budgets, either income, expenditure or savings plans, will return to their pre COVID-19 levels. During the year, there have been Directorate reviews, including a CIPFA led review of Education and Skills Directorate to assess base budget adequacy (that work remains ongoing but is already being built into planning assumptions), the delivery of savings and to highlight any additional pressures and opportunities that were likely to arise in the future as the Council responds to the changing environment and delivers the new norm. The details of service pressures and investments are outlined in Appendix F of the draft Financial Plan.
- 3.1.16 The revenue budget proposals include further savings (cost reductions and additional income generation) of £40.8m in 2022/23, rising to £107.4m by 2025/26, as laid out in Appendix G of the Financial Plan. New savings proposals total £99.7m across the medium term. All other savings are stepped changes to existing savings programmes that were approved by Full Council in February 2021.
- 3.1.17 Taking all of the above into account, the Council proposes a net revenue budget of £759.2m for 2022/23. Expenditure will be monitored and reported on a regular basis in line with the Council's overall financial framework.

### **Capital Programme**

- 3.1.18 The scale and diversity of the capital programme means that, over the medium term, new borrowing for normal service delivery will aim to be at a level which is close to the amount which is set aside from the revenue account each year for debt repayment. The Treasury Management Strategy and Policy set out arrangements for a balanced approach to managing the Council's debt portfolio, and a financial investment strategy which seeks to minimise risks. The Service and Commercial Investment Strategy sets out the framework within which support to the Birmingham economy and the generation of income can be managed.

## **3.2 Levies & Precepts**

- 3.2.1 The Transport Levy and contribution towards other costs of the West Midlands Combined Authority are included within the Council's revenue budget. These amounts are due to be approved by the WMCA Board in February 2022. The Environment Agency levy has not yet been notified to the Council.
- 3.2.2 The Motions to the City Council concerning overall Council Tax levels include the amounts for the various precepts. These are as follows:
- Fire & Rescue Authority

- West Midlands Police and Crime Commissioner
- New Frankley in Birmingham Parish Council
- Royal Sutton Coldfield Town Council

3.2.3 Details about the preceptors are expected to be added to the Financial Plan in time for consideration of the document by the City Council on 22 February 2022.

### **3.3 Amendments**

3.3.1 The Financial Plan was considered by Scrutiny Committee on 21 January 2022. Since that time, three updates have been made to the document:

- an additional £5m has been added to the capital programme for Corporate Capital Contingency. This will be funded from corporate prudential borrowing and allows for flexibility in the programme.
- Further details have been provided in Chapter 4: Schools on the funding formulae for the Dedicated Schools Grant in 2022/23. Including basis of allocation to mainstream primary and secondary schools for the 2022/23 academic year. Full Council will be asked to approve this budget on 22 February 2022.
- Table 2.1 Previous years savings (Chapter 2) has been updated to reflect the further £2.0m establishment savings that have been identified for 2021/22.

3.3.2 It is recommended that authority is delegated to the Chief Finance Officer, in consultation with the Leader and Cabinet Member for Finance and Governance, to further amend the attached draft Financial Plan to take account of, and limited to, the following:

- any amendments agreed at or as a result of the decisions made at the Cabinet meeting on 08 February 2022; and
- the impact of decisions as set out in section 3.2 above; and
- any non-material corrections/changes to enable the production of a final version of the Financial Plan 2022 - 2026 document for consideration at the City Council meeting on 22 February 2022.
- Any amendments required following the publication of the Final Local Government Finance Settlement which is expected to be published in February 2022.
- Any feedback agreed by Cabinet following the Co-ordinating Overview and Scrutiny Committee.

## **4 Options considered and Recommended Proposal**

4.1 The Council must approve a balanced budget and Council Tax level in order to identify resources for the provision of its services. Certain other decisions are also required by statute or in accordance with statutory guidance. The draft Financial Plan 2022 - 2026 (which includes the detailed budget) is the product



of the careful evaluation of budgetary needs and policy priorities and represents the culmination of the process to recommend viable proposals to Council.

**4.2** The Motions to the City Council meeting on 22 February 2022 will cover the following specific aspects:

- Revenue budget 2022/23
- Council Tax requirement
- Council Tax 2022/23 (by band)
- Capital programme
- Treasury Management Strategy
- Treasury Management Policy
- Prudential Indicators
- Flexible use of capital receipts strategy
- Pay Policy statement

## **5 Consultation**

### **5.1 *Internal***

5.1.1 Relevant Cabinet Members, Directors, the City Solicitor and Directors of Finance have been consulted in the preparation of this report and the Financial Plan.

5.1.2 Budget proposals have also been scrutinised by the Overview and Resources Committee at its meeting of 21 January 2022.

### **5.2 *External***

5.2.1 Public engagement was undertaken in December 2021 to understand resident's priorities for allocating the Council's resources. This was done via the use of an online Budget Challenge. A report on the outcome of this engagement is included as Appendix I of the Financial Plan. The report identifies that over 2000 citizens visited the website for the Budget Challenge.

5.2.2 The Council will also carry out the statutory minimum consultation on this budget, as laid down in the Local Government Finance Act 1992. This requires business ratepayer representatives to be consulted on annual spending proposals ahead of setting our budget. The Leader will hold a virtual meeting with business rates payers on 24 January, to be attended by relevant Cabinet Members and officers.

## **Risk Management**

**5.3** Assumptions made in the Financial Plan have been examined for risks and estimates of expenditure and income have been made on a prudent basis, informed by previous experience, evidence in the current financial year, market forces and service intelligence. An assessment of, and arrangements for, the management of the Council's principal budget risks is set out in the Strategic risk section within Chapter 7 and Appendix E of the draft Financial Plan.

- 5.4** The Council continues to plan its medium term budgets in a period of uncertainty around resourcing changes, increased demand for services and inflationary pressures.

## **6 Compliance Issues:**

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

- 6.1.1 The draft Financial Plan represents a key element of the Council's Policy Framework and is integrated with the Council Plan.
- 6.1.2 Proposals in the draft Financial Plan, including any extra investment in services, have been developed in the light of the City Council's priorities.

### **6.2 Legal Implications**

- 6.2.1 A Council Plan and Budget is an important element in our Policy Framework, as set out in the Local Government Act 2000.
- 6.2.2 The Council must set a balanced revenue budget and Council Tax in accordance with the requirements of the Local Government Finance Act 1992, as amended by the Localism Act 2011. These, together with the Capital Programme and Treasury Management Strategy and Policy, are key components of the Policy Framework which must be approved by the Council. These then set the resource framework and limits within which services must be delivered.

### **6.3 Financial Implications**

- 6.3.1 The draft Financial Plan itself sets out the financial implications for the City Council. It also includes identification of risks and reserves that can be used as a contingency if required.

### **6.4 Procurement Implications (if required)**

- 6.4.1 The implementation of proposals set out in the draft Financial Plan will need to be managed in accordance with the appropriate procurement governance arrangements.

### **6.5 Human Resources Implications (if required)**

- 6.5.1 Some savings proposals may lead to some staffing reductions, as indicated in section 20 of Chapter 3 of the draft Financial Plan. The planning assumption is that there could potentially be staffing reductions of just over 100 Full Time Equivalent Staff (FTE) in 2022/23. However, the Council will take all necessary steps to minimise the number of redundancies. Provision has been made to meet any associated exit costs through the use of capital receipts

flexibility. The document also includes the Pay Policy Statement, for which City Council approval is required.

## **6.6 Public Sector Equality Duty**

- 6.6.1 The draft Financial Plan sets out individual resource allocations. Initial equality assessments have been undertaken on all budget proposals. Equality issues will be given full consideration as budget proposals are developed and put in place.

## **7 Background Documents**

- 7.1.1 Council Plan 2021 – 2025, approved by the Council February 2021
- 7.1.2 MTFP Refresh, approved by Cabinet 12 October 2021
- 7.1.3 Council Taxbase report, approved by Cabinet 18 January 2022
- 7.1.4 Business Rates Income 2022/23, approved by Cabinet 18 January 2022
- 7.1.5 Quarter 3 2021/22 Budget Monitoring Report