

Public Report

Birmingham City Council

Report to Cabinet

09 February 2021



Subject: DRAFT FINANCIAL PLAN 2021-2025

Report of: Interim Chief Finance Officer

Relevant Cabinet Member: Councillor Ian Ward, Leader of the Council

Relevant O &S Chair(s): Councillor Sir Albert Bore

Report author: Alan Layton, Head of Corporate Finance (Revenue)

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: 007927/2021		
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 To consider the draft Financial Plan 2021 - 2025 for recommendation to the City Council.

2 Recommendations

Cabinet agrees to:

- 2.1 Recommend the attached draft Financial Plan 2021 - 2025 for consideration by the City Council on 23 February 2021.

- 2.2 Delegate authority to the Interim Chief Finance Officer, in consultation with the Leader and Cabinet Member for Finance and Governance, to make amendments or corrections to the draft Financial Plan 2021 - 2025 as detailed in section 3.3.
- 2.3 Note the Section 25 Statements from the Interim Chief Finance Officer as detailed in Chapters 8 of draft Financial Plan 2021 – 2025.

3 Background

3.1 Council Financial Plan

- 3.1.1 The draft Financial Plan 2021 - 2025 (Appendix 1) is an updated position on the MTFP Refresh report which was approved by Cabinet on 10 November 2020. At that time, the report identified that the Council had an indicative funding gap of £92.9m in 2021/22, rising to £109.9m by 2024/25. This Financial Plan provides solutions for closing the identified gap, provides an update on funding as a result of the Local Government Provisional Settlement and updates on pressures and savings non-delivery following the budget challenge sessions held with each Directorate.
- 3.1.2 On 17 December, Government provided indicative figures for grant funding for 2021/22 only as part of the Provisional Local Government Settlement. From this announcement, a net increase of £6.9m in grant funding was confirmed above that already built into in current financial plans, including a further £7.1m for Social Care grants, £2.2m for the new Lower Tier Services Grant, £0.4m increase in Top Up Grant offset by a reduction in the New Homes Bonus grant of £2.8m. In addition, Government announced £43.8m as funding for the 2021/22 impact of Covid, meaning that additional grant funding totalled **£50.7m**. It is proposed that the £43.8m Covid-19 grant for 2021/22 will be fully utilised to balance the 2021/22 budget, offsetting some of the Covid related pressures already identified. In addition, a contribution of £38.7m will be made to the Financial Resilience Reserve to further strengthen the Council financial position in the current significantly uncertain environment. The Government also confirmed the extension of the sales, fees and charges income compensation scheme until June 2021. The Government intends to use the 2020/21 budgeted income, profiled for 3 months, as the baseline from which to assess losses. The financial plans do not include an estimate of this amount as it is dependent on the losses of income in the first quarter of the new financial year.
- 3.1.3 Further details were also provided on the sharing of irrecoverable Council Tax and Business rates losses between Government and local authorities. It has been confirmed that government would compensate for 75% of irrecoverable losses in respect of 2020/21. Birmingham has estimated that this could benefit Birmingham to the value of £13.2m for each for the 3 years from 2021/22 to 2023/24.
- 3.1.4 A review was also undertaken of the income to be generated for Business Rates and Council Tax, particularly in light of the Covid impact. Reports were taken to Cabinet on 19 January which identified the following basis for the forecasting of both of these income streams:

Business Rates Income 2021/22

- Collection rate of 96.0%, 2% lower than the previous year's assumptions to reflect the uncertain economic environment due to Covid-19 and Brexit. 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 cease as at 31 March 2021
- Appeals will continue to be a feature for 2021/22 as businesses affected by Covid plead material change in circumstances. It is not possible to estimate what effect this might have in 2021/22, so the budgeted provision for repaying appeals has been kept in line with the 2020/21 budget. Should the provision prove to be inadequate, the Council has reserves set aside for Business Rates volatility of over £20m that can provide extra cover if required.

Council Tax 2021/22

- Collection rate of 96.6%, 0.5% lower than the budgeted collection levels from 2020/21.
- Net increase of 676 Band D properties
- Tax base for Birmingham of 253,995 Band D equivalent properties

3.1.5 The budget proposals are based upon a general Council Tax increase of 1.99% in 2021/22. In addition, it is proposed that the City Council will increase Council Tax by a further 3% 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 2021/22. Money raised from the Social Care Precept will be invested in adult social care services as shown on page 22 of the Financial Plan. Beyond, 2021/22, Council tax increases have been assumed for planning purposes to be 1.99%, but subject to approval annually by the City Council.

3.1.6 Since the Medium Term Financial Plan Refresh report in November, challenge sessions have been held with Directorates in order to assess base budget adequacy, assess the delivery of savings and to highlight any additional pressures and or opportunities that were likely to arise in the future as the Council responds to the changing environment and delivers the new norm. Details of service pressures are outlined in Appendix F and the savings programme are outlined in Appendix G of the draft Financial Plan.

3.1.7 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, identified areas of need and consistent with the Delivery Plan

- Ensuring that the Council sets a balanced budget for 2021/22, plans for a balanced budget in the medium term and that its long term financial health and viability remains sound
- 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

3.1.8 The revenue budget proposals include a balanced budget up to 2022/23. The size of the capital programme means that, over the medium-term, new borrowing for normal service delivery will 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.

3.1.9 The revenue budget proposals include further savings of £33.1m in 2021/22, rising to £40.7m by 2024/25 to ensure that the budget can be balanced. The only material new saving is for establishment controls, for which there are no redundancies envisaged as the outcomes are likely to be deleted vacancies and reduced agency costs. This is budgeted to save £20.1m per annum. All other savings are stepped changes to existing savings programmes that were approved by Full Council in February 2020.

3.1.10 The revenue resource position set out in Chapter 2 of the draft Financial Plan 2021 - 2025 is based on the Provisional Local Government Finance Settlement announced on 17 December 2020 and takes account of other information from Government on grant calculations. It also takes account of the forecasted impact of Covid-19 on locally generated resources, in particular Business Rates, Council tax and fees and charges generation.

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 2021. 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, including details for the actual or expected dates of decisions:

- Fire & Rescue Authority – 15 February 2021
- West Midlands Police and Crime Commissioner – 01 February 2021

- New Frankley in Birmingham Parish Council – 16 November 2020
- Royal Sutton Coldfield Town Council – 19 January 2021

3.2.3 To the extent that figures are already known, these have been included in the draft Financial Plan. Others are expected to be added in time for consideration of the document by the City Council on 23 February 2021.

3.3 Amendments

3.3.1 It is recommended that authority is delegated to the Interim Chief Finance Officer, in consultation with the Leader and Cabinet Member for Finance and Governance, to amend the attached draft Financial Plan 2021 - 2025 to take account of, and limited to, the following:

- any amendments agreed at or as a result of the decisions made at Cabinet meeting on 09 February 2021; 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 2021 - 2025 document for consideration at the City Council meeting on 23 February 2021.
- Any amendments required following the publication of the Final Local Government Finance Settlement which is expected to be published in February 2021.

4 Options considered and Recommended Proposal

4.1 The Council must approve a 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 2021 - 2025 (which includes the detailed budget) is the product of the careful evaluation of budgetary needs and policy priorities.

4.2 The Motions to the City Council meeting on 23 February 2021 will cover the following specific aspects:

- Revenue budget 2021/22
- Council Tax requirement
- Council Tax 2021/22 (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 Assistant Directors of Finance have been consulted in the preparation of this report and the Financial Plan.

5.2 External

- 5.2.1 In previous years we have consulted residents and business rate payers on specific savings proposals affecting service delivery, with consultation typically taking place in December. A different approach to the budget has been adopted this year meaning that there are no new savings proposals requiring consultation; all savings in the budget have been consulted on and approved in previous budgets.
- 5.2.2 Given also that the Delivery Plan and Medium Term Financial Plan review have already been completed, it was decided to only carry out the statutory minimum consultation on this budget. This is laid down in the Local Government Finance Act 1992 and requires business ratepayer representatives to be consulted on annual spending proposals ahead of setting our budget.
- 5.2.3 The Leader held a virtual meeting with business rate payers on the 27th January attended by relevant cabinet members and officers. Holding the event in January allowed for a more positive, forward looking approach focusing on covid-19 recovery and on how the Council will support businesses to get back on track.
- 5.2.4 The event was attended by 15 business rate payers and, from comments, seemed to be well received. A number of questions were raised before and during the event, these covered the following areas:
- Lack of financial support provided to businesses
 - Requests for consideration of greater business rates relief, including for sectors not currently covered
 - Possibility of the council negotiating with landlords rent relief for businesses
 - Working with the Council to take forward the R20 agenda including retrofitting properties and improving high streets
 - Support to leisure and hospitality sector.

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 X and Appendix E of the draft Financial Plan.

5.4 The Council continues to plan its medium term budgets in a period of uncertainty. As the settlement was for one year only, there remains considerable uncertainty about reforms to local government finance (including New Homes Bonus, Fair Funding, Business Rates reset) and any funding changes that may be faced in 2022/23 and beyond as a result of these.

5.5 The impact and financial costs of Covid-19 outbreak will be highly dependent on the length of time that the pandemic continues, the impact of any restrictions and the action taken by Government to respond to the pandemic nationally. The Council has therefore held its Tranche 5 allocation of the unringfenced emergency grant to mitigate any emergent pressures not yet identified in the budget plans.

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 2021 - 2025 represents a key element of the Council's Policy Framework and is integrated with the Council's Delivery Plan

6.1.2 Proposals in the draft Financial Plan 2021 - 2025, 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 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 2021 - 2025 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 19 of Chapter 3 of the draft Financial Plan 2021 - 2025. The document also includes the Pay Policy Statement, for which City Council approval is required.

6.6 Public Sector Equality Duty

- 6.6.1 There are no additional Equality Duty or Equality Analysis issues as a result of this report.
- 6.6.2 The draft Financial Plan 2021 – 2025 sets out individual resource allocations. Equality issues will be given full consideration as proposals are developed and put in place.

7 Background Documents

- 7.1.1 Council Plan 2020 – 2024, approved by the Council February 2020
- 7.1.2 MTFP Refresh, approved by Cabinet 10 November 2020
- 7.1.3 Delivery Plan, approved by Cabinet 10 November 2020
- 7.1.4 Council Tax Taxbase report, approved by Cabinet 19 January 2021
- 7.1.5 Business Rates Income 2021/22, approved by Cabinet 19 January 2021
- 7.1.6 Quarter 3 Budget Monitoring Report