

Public Report

Birmingham City Council

Report to Cabinet

14 February 2023



Subject: DRAFT FINANCIAL PLAN

Report of: Director Council Management

Relevant Cabinet Member: Councillor Ian Ward, Leader of the Council
Councillor Yvonne Mosquito, Cabinet Member
Finance & Resources

Relevant O &S Chair(s): Councillor Ahmed, Resources OSC

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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: 010143/2023		
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 2023/24 and financial planning context for the Council for the period 2023/24 to 2032/33, with particular emphasis on the period to 2026/27. 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 2023/24. The work undertaken throughout the 2023/24 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 2023 to develop further transformative proposals in order continue identification

of savings and efficiencies 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 28th February 2023.

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 2023/24 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 Recommend the attached draft Financial Plan for consideration by the City Council on 28th February 2023, which lays out a net revenue budget of £925.1m and a capital budget of £1.6bn.
- 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 6 of draft Financial Plan, as these underpin the revenue and capital budget decisions and planning assumptions.
- 2.3 Note that Corporate Directors will continue developing transformative budget proposals and will be focussing on shaping further proposals to mitigate risk over the 10-year financial plan and provide financial sustainability for the Council.
- 2.4 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 2023 - 2026 as detailed in section 3.3.
- 2.5 Cabinet is recommended to delegate authority to the Section 151 Officer, in consultation with the Cabinet Member for Finance and Resources, to use the General Policy Contingency Budget for those matters which may require an

urgent response, subject to compliance with procurement rules. Any delegated decision will be reported through the normal procedures as set out in the Constitution.

- 2.6 That the Cabinet recommends to Council the application of additional premiums for empty and second homes to come into effect from 1st April 2024.
- 2.7 That the Cabinet recommends to Council to reinstate the use of Enforcement Agents for the collection of council tax support related debt; for the Revenues Service to work with our Enforcement Agents and develop an approach to improve debt collection, whilst recognising that additional support will be needed for people in the current cost of living crisis.

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 2023/24 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 2023/24 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 2023/24 budget and medium-term financial plan to 2026/27.
- 3.1.4 The proposals included in this report allow for setting a balanced budget for 2023/24 to 2026/27. 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, transformation and demand management, building

on the existing programme in place. CIPFA (Chartered Institute of Public Finance and Accountability), 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 act accordingly through transformative rather than reactionary measures.

3.1.6 During 2022/23, 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

Resources

3.1.7 The Department for Levelling Up, Housing & Communities released the provisional Local Government Finance Settlement on 19 December 2022. The funding data released was for 2023/24 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 2023/24.

3.1.8 Indicative allocations for Birmingham City Council in the recently announced Provisional Local Government Finance Settlement include:

- **£106.5m** of Social Care grants, which represents an increase of £39.7m on the previous year's values and current planning assumptions. The Independent Living Fund grant of £4.1m has been consolidated in Social Care grant
- Improved Better Care Fund of **£67.9m**, which is cash flat, noninflationary increase on the 2022/23 values and current planning assumption.
- Top Up Grant of **£69.3m**, which is £1.7m lower than previously assumed.
- Services Grant of **£13.9m**, which is a large reduction from the previous year. Though this was a one-year grant in 2022/23, the assumption was that this funding would continue into future years, albeit with different forms.
- New Homes Bonus Grant of **£1.4m**, which is £0.8m less than the 2022/23 values. 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**.
- 3.1.9 This represents additional net resources of **£10.7m** above what was been previously assumed in 22/23. Any additional funding has been applied in the budget proposals for 23/24.
- 3.1.10 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. Reports were taken to Cabinet on 17 January 2023 which identified the following basis for the forecasting of both income streams:

Business Rates Income 2023/24

- Government has implemented the Business Rates Valuation with effect from 1st April 2023, however and have also they chosen to freeze the Business Rates Multiplier, which would normally have been amended to reflect the new valuation and smooth the amounts being received by Local Authorities. The Council has updated its forecasts of future Business Rates receipts to include the impact of new developments and the sustainability of businesses and the recovery from the pandemic. The forecast for 2023/24 was approved by Cabinet at the meeting of 17 January 2023 and is therefore the basis for the numbers in the MTFP (Medium Term Financial Plan).
- 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 2023/24. In the Autumn 2022 budget, the Government announced a 75% relief on business rates bills for eligible retail, hospitality and leisure properties up to £110,000 per business. An estimate of £45.6m excluding the Enterprise Zone has been included in the 2023/24 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, which is in line with the budget in 2022/23. Should the provision prove to be inadequate, the Council has reserves set aside for Business Rates volatility of over £15.2m that can provide extra cover if required

Council Tax 2023/24

- Collection rate of 96.85% has been assumed. This is the same as 2022/23, but lower than the pre-Covid levels of 97.1%. As with Business Rates, there is a cautious assumption in the collection rates for 2023/24 to reflect the cost-of-living crisis and on-going economic uncertainty.
- Net increase of 4,900 Band D properties
- Tax base for Birmingham of 263,262 Band D equivalent properties

3.1.11 The budget proposals are based upon a general Council Tax increase of 2.99% in 2023/24 and 24/25. In addition, to fund significant social care pressures, it is proposed that the City Council will increase Council Tax by a further 2% through the Social Care Precept, making an overall Council Tax increase of 4.99%. This increase will not require a referendum as it is below the threshold set by the Government for 2023/24. Money raised from the Social Care Precept will be invested in adult social care services as shown on Adult Social Care section, Chapter 2 of the Financial Plan. Beyond 2024/25, Council tax increases have been assumed for planning purposes to be 1.99%, but subject to approval annually by the City Council.

Council Tax Support for related debt

3.1.12 In September 2015, a report was published by the Money Advice Trust examining councils use of Enforcement Agents (EAs – previously known as Bailiffs). The report was critical of councils (across the UK) using EAs to visit households with children. A decision was taken by Birmingham Council in 2017 not to refer any households (with or without children) debt to EAs for people in receipt of CTS. Enforcement Agents offer a much more flexible approach to debt collection than they did five years ago. The EA which the Council uses (Equita) has dedicated ‘welfare champions’ in all customer facing teams. Vulnerable customers benefit from welfare visits and outreach from a dedicated, local Welfare Champion – and can complete a vulnerability self-declaration form. Their staff receive extensive ongoing training with referrals and signposting, drawing on both national and regional partnerships with the advice sector. To improve the arrears position for CTS accounts and deal with the debt more effectively the current position is not sustainable. Further council tax rises, the growing customer base in the city, the impact of Covid and the cost-of-living crisis means the debt will continue to grow.

Council tax premium (empty and second homes)

3.1.13 On 11th May 2022, the Government issued a policy paper which outlined the intention as part of the Regeneration Bill to introduce a new discretionary council tax premium on second homes of up to 100% in addition to the existing base line charge. In practice this would mean that properties which are

furnished but not an individual's primary residence would attract a 200% council tax charge. The policy paper also allowed Local Authorities to bring forward the existing empty homes premium and apply a council tax premium of 100% to properties which are unfurnished and have been empty for more than one year. The current regulations state that properties need to be unfurnished and empty for two or more years to attract the premium. The policy also states that the Authority can use its own discretion to waive the premium where a property is actively on the open market for sale, or rent the premium is not charged for example. The proposed legislation (currently awaiting Royal Assent) requires Local Authorities to make the decision to charge these premiums 12 months in advance of the effective date, hence approval being requested at this meeting.

Expenditure

3.1.14 The assumptions that underpin the budget for 2023/24 and across the medium term are as follows:

- Pay increase of 5.0% has been included for 2023/24 and 2.5% for 24/25 and beyond.
- In the main, 0% has been built into the financial plans as non-pay inflationary uplifts. 5% has been added to income lines.
- Expenditure agreements and contracts have been generally increased by 5% 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 were 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 2023/24. Generally, 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 P of this report, please note that that bereavement services are at a 0% increase for one year due to need to review the service.

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. The impact of the War in Ukraine and other economic events and policy has led to a high inflationary environment and inflation pressure for the Council. The

details of service pressures and investments are outlined in Appendix D of the draft Financial Plan.

3.1.16 The revenue budget proposals include further savings (cost reductions and additional income generation) of £48.9m in 2023/24, rising to £97.1m by 2026/27, as laid out in Appendix E of the Financial Plan. New savings proposals total £29.6m across the medium term. All other savings are stepped changes to existing savings programmes that were approved by Full Council in February 2022.

3.1.17 Taking all the above into account, the Council proposes a net revenue budget of £925.1m for 2023/24. 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 (West Midlands Combined Authority) Board in February 2023. 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 28 February 2023.

3.3 Amendments

- 3.3.1 The Financial Plan was considered by Scrutiny Committee on 9 February 2023. Since that time, updates have been made to the document:
- 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 14 February 2023; 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 2023 - 2027 document for consideration at the City Council meeting on 28 February 2023.
 - Any amendments required following the publication of the Final Local Government Finance Settlement which is expected to be published in February 2023.
 - 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 2023 - 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 28 February 2023 will cover the following specific aspects:
- Revenue budget 2023/24
 - Council Tax requirement
 - Council Tax 2023/24 (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 9 February 2023.

5.2 **External**

5.2.1 The Council will has carried 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 held a virtual meeting with business rates payers on 1 February, 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 2 and Appendix C 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 Chapter 2 of the draft Financial Plan. However, the Council will take all necessary steps to minimise the number of redundancies.

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. Detailed delivery plans are being developed for all new budget proposals and equalities impact assessments are available for all these proposals

7 Background Documents

- 7.1.1 Council Plan 2022 – 2027, approved by the Council February 2022
- 7.1.2 MTFP Refresh, approved by Cabinet 11 October 2022
- 7.1.3 Council Taxbase report, approved by Cabinet 17 January 2023
- 7.1.4 Business Rates Income 2023/24, approved by Cabinet 17 January 2023
- 7.1.5 Quarter 3 2022/23 Budget Monitoring Report