

Public Report

Birmingham City Council

Report to Cabinet

14TH MAY 2019



Subject: FINANCIAL OUTTURN 2018/19

Report of: CHIEF FINANCE OFFICER

Relevant Cabinet Member: Councillor Ian Ward

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

Report author: Clive Heaphy, Chief Finance Officer

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: 6205/2019		
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 presents the City Council financial position for 2018/19, including the Revenue Outturn and Capital Outturn for the General Fund: the Treasury management Annual Report: the Housing Revenue Account Outturn and the Collection Fund Outturn.
- 1.2 Each Directorate's financial performance at Outturn is shown in the Corporate Revenue and Capital Budget Monitoring documents, which are appended to this report as Appendices A and B.
- 1.3 The Treasury Management Annual Report is appended to this report as Appendix C.

- 1.4 The Housing Revenue Account outturn is appended to this report as Appendix D.
- 1.5 The outturn position on the Collection Fund is appended to this report as Appendix E.

2 Recommendations

That the Cabinet:-

- 2.1 Notes the City Council's Outturn position for 2018/19, as detailed in the report and appendices (the finalisation of the figures is subject to External Audit)
- 2.2 Approve the use of reserves and balances set out in Appendix A.
- 2.3 Authorise the Chief Finance Officer, in consultation with the Cabinet Member for Finance and Resources, to transfer resources from the Finance Resilience Reserve into an Education PFI reserve following appropriate due diligence.
- 2.4 Approve the financing of capital expenditure for 2018/19 as set out in Appendix B.
- 2.5 Note the outturn position on the Collection Fund as set out in Appendix E.

3 Background

- 3.1 At its meeting on 27th February 2018, the Council agreed a net revenue budget for 2018/19 of £855.2m to be met by government grants, council tax and business rates payers.
- 3.2 The appendices of this report provide information about the 2018/19 outturn position of the Council, which will be subsequently incorporated into the 2018/19 Statement of Accounts of the Council, submitted to the Audit Committee for approval at the end of May 2019.
- 3.3 **Appendix A** is the **Revenue Outturn**. The overall position shows an underspend of £5.9m and is summarised in Table 1. This has resulted in a net reduction in the planned use of general reserves to support the budget of £5.9m.

Table 1	A	B	C = B - A	D			E = C + D
Directorate	Final Revised Budget	Outturn Position	Outturn Variation [+ over / - (under)]	Proposed Year End Transfers to / (from) reserves			In Year Variation (under) / over spend
	£m	£m	£m	Grant £m	Other £m	Total £m	£m
Adult Social Care & Health Directorate	336.358	321.324	(15.034)	4.341	0.000	4.341	(10.693)
Children & Young People Directorate	236.386	236.858	0.472	4.904	(3.062)	1.842	2.314
Place Directorate	139.287	153.267	13.980	1.716	0.543	2.259	16.239
Economy Directorate	97.873	51.818	(46.055)	46.002	(0.379)	45.623	(0.432)
Strategic Services Directorate	28.235	24.906	(3.329)	0.042	0.447	0.489	(2.840)
Human Resources	6.498	4.965	(1.533)	0.000	0.412	0.412	(1.121)
Finance & Governance Directorate	30.677	29.260	(1.417)	(0.044)	(0.878)	(0.922)	(2.339)
Chief Executive & Assistant Chief Executive	3.079	2.544	(0.535)	0.058	0.000	0.058	(0.477)
Directorate Subtotal	878.393	824.941	(53.452)	57.020	(2.917)	54.103	0.651
Corporate Subtotal	(23.204)	(35.504)	(12.300)	5.408	0.384	5.792	(6.508)
City Council General Fund	855.189	789.437	(65.752)	62.427	(2.533)	59.895	(5.857)
Housing Revenue Account (HRA)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total City Council	855.189	789.437	(65.752)	62.427	(2.533)	59.895	(5.857)

- 3.4 The base budget variations in each Directorate are detailed in Section 2 and Annex 1 of the Corporate Revenue Budget Monitoring document attached as Appendix A. The position is summarised in tabular form in Annex 2 which incorporates the year end pressures by Directorate.
- 3.5 Directorate risks relating to the Savings Programme and measures undertaken to alleviate these are detailed in Section 2 and Annex 1 of Appendix A and the position is summarised in tabular form in Annex 3.
- Highlights include:
 - A £14.6m underspend on the base budget, principally in Adult Social Care**
 - £10.1m of savings not delivered in 2018/19, and**
 - accelerated achievement of part (£1.4m) of the efficiency target of £5.7m.**
 - The direct costs that were attributable to the Waste Management dispute amount to £5.8m. These are shown as a corporate pressure due to the exceptional nature of this item.**
 - Following a review by the Chief Finance Officer, £0.8m of costs that were charged in error to the HRA in 2017/18 that relate to the 2017/18 dispute have been identified and charged back to the General Fund. The corresponding credit is to the HRA. These have also been shown as an exceptional item.**

- 3.6 There was a forecast overspend of £2.0m reported to Cabinet at Month 9, so there has been an overall improvement of £7.9m in the outturn position compared to the previous forecast.
- 3.7 Discussions with the Council's external auditors are ongoing regarding the accounting impact of the issues around the delivery of the Highways PFI contract arrangements. When the PFI contract was initiated the accounting for the period of the contract was modelled on assumptions on investment in the network with specific delivery milestones and continued maintenance. The Court judgement in the Council's favour has set aside some of the delivery milestones, the result of which may impact on the accounting model and the outturn for the year.

Schools

- 3.8 There was an underspend on the Dedicated Schools Grant of £2.8m. There was a forecast overspend of £5.1m reported to Cabinet at Month 9, so this was an improvement of £7.9m compared to the previous forecast. More details are provided in Annex 1.
- 3.9 The DFE Consultation on the implementation of new arrangements for reporting DSG deficits will require all local authorities with a cumulative overspend on DSG provision in excess of 1% to produce recovery plans detailing the steps they plan to take to provide statutory services within the annual funding envelope. These recovery plans should be discussed with, and if possible, agreed with, the local schools forum and should look to bring the overall DSG account into balance within a maximum of three years.
- 3.10 At 2018/19 out-turn the accumulated deficit on DSG is £8.7m which equates to 0.74% of the total DSG budget. This is below the 1% threshold and therefore the Council does not have to make a formal return to the DFE. However, it recognises the need to reduce the Higher Needs deficit (which is an accumulated deficit of £16m at 2018/19 out-turn) and will be developing a local plan to address this in the coming months.

Reserves

- 3.11 The original budget envisaged the use of £30.5m of General Reserves to balance the budget. Including the benefit of the £5.9m underspend, the use of General Reserves has reduced to £20.6m in 2019/20.
- 3.12 In addition, there are both planned uses of and contributions to Other Reserves. A net contribution of £1.9m to Other Reserves was assumed as part of setting the budget. At Month 9, Cabinet approved a net contribution of £9.5m. This was a £7.6m approved net increase in contributions to Other Reserves. At Outturn, there are £59.8m further net contributions to Other Reserves proposed mainly related to the Highways PFI contract.
- 3.13 It is proposed to refinance historic internal borrowing from the Highways PFI reserve in full from general reserves. This is merely a movement between

reserves and has no net impact on the overall level of reserves and no impact on the overall budget position. Any borrowing repayments required from services will now be made directly to general reserves. The value of this reserves movement is £22.0m.

- 3.14 Similarly, it is proposed to refinance historic internal borrowing from schools' balances in full from general reserves. Again, this is merely a movement between reserves and has no net impact on the overall level of reserves and no impact on the overall budget position. Any borrowing repayments required from services will now be made directly to general reserves. The value of this reserves movement is £2.1m.
- 3.15 A review of reserves held by the Council has been undertaken, and it is proposed to recategorise and consolidate those identified in Annex 5. This review was intended to simplify and clarify reserve balances and ensure that specific funds (such as the Insurance reserve, are held at adequate levels) commensurate with the Council's risk profile.
- 3.16 The Council also recognises the need to create an Education PFI Reserve in order to ensure that there are sufficient resources to fully finance the remaining life of the contract to the extent that the unitary payments exceed the Government grant received in future years. It is recommended that in 2019/20, the Chief Finance Officer in conjunction with the Portfolio Holder for Finance and Resources be able to make the appropriate transfer from the general reserves to create this reserve, once the necessary due diligence has been undertaken on its appropriate level.
- 3.17 **Appendix B** is the **Capital Outturn**. For 2018/19, the outturn was £344.7m.
- 3.18 The meeting of the 27th February 2018 also agreed a 2018/19 capital budget of £476.9m. Over the course of the financial year the capital programme has been revised to take account of new projects and programmes and further approved changes to the budget.
- 3.19 The appendices of this report provide information about the Capital Outturn position for 2018/19 and the reasons for the variations between the Quarter 3 approved budget of £505.8m and the outturn of £344.1m. A summary is shown below.

	£m Previous Quarter 3	£m Qtr 4 Movements	£m Annual Total
2018/19 Original Budget	476.882		476.882
Change in budget	28.923	18.482	47.405
2018/19 Revised Budget	505.805	18.482	524.287
Less: Cumulative Slippage	(116.510)	(101.039)	(217.549)
Less: Forecast/actual (under) / overspends	27.481	10.460	37.941
Equals: Outturn	416.776	(72.097)	344.679

- 3.20 **Appendix C** is the **Treasury management Annual Report**. The City Council net loan debt, net of investments, was £3,213.3m at the year end (£3,301.4m at 31 March 2018) compared with £3,499.1m expected in the Council Budget 2018+. This reflects slippage in capital expenditure and other cash flows. The outturn on the Treasury Management budget was £115.6m after recharges to services, compared with the budget of £120.9m. All prudential limits were complied with.
- 3.21 City Council treasury investments held at 31st March 2019 were £79.6m. The Council also held investments of £85.8m as accountable body.
- 3.22 Loan interest repayment charges and associated costs totalled £299.7m gross, and £115.6m after recharges to other services. This was £5.3m below the budget of £120.9m. This was due largely to capital programme slippage and other cash flows resulting in lower than planned borrowing.
- 3.23 The City Council did not breach any of its prudential limits set under the Local Government Act 2003 and the CIPFA Prudential Code for Capital Finance.
- 3.24 **Appendix D** summarises the **Housing Revenue Account Outturn**. This shows a year end surplus of £0.6m before transfers to reserves, which is summarised below and explained in Appendix D. The surplus has been transferred to accumulated balances.

	Revised Budget	Actual Outturn	Variation
	£'m	£'m	£'m
Rent Income and Other Income (including Service Charges)	(273.543)	(275.283)	(1.740)
Repairs	61.741	54.187	(7.554)
Local Housing Management Costs	67.053	65.222	(1.831)
Estate Services Costs	17.336	16.856	(0.480)
Revenue Funding of Capital	35.605	51.880	16.275
Capital Financing	51.491	51.126	(0.365)
Debt Repayment Provision	40.317	35.405	(4.912)
Total	0.000	(0.607)	(0.607)
Appropriation to Carry Forward Balances		0.607	0.607
Net Position	0.000	0.000	0.000

- 3.25 **Appendix E** summarises the **Collection Fund Outturn**. The 2018/19 Council Tax outturn shows that the position, including the brought forward balance, gave a surplus of £4.9m. This was a surplus of £4.9m compared with the balanced position forecast when setting the 2019/20 budget. The Council's share of this outturn surplus was £4.3m (which was £4.3m more than that assumed when setting the 2019/20 budget).

- 3.26 The 2018/19 Business Rates outturn surplus was £7.5m compared with the £12.8m forecast when setting the 2019/20 budget. The variation from the forecast position was mainly due to an increase in Business Rates Reliefs awarded compared to those that were anticipated when setting the budget. The Council's share of this outturn surplus was £7.4m (which was £5.2m less than that assumed when setting the budget), with the Fire Authority's share being £0.1m.
- 3.27 The change in the net outturn position for Council Tax and Business Rates compared to the forecast will not impact on the General Fund until 2020/21 and will be taken into account as part of the 2020/21 budget setting process.

4 Options considered and Recommended Proposal

- 4.1 Corporate Directors, in striving to manage their budgets, have evaluated all the options available to them to maintain balance between service delivery and a balanced budget.

5 Consultation

5.1 Internal

5.1.1 Cabinet Members, Corporate Directors, the City Solicitor, Human Resources and Assistant Directors of Finance have been consulted in the preparation of this report.

5.2 External

5.2.1 There are no requirements for external consultation on this report.

6 Risk Management

- 6.1 The monitoring of the Council's budget and the identification of actions to address issues arising, as set out in this report, are part of the Council's arrangements for the management of financial issues.

7 Compliance Issues:

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

7.1.1 The budget is integrated with the Council Financial Plan, and resource allocation is directed towards policy priorities.

7.1.2 The Financial Outturn gives a summary of the City Council's financial activity during 2018/19 and the financial position at 31 March 2019. The budget against which the outturn position is compared was initially set out in the Council Plan and Budget 2018+ to the Council and has been revised throughout the year.

7.1.3 Total City Council revenue spend was budgeted at around £3 billion. This includes the General Fund, HRA, delegated Schools budgets, etc.

7.1.4 The General Fund net controllable budget was £855.2m (excluding benefit payments, HRA. Delegated schools budgets) with a savings requirement of £52.9m for 2018/19 (including savings achieved on a one-off basis in 2017/18). This outturn report builds on the budget monitoring reports to Cabinet throughout the year.

7.2 Legal Implications

7.2.1 Section 151 of the 1972 Local Government Act requires the Chief Finance Officer (as the responsible officer) to ensure the proper administration of the City Council's financial affairs. Budget control, which includes the regular monitoring of and reporting on budgets, is an essential requirement placed on Directorates and members of the Corporate Management Team by the City Council in discharging the statutory responsibility. This report meets the City Council's requirements on budgetary control for the specified area of the City Council's Directorate activities.

7.3 Financial Implications

7.3.1 The Corporate Revenue and Capital Budget Monitoring documents attached give details of monitoring of service delivery within available resources.

7.4 Procurement Implications (if required)

7.4.1 N/A

7.5 Human Resources Implications (if required)

7.5.1 N/A

7.6 Public Sector Equality Duty

7.6.1 There are no additional Equality Duty or Equality Analysis issues beyond any already assessed in the year to date. Any specific assessments needed shall be made by Directorates in the management of their services.

8 Background Documents

8.1 City Council Plan and Budget 2018+ approved at Council 27th February 2018