Report to Cabinet – 13th Dec 2022

Month 7 Financial Monitoring Report 2022/23

1. High Level Summary Financial Position

1.1 Due to the extraordinary economic situation nationally, it has been agreed that a high level exception based Financial Monitoring Report will be provided to Cabinet each month in between more detailed quarterly reports.

1.2 At the Council Meeting on the 22nd February 2022 Birmingham City Council approved a net revenue budget of £759.2m for the 2022/23 financial year. This report sets out the high-level financial performance against that budget at the end of month 7.

1.3 The City Council's strategic aim is to deliver a balanced revenue position by the end of the financial year. The council has implemented a return to rigorous spending controls from July 2022, in light of significant financial risks that if not addressed will result in an overspend. In order to break even, spend controls must be solidly delivering by Quarter 3.

1.4 The spending controls focus on staffing, facilities management and procurement. We have in place measures to ramp up the benefit of these controls.

1.5 A review of reserves and balances is continuing to ensure that monies are being fully utilised for example Section 106 and Community Infrastructure Levy (CIL), specific grants including Public Health and property maintenance reserves.

1.6 The MTFP contains several budget savings that are currently due to be delivered in future years and we continue to explore the opportunities to deliver future years savings sooner.

1.7 The City Council is implementing a transformation programme under the three pillars of People, Place and Fit for Purpose Council and where safe to do so these need to be delivered faster, meaning that the financial benefits are achieved ahead of schedule.

1.8 The financial risks now stand at **£42.3m**. This is a decrease of £2.2m since our Quarter 2 (Month 6) report.

1.9 We continue to assume delivery of our budgeted savings and are closely monitoring the delivery of these. Further details are provided in Section 4.

Table 1: Detail of risks and mitigations identified

Directorate	Risks	Gross Risk (£m)	Use of Contingency (£m)	Use of Reserve (£m)	Spend Controls (£m)	Other Mitigations (£m)	Net Risk (£m)
Children & Families	Special Educational Needs Assessment and Review Service (SENAR)	4.900		(4.900)			**0.000**
Children & Families	Children & Young People Travel Service (formerly H2ST)	16.047					**16.047**
Children & Families	Birmingham Children's Trust (BCT)	23.900					**23.900**
City Operations	Parking Income Shortfall	4.300		(4.300)			**0.000**
City Operations	Street Lighting Electricity	5.700	(5.700)				**0.000**
City Operations	Sports and Leisure Income Shortfall	1.000		(1.000)			**0.000**
City Operations	Vehicle Fuel costs	1.500				(1.500)	**0.000**
City Operations	Street Scene - garage income pressure	1.100				(1.100)	**0.000**
City Operations	Street Scene - trade waste income pressure	1.000				(1.000)	**0.000**
City Operations	Street Scene - additional Waste Fleet cleansing	1.400				(1.400)	**0.000**
City Housing	Housing Options	5.400					**5.400**
City Housing	Private Sector Landlord Contract	1.200				(1.200)	**0.000**
Adult Social Care	Potential Income shortfall	5.200		(5.200)			**0.000**
Adult Social Care	Packages of Care	2.231			(2.100)	(1.900)	**(1.769)**
Council Management	Additional costs of Oracle implementation	1.723					**1.723**
Council Management	Digital Mail	0.130					**0.130**
Corporate	Postpone contribution to Cyclical Maintenance Reserve					(0.590)	**(0.590)**
Corporate	Forecast costs of Pay Award above budget	14.000		(14.000)			**0.000**
Corporate	Forecast costs of energy for Corporate Estate above budget	10.900		(10.900)			**0.000**
Corporate	Cost of Living Emergency	5.000		(5.000)			**0.000**
Corporate	Use of Covid Reserve-not against specific lines	0.000		(2.500)			**(2.500)**
Total		**106.631**	**(5.700)**	**(47.800)**	**(2.100)**	**(8.690)**	**42.341**

1.10 Due to the extraordinary economic shocks this year, the Council considers it reasonable to use £35.1m of the Financial Resilience Reserve (FRR) as set out in paragraph 1.17.

1.11 Further details of risks and mitigations are provided in sections 2 and 3 of the report, and in Annexes 1 and 2.

Spend Controls

1.12 In August we reported on the re-introduction of rigorous spending controls to mitigate against the forecasted risks. Three Spend Control Panels are in place in relation to Workforce, Procurement, and Property & Facilities Management. This section of the report highlights an update on each area with a note that a more detailed update will follow as part of our Month 8 financial monitoring report (to the end of November 2022).

a. Workforce

1.13 In summary, the workforce spend controls focus on vacancy management and reducing the use of consultants, interims and agency workers wherever possible. To date £2.1m is reflected from underspending against budgeted establishment.

b. Procurement

1.14 The aim is to apply controls to all contracts in order to manage inflation and deliver value for money. High levels of inflation do make it more difficult to achieve savings on contracts. We continue to seek best value for money in each contract and challenge the need for spend at each stage in the procurement gateway process.

c. Property & Facilities Management

1.15 The controls in place for this area relate to stopping non-essential spend whilst ensuring essential health and safety requirements are met. The Panel retains a detailed position statement on items approved/rejected. We are in the process are separating out achievement of these cost reductions from overall directorate mitigations within the overall management of their budgets. We are also reviewing the property cyclical repairs reserves of £8.2m to determine how much can be released from reserves in this financial year. The budgeted contribution to the general cyclical maintenance reserve for 2022/23 is £0.6m which we recommend is not actioned this year.

1.16 Table 2 summarises the savings identified so far through spend controls notwithstanding the actions ongoing referred to above.

Table 2: Detail of savings identified through spend controls

Directorate	Saving	Spend Controls (£m)
Adult Social Care	Employee Savings-Community & Social Work Operations	1.200
Adult Social Care	Employee Savings-Commissioning	0.600
Adult Social Care	Non-essential spend controls across the Directorate	0.300
Total		**2.100**

1.17 Table 3 summarises the uses of reserves to mitigate potential risks. Please note that the £35.1m potential use of Financial Resilience Reserve (FRR) can be seen in column E of Table 6 in paragraph 6.1.

Table 3 Use of Reserves to mitigate risks

Directorate	Risks	Use of FRR (£m)	Use of Covid Reserve (£m)	Use of Other Reserves (£m)	Total (£m)
Children & Families	Special Educational Needs Assessment and Review Service (SENAR)			(4.900)	**(4.900)**
Council Management	Bad Debt Provision/Client Contributions	(5.200)			**(5.200)**
Corporate	Forecast costs of Pay Award above budget	(14.000)			**(14.000)**
Corporate	Forecast costs of energy for Corporate Estate above budget	(10.900)			**(10.900)**
Corporate	Cost of Living Emergency	(5.000)			**(5.000)**
Corporate	Use of Covid Reserve		(7.800)		**(7.800)**
Total		**(35.100)**	**(7.800)**	**(4.900)**	**(47.800)**

1.18 It should be noted that our current planning assumption in the MTFP refresh is that the FRR will be required to fund inflationary costs of the Pay Award and Energy costs in 2023/24 as well as in 2022/23.

2 Potential Risks

2.1 Below are details of potential risks where they have changed since Quarter 2 (Month 6). Details of all risks are shown in Annex A to this report.

Council Management – increase in risk £0.1m

2.2 **Customer Services (forecast risk of overspend £0.1m against a budget of £20.8m)**
This variance relates to Digital Mail and is caused by an 18% inflationary increase in postage costs from November 2022. The full year impact of this is forecasted to be circa £0.3m in 2023/24.

Adult Social Care –increase in risk before mitigations £0.7m

2.3 **Packages of Care - (forecast risk of overspend £7.4m against a budget of £231.5m)** – The Directorate is reporting a forecast overspend of £7.4m at month 7. Within the position, inflation held corporately of £6.8m is required and assumed to be received in the forecast outturn. Also included are anticipated additional contributions of £1.9m from the Better Care Fund towards the cost of hospital discharge invoices from Sevacare, however this funding has not yet been agreed. This leaves a risk of £5.2m relating to in year income shortfall. There is also a £2.2m demand pressure relating to packages of care if current trends continue.

2.4 It is planned to use up to £5.2m of the FRR to fund the risk of £5.2m income shortfall mentioned above if it crystallises at year end. Work is continuing to minimise the call on this reserve.

2.5 Other mitigations to the Adults Social Care risks are set out in paragraphs 3.2 to 3.5.

3 Potential Opportunities

3.1 Below are details of potential opportunities where they have changed since Quarter 2 (Month 6). Details of all risks are shown in Annex B to this report.

Adult Social Care – reduction in mitigations of £2.8m

3.2 **Community & Social Work Operations – £0.7m Forecast Mitigation -** In Community and Social Work Operations there is an overall forecast underspend of £2.7m. This consists of £3.2m underspend on staffing and a small overspend in all non-staffing related areas such as supplies and services of £0.5m. The staffing underspend is due to the continuing vacancies which there has been difficulty in filling due to a National shortage of Social Workers and increasing difficulty to find agency staff to cover. The movement from Month 6 is linked to an additional 60 new workers who will be starting in the coming months. £1.4m of the Omicron grant money has been used to provide a retention payment to Social Workers. Please note that £2.0m of the staffing underspend mentioned above is being used to achieve Workforce Savings on a one-off basis as set out in paragraph 4.5.

3.3 **Quality & Improvement – £1.4m Forecast mitigation** – This reflects the use of the Omicron Grant reserve as referred to above. This is an anticipated unbudgeted reserve appropriation and costs relating to this will be incurred and is included within the Community & Social Work Operations Division to support retention payments to Social Workers.

3.4 **Commissioning – £1.6m Forecast mitigation** - The Service is reporting an underspend against employees of £0.6m linked to vacancies across the team and recharge income against base budget funded posts. Recruitment plans are ongoing and being discussed with relevant Head of Service and assumptions are currently that these will be filled during the latter part of 2022. There are also underspends projected of £0.8m against the overall third sector grant budget due to reduced activity which is ongoing after the pandemic, and it is expected this activity will increase during 2023/24. Assumed in the forecast underspend are £0.2m of contributions from the Better Care Fund towards third sector grants.

3.5 **Director – £0.3m Forecast mitigation** – Non-essential spend controls across the Directorate have resulted in an underspend against the Director of £0.3m at Month 7. This is a movement of £0.3m from Month 6 and reflects reductions in expenditure across the Directorate against discretionary budgets.

Corporate - forecast new mitigations of £5.8m

3.6 £35.1m of the FRR is planned to be used to mitigate the effects of the extraordinary economic shocks this financial year. This is an increase of **£5.2m**, as set out in paragraph 2.4.

3.7 As set out in paragraph 1.14, it is planned to postpone the budgeted contribution of **£0.6m** to the general cyclical maintenance reserve in 2022/23.

4 Savings / Income Targets

4.1 Like previous financial years the Financial Plan for 2022/23 includes budgeted savings, these total £40.8m. There are also previously undelivered savings of £2.1m that are being monitored.

4.2 The individual forecasts for each underlying savings / income target have been RAG rated and are summarised in Table 4 below.

Table 4: Savings Risks 2022/23

Risk Profile	month 6 (£m)	Month 7 (£m)	% of target
Delivered	5.036	10.439	24%
Low Risk	14.573	11.320	26%
Medium Risk	8.222	8.072	19%
High Risk	15.034	13.034	30%
Total	**42.865**	**42.865**	**100%**

4.3 At this stage in the financial year, this risk profile is as expected and reflects the known challenges in delivering these targets.

4.4 Table 4 shows that of the £42.9m savings / income to be delivered in 2022/23, £13.0m is currently rated high risk. Savings scored as high risk are not deemed as undeliverable and work is in progress to realise these targets. The budget gap detailed in Table 1 assumes that all savings will be delivered, reduction in delivery will increase the gap.

4.5 There is a reduction of £2.0m in the savings rated as high risk since Month 6, as the Workforce savings are being delivered through staffing underspends identified by Adult Social Care. This is on a one-off basis only for 2022/23.

4.6 There are also improvements of £3.4m since Month 6 due to various savings related to Place, Property & Sustainability Commercial Property savings (£2.3m) City Operations Business as Usual initiatives (£0.5m) and Corporate Finance savings (£0.6m) that were classed as low risk have now been delivered. Also, £0.2m of savings have improved from medium to low risk, mainly Council Management Business as Usual initiatives.

4.7 The main theme that results in savings targets being scored as high risk is the delivery of transformation dispersed savings from corporate initiatives including: Automation / Debt Recovery / Corporate Landlord / Customer Services / Procurement Savings.

4.8 Some of these corporate initiatives need more time to be fully completed and will therefore require the use of the Budget Smoothing Reserve in 2022/23. Of the other corporate initiatives, we will look to allocate the savings to Directorates by Month 8.

4.9 This tracking of savings / income targets is incorporated into the Corporate Programme Management Office monthly reporting to ensure programme delivery is tracked along with the delivery of savings / income targets to provide assurance and visibility of delivery.

5 Capital

5.1 As at Month 7 the 2022/23 capital spend is currently projected to be £676.5m, against a revised budget of £723.4m. This is the same position reported at Month 6.

5.2 Movements between the original budget for 2022/23 and the current budget and forecast outturn have been detailed in previous reports.

5.3 During Month 7 and Month 8 work is being undertaken with Directorates and project managers to explore opportunities to reprofile or review capital projects. This will inform the 2022/23 projection as well as future year.

Risks and Issues:

5.4 Delivery of the Capital Programme is being closely monitored over the year. There remain risks to delivery, particularly relating to cost pressures and material shortages for construction projects. Project Managers are constantly keeping these under review and appropriate actions taken to mitigate the impacts.

Capital Receipts:

5.5 The 2022/23 budgeted target of capital receipts is £69.3m. At present £13.0m of receipts have been achieved, £5.9m against the General Disposal Programme and £7.1m against the Commercial Portfolio that will be reinvested in the Commercial Portfolio. There are identified disposals at various stages of the disposal process for the remainder of the target. It should be noted that the disposals programme is back-end loaded meaning that majority of receipts are due to be received towards the end of the 2022/23 financial year and relate to a small number of high value cases.

5.6 Table 5 below sets out the position at Month 7 2022/23:

Table 5 – Disposals Programme 2022/23

Capital Receipts & Disposals Programme 2022/23	
	2022/23 £m
Budget	69.3
Achieved at Month 7	13.0
Further Anticipated Receipts	56.3

6 Reserves

6.1 Table 6 below shows the forecast reserves position at the end of 2022/23. Further details will be provided in quarterly reports.

Table 6 Forecast uses of and contributions to reserves

	A	B	C	D	E	F	G
	Balance as at 31st March 2022	**Original Budgeted (Use) / Contribution**	**Change approved in March and at Outturn 2021/22**	**Original Budgeted Use / (Contribution) not to be processed**	**Other forecast (Use) / Contribution**	**Total Forecast (Use) /Contribution**	**Forecast Outturn Balance at 31st March 2023**
Reserves	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Corporate General Fund Balance	38.382	0.000	0.000	0.000	0.000	0.000	38.382
Delivery Plan Reserve	66.196	(15.118)	(3.600)	0.000	(2.503)	(21.221)	44.975
Financial Resilience Reserve Gross	*146.962*	(29.956)	(1.300)	*0.000*	(35.100)	*(66.356)*	80.606
Net Borrowing from Financial Resilience Reserve	*(21.480)*	(0.912)	0.000	*0.000*	0.000	*(0.912)*	(22.392)
Financial Resilience Reserve Net	125.482	(30.868)	(1.300)	0.000	(35.100)	(67.268)	58.214
General Reserves and Balances	**230.060**	**(45.986)**	**(4.900)**	**0.000**	**(37.603)**	**(88.489)**	**141.571**
Other Corporate Reserves	322.891	(212.965)	(1.000)	30.062	(6.308)	(190.211)	132.680
Grant	340.642	(23.727)	0.000	0.000	(16.403)	(40.130)	300.513
Earmarked	82.053	(0.498)	0.000	0.000	(5.015)	(5.513)	76.541
Schools	79.888	0.000	0.000	0.000	0.000	0.000	79.888
Non Schools DSG	15.989	0.000	0.000	0.000	0.000	0.000	15.989
Subtotal Other Reserves	**841.464**	**(237.190)**	**(1.000)**	**30.062**	**(27.726)**	**(235.854)**	**605.610**
Grand total	**1071.524**	**(283.176)**	**(5.900)**	**30.062**	**(65.329)**	**(324.343)**	**747.181**

7 Housing Revenue Account (HRA)

7.1 The HRA is underpinned by a range of medium term and long-term affordability assumptions which will be kept under review to ensure mitigating actions, if necessary, can be undertaken in a timely, proportionate and appropriate manner.

7.2 Overall, the HRA spend is forecast to remain within budget this year.

8 Dedicated Schools Grant (DSG)

8.1 We continue to assume the DSG will break even.

9 Borrowing

9.1 Gross loan debt is currently £3,276m, with the year-end projection estimated to be £3,292m, below the planned level of £3,452m. The annual cost of servicing debt represents approximately 29.6% of the net revenue budget. The planned level of debt and annual cost of servicing debt includes over £200m borrowing for the Enterprise Zone (EZ), due to be financed from Business Rates growth within the EZ.

List of Annexes

1. **Details of potential risks**
2. **Details of Potential Opportunities**

Annex 1 Detail of Potential Risks

1.1 Below are details of the potential risks that have been identified by each of the operational divisions of the Council.

Children and Families-Forecast forecast risk of overspend £44.8m before mitigations, £39.9m after mitigations

1.2 **Special Educational Needs Assessment and Review Service (SENAR)- forecast risk of overspend £4.9m against a budget of £10.0m.**

In February 2021, a restructure of the service was initiated, and all permanent staff placed under a S188 notice. The Ofsted inspection in May 2021 reported that the SENAR service was extremely under resourced and unable to meet its statutory responsibilities. Due to the Ofsted inspection and resulting commissioner appointment, this restructure was paused pending further investigation and baselining of what the service requires to fulfil its statutory responsibilities.

There has been additional investment secured for the SENAR service to address the concerns of under resourcing. For 2021/22 that resulted in additional funding of £5.1m, and for 2022/23 £5.3m. As the funding has currently been allocated for two years only (to fund the required staffing levels whilst the baselining exercise is undertaken), it does not allow for permanent recruitment. At present there are significant numbers of interim staff in the service, and whilst this has resulted in an increase in compliance against the statutory measures, it does incur higher costs versus permanent posts.

The requested £5.1m and £5.3m were based on the activity/backlogs of statutory tasks identified at that point, however further investigations have resulted in additional statutory work requiring more Case Officers to be appointed and an increase in appeals requiring more Tribunal Officers to be appointed.

Financial modelling of staffing costs suggests a pressure of £4.9m. This forecast overspend of £4.9m will be managed from a combination of earmarked reserves held by the Directorate and amounts of policy contingency reserves already allocated to the Directorate for other purposes.

The service has been reviewed and extensive resource planning undertaken to ensure accurate requirements for the sustainable structure are known. These findings will be presented to Cabinet in November 2022.

1.3 **Children & Young People Travel Service, formerly Home to School Transport (H2ST). Forecast risk of overspend £16.0m against a budget of £40.5m. Please note that the value of the risk reported is considered likely to increase at Month 8.**

£16.0m risk broken down as follows:

- **£10.9m transport costs and £5.1m guides**

Service delivery was successful in September 2022, resulting in an improved service and satisfaction. The new academic year saw 99.9% of our routes operating daily.
Additional budget has been allocated to the service for 2022/23 due to significant financial pressures incurred in financial year 2021/22. However, it should be noted as per a Cabinet decision on the 7th June 2022, a significant proportion of this additional budget has been reallocated to transformation (£16.8m was originally allocated of which £6.6m was reallocated to transformation, with £10.2m remaining in the Business As Usual budget).

Reasons for the increase in spend within this service area are as follows:

- The growth in the number of children with Education, Health, and Care Plan (EHCPs) is an important factor in increasing demand for SEND transport. The number of EHCPs provided in Birmingham on an annual basis jumped from 802 in 2020 to 1230 in 2021.
- The increasing complexity of the needs of children with SEND is also a factor contributing to growing expenditure on SEND transport. Increasing numbers of children with complex medical needs or profound and multiple disabilities create a demand for more costly forms of transport. At the same time, increasing numbers of children presenting with extremely challenging behaviour have led to greater use of individual taxi journeys for this cohort.
- Another factor affecting all local authorities, not just Birmingham City Council is the fact that an increasing percentage of children with EHCPs are being educated in special schools and when local special schools become full, the 'nearest suitable school' is further afield and therefore more costly in transport terms.
- Market Pressures such as driver wages and increased fuel costs are also contributing to increased spend.

Future actions to be taken by the service to address cost pressures include:

- Reviewing eligibility criteria, in consultation with parents, carers and young people
- Focussed actions within the improvement programme that help to mitigate cost pressures for SEND transport
- Improved Contract & Relationship Management
- Route Optimisation – such as reviewing single occupancy routes and a focused review of high-cost routes
- Demand Management – including the creation of a Pathway to Independence Travel Training Programme to support our children and young people to travel more independently
- Implementing a permanent staffing structure.

1.4 **Birmingham Children's Trust (BCT) forecast risk of overspend £23.9m against a budget of £211.5m.** BCT is a commissioned service. The Trust's financial position shows a pressure because of rising placement costs. The latest forecast is an overspend of £23.9m. The Trust has been able to report by exception on placement costs which highlights that the two areas of significant pressure relate to external residential placements and supported accommodation costs.

Budget pressures have resulted from the following:

- Demand - an increase in the care population in line with forecasts of 3.7% with a cost impact to date of £3.6m; and
- Demand, complexity of need and market failure - a “baked in” pressure of £8.5m carried forward from 2021/22 resulting from placement costs, the full year effect of which is circa £18m. This includes:
    - an increase in the number children with complex needs from 27 to 77 children with high-cost placements of £11.0m; and
    - market factors resulting from a combination of inflationary pressures and a lack of placement capacity £7.4m.

City Operations - forecast risk of overspend £16.0m before mitigations, balanced after known mitigations

1.5 **Highways & Infrastructure (forecast risk of overspend £10.0m against a budget of £54.8m)**

The Pressure of £5.7m on street lighting electricity following significant cost increases and projected shortfall of £4.3m on Parking income. Parking income continues to under recover due to reduced demand following the success of strategies, such as the CAZ, to encourage movement away from using cars in the city centre and changing habits following the pandemic. Potential expenditure mitigations still need to be investigated. A review of the parking offer is underway and will inform a longer-term strategy.

1.6 **Neighbourhoods (forecast risk of overspend £1.0m against a budget of £21.9m)**

Pressures remain in the Leisure Service as external leisure providers continue their recovery to pre-covid levels, estimated to be achieved in the second half of the year. This results in risk of not receiving the full management fee due and requests from the providers for additional support pre recovery. Estimates potentially in the region of £1.0m. A strategy is being developed considering the in-year position and longer-term implications.

1.7 **Street Scene (forecast risk of overspend £5.0m against a budget of £92.34m)**

Expected income pressures within the Garage and Trade Waste due to same customer base as in 2021/22 where outturn overspends were £1.1m and £1.0m respectively. Additional Waste Fleet cleansing is due to cease at the end of September, however, has resulted in unfunded cost in the region of £1.4m. And with significant increases in the cost of fuel there is projected cost pressure in the region of £1.5m.

1.8 Mitigations to the Street Scene risks are set out in Annex 2 paragraph 1.4.

City Housing – forecast risk of overspend £6.6m before mitigations, £5.4m after known mitigations

1.9 **Housing Options (forecast risk of overspend £5.4m against a budget of £15.7m)**

There are two material pressures in the Housing Options Service in 2022/23. The growth in demand for Temporary Accommodation (TA) has far exceeded the reductions made through the Housing Options prevention and supply initiatives. Currently there is a net growth in TA of 17 per week, and this is forecast to rise to 25 by the end of the year, due to the national economic situation. The budget for TA was based on a baseline net growth of 13 per week, with prevention activity reducing this by 5 per week and increased supply meeting the residual growth of 8 per week. The financial impact of this is modelled at £5.4m before any mitigations which the service are currently investigating.

1.10 **Private Sector Landlord (forecast risk of overspend £1.2m against budget of £15.7m)**

The Private Sector Landlord contract was delayed until August, which impacted on the availability of the correct type of housing available for temporary accommodation of larger families. This resulted in greater use of Emergency Night Rate accommodation, thus creating a one-off financial pressure of £1.2m.

1.11 Mitigations to the City Housing risks are set out in Annex 2 paragraph 1.5.

Council Management – forecast risk of overspend £1.9m

1.12 **ITDS (forecast risk of overspend £0.8m against a budget of £34.7m)**
This variance is as a result of additional Oracle costs to ensure the system is fully functional. This includes overspend on; the Enterprise Resource Planning (ERP) Roadmap £0.5m, ERP functional support £0.2m and other embedding costs £0.1m.

1.13 **Procurement (projected year end £0.1m overspend)**
This one-off variance is caused by the extension till the end of the financial year of an interim to backfill a member of the Procurement team working on embedding Oracle into Procurement.

1.14 **Finance (forecast risk of overspend £0.3m against a credit budget of £7.0m)**
This variance is caused by additional staff required in Finance to oversee all feeder files that are entered into Oracle, as well as undertake the manual processes surrounding BACs, cheques and direct debits that previously were automated in SAP.

1.15 **Human Resources (forecast risk of overspend £0.5m against a budget of £10.2m)**

This variance is caused by one off resource needed to help imbed Oracle HR processes £0.4m and Oracle experts needed to fix certain HR processes in the system £0.1m.

1.16 **Customer Services (forecast risk of overspend £0.1m against a budget of £20.8m)**
This variance relates to Digital Mail, and is caused by an 18% inflationary increase in postage costs from November 2022. The full year impact of this is forecasted to be circa £0.3m in 2023/24.

Adult Social Care – forecast risk of overspend £7.4m before mitigations, £3.8m underspend after known mitigations.

1.17 **Packages of Care - (forecast risk of overspend £7.4m against a budget of £231.5m)** – The Directorate is reporting a forecast overspend of £7.4m at month 7. Within the position, inflation held corporately of £6.8m is required and assumed to be received in the forecast outturn. Also included are anticipated additional contributions of £1.9m from the Better Care Fund towards the cost of hospital discharge invoices from Sevacare, however this funding has not yet been agreed. This leaves a risk of £5.2m relating to in year income shortfall. There is also a £2.2m demand pressure relating to packages of care if current trends continue and this is an increase of £0.7m from Month 6.

1.18 It is planned to use up to £5.2m of the FRR to fund the risk of £5.2m mentioned above if it crystallises at year end. Work is continuing to minimise the call on this reserve.

1.19 Other mitigations to the Adults Social Care risks are set out in Annex 2 paragraphs 1.6 to 1.9.

Other Directorate risks that are not included in the forecast

Place, Prosperity and Sustainability

1.20 Property Services have acquired four new Public Works Loan Board (PWLB) compliant properties in 2022/23 and are on course to achieve this year's rental acquisition saving target. However, delays in raising the first two quarters rent and service charge invoices due to Manhattan system interface difficulties, means that an accurate year-end projection cannot be determined. Furthermore, the arrears position remains uncertain following the two-year moratorium on rent collection as a result of Covid, and delays in raising invoices and posting income this year, which will impact on the level of bad debt provision required. These risks will need to be managed within the Directorate.

Corporate issues – forecast risk of overspend £29.9m before mitigations, balanced after mitigations

1.21 **The Pay Award (forecast risk of overspend £14.0m)**. The 2022/23 budget included a 2.5% increase for pay. It is estimated that the pay award of £1,925 per full time employee that has now been agreed will cost the Council general fund in the region of £14m more than the budgeted provision. This will be funded from the Financial Resilience Reserve (FRR).

1.22 **Corporate Estate Gas and Electricity cost (forecast risk of overspend £10.9m)**. The 2022/23 budget was set before the final prices for gas and electricity were set. These are now fixed for the year. Due to the very high increases in costs, there is a forecast pressure on gas and electricity costs for the corporate estates of £10.9m. This is also planned to be funded from the FRR.

1.23 **Cost of Living Emergency (priority spend £5.0m)** Cabinet in October approved £5.0m funding to support local people during the crisis, to be funded from the FRR.

Other corporate risks that are not included in the forecast

1.24 There are a number of savings that were listed as corporate savings in the MTFP that have not yet been distributed to Directorates. Work is ongoing to analyse the distribution of these savings and allocated them to Directorates. Until this is done, there continues to be a risk of non-delivery in year and a possible need to use the budget smoothing reserve.

1.25 There are risks of an economic downturn which could affect Business Rates income. There are risks that Collection Fund Income could also be affected if collection rates are less than budgeted or if growth in Council Tax Taxbase is less than anticipated.

1.26 There is always a risk that the Council could suffer a cyber attack. Investment and resources put into dealing with the cyber threat, but the threat remains, and other Councils have suffered financial impacts.

1.27 There is a risk that short-term and long-term interest rates rise above budgeted forecast, although the Council had taken a cautious view over the medium term and will continue to keep a close review of interest rates as the year progresses.

1.28 As always there remains a risk of industrial disputes effecting the work force of the City Council and communications channels are in place to have an open dialogue with unions to minimise this risk wherever possible.

1.29 There are risks that the cost of living crisis will increase demands from residents for council services, leading to increased costs. However, the Council is using £5.0m of the FRR to tackle this issue.

1.30 The Council is facing challenges in recruitment and retention in a number of services. Work is under way to find solutions and we have recently launched some high profile recruitment campaigns which is hoped will make the City Council an attractive employer.

1.31 There is a risk that the Council is not able to fully meet the target of capitalising £20m of transformation costs through use of Flexible Use of Capital Receipts. This will be kept under close review.

1.32 There is a risk that there could be another serious outbreak of Covid-19 resulting in a national or local lockdown, or that another pandemic could materialise. While these risks are not wholly within the control of the council we must continue to plan and manage the delivery of services in an efficient and effective manner.

Annex 2 Detail of Potential Opportunities

1.1 Whilst we have a number of financial risks there are also opportunities to off set these risks which must continue to be maximised. It must be recognised that while there are significant balances in both the Financial Resilience Reserve (FRR) and General Fund Balance, these are one off funding sources and use of them should be the last resort once all other mitigations have been exhausted.

1.2 Below are details of the potential mitigations that have been identified by each of the operational divisions of the Council.

Children and Families – forecast mitigations of £4.9m

1.3 The Directorate has identified £4.9m of reserves that can be used to fund the SENAR pressures in 2022/23.

Street Scene – forecast mitigations of £5.0m

1.4 If the Tyesley plant continues to operate efficiently as it did last year and additional income is received from its electricity generation, combined with an underspend of £2.0m on borrowing costs from delayed fleet purchase, the Street Scene service may breakeven.

City Housing – forecast mitigations of £1.2m

1.5 There are a number of initiatives the service are exploring to mitigate the City Housing pressures in 2022/23. The Street Purchases Programme is a £60m capital project to increase the number of properties available to meet demand. As there is a lead in time to get these properties fully operational the full impact will not be seen until the later part of this financial year. There is also an opportunity to receive DLUHC grant funding for the service to set up a Letting Agency which once fully operational will help mitigate the above pressures on temporary accommodation. Other mitigations involve delays in recruitment resulting in a staffing underspend.

Adult Social Care – forecast mitigations of £4.0m

1.6 **Community & Social Work Operations – £0.7m Forecast Mitigation -** In Community and Social Work Operations there is an overall forecast underspend of £2.7m. This consists of £3.2m underspend on staffing and a small overspend in all non-staffing related areas such as supplies and services of £0.5m. The staffing underspend is due to the continuing vacancies which there has been difficulty in filling due to a National shortage of Social Workers and increasing difficulty to find agency staff to cover. The movement from Month 6 is linked to an additional 60 new workers who will be starting in the coming months. £1.4m of the Omicron grant money has been used to provide a retention payment to Social Workers. Please note that £2.0m of the staffing underspend mentioned above is being used to achieve Workforce Savings on a one-off basis as set out in paragraph 4.5.

1.7 **Quality & Improvement – £1.4m Forecast mitigation** – This reflects the use of the Omicron Grant reserve as referred to above. This is an anticipated unbudgeted reserve appropriation and costs relating to this will be incurred and is included within the Community & Social Work Operations Division to support retention payments to Social Workers.

1.8 **Commissioning – £1.6m Forecast mitigation** - The Service is reporting an underspend against employees of £0.6m linked to vacancies across the team and recharge income against base budget funded posts. Recruitment plans are ongoing and being discussed with relevant Head of Service and assumptions are currently that these will be filled during the latter part of 2022. There are also underspends projected of £0.8m against the overall third sector grant budget due to reduced activity which is ongoing after the pandemic, and it is expected this activity will increase during 2023/24. Assumed in the forecast underspend are £0.2m of contributions from the Better Care Fund towards third sector grants.

1.9 **Director – £0.3m Forecast mitigation** – Non-essential spend controls across the Directorate have resulted in an underspend against the Director of £0.3m at Month 7. This is a movement of £0.3m from Month 6 and reflects reductions in expenditure across the Directorate against discretionary budgets.

Corporate forecast mitigations of £49.2m

1.10 As set out in Annex 1 paragraphs 1.18 and 1.21 to 1.23, **£35.1m** of the FRR is planned to be used.

1.11 It is planned to use **£7.8m** of Covid Reserves to cover on-going effects of the pandemic, particularly shortfalls in car parking income and leisure management fees.

1.12 It is planned to use **£5.7m** of Policy Contingency that was set aside for energy inflation to cover the additional costs of street lighting electricity.

1.13 As set out in paragraph 1.14 of this report, it is planned to postpose the budgeted contribution of £0.6m to the general cyclical maintenance reserve in 2022/23.