

Birmingham City Council

Report to Cabinet

23RD JUNE 2020



Subject: FINANCIAL OUTTURN 2019/20
Report of: Chief Finance Officer – Rebecca Hellard
Relevant Cabinet Member: Councillor Tristan Chatfield – Finance & Resources
Relevant O & S Chair(s): Councillor Sir Albert Bore - Resources
Report author: Chief Finance Officer – Rebecca Hellard

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: 007453/2020		
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 forms part of the City Council's robust arrangements for controlling its revenue and capital expenditure.
- 1.2 The report presents the City Council financial position for 2019/20, 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.
- 1.3 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.

- 1.4 The Treasury Management Annual Report is appended to this report as Appendix C.
- 1.5 The Housing Revenue Account outturn is appended to this report as Appendix D.
- 1.6 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 2019/20, as detailed in the report and appendices (the finalisation of the figures is subject to External Audit)
- 2.2 Approves the use of Grant and Earmarked Reserves and Balances set out in paragraph 3.13 and 3.14.
- 2.3 Approves the reallocation between Grant Reserves and General Balances set out in paragraphs 3.15.
- 2.4 Approves the reallocation between General Balances and Corporate Earmarked Reserves set out in paragraphs 3.16 and 3.17.
- 2.5 Approves the resource allocation with Specific Policy Contingency as set out in paragraph 3.18.
- 2.6 Approves the resource allocations within General Policy Contingency as set out in paragraphs 3.19.1 to 3.19.3.
- 2.7 Approve the proposal in paragraph 3.20 that the Section 151 Officer be given delegated authority for the verification and allocation of Specific Policy contingency to fund expenditure in 2020/2021 which is in line with the Council's approval of the Council Financial Plan 2020-2024.
- 2.8 Approve the financing of capital expenditure for 2019/20 as set out in Appendix B.
- 2.9 Note the outturn position on the Collection Fund as set out in Appendix E.

3 Background

- 3.1 At the meeting on 26th February 2019, the Council agreed a net revenue budget for 2019/20 of £851.6m to be met by government grants, council tax and business rates payers.
- 3.2 The appendices of this report provide information about the 2019/20 outturn position of the Council, which will subsequently be incorporated into the Council's audited 2019/20 Statement of Accounts, which are statutorily due for publication by 30 November. Audit Committee will consider for approval the statement of

accounts at its meeting on 24 November, subject to the external audit having been completed.

- 3.3 **Appendix A** is the **Revenue Outturn**. The overall position shows an underspend of £11.5m and is summarised in Table 1. Subject to approval this underspend will be used to increase the balance of the Financial Resilience Reserve.

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
				Grant	Other	Total	
	£m	£m	£m	£m	£m	£m	£m
Adult Social Care Directorate	331.396	317.603	(13.794)	1.067	0.000	1.067	(12.727)
Digital & Customer Services	31.388	28.665	(2.723)	0.000	2.741	2.741	0.018
Education & Skills	274.563	272.545	(2.017)	1.848	0.823	2.671	0.654
Finance & Governance Directorate	25.619	20.511	(5.108)	0.000	4.072	4.072	(1.036)
Human Resources	7.369	5.784	(1.585)	0.000	0.501	0.501	(1.084)
Inclusive Growth	98.287	110.045	11.758	(11.102)	(0.291)	(11.393)	0.365
Neighbourhoods	108.476	125.508	17.032	1.999	0.240	2.240	19.272
Partnerships, Insight and Prevention	6.788	4.502	(2.286)	2.055	0.000	2.055	(0.231)
Directorate Subtotal	883.884	885.162	1.278	(4.133)	8.087	3.953	5.231
Corporate Subtotal	(32.294)	(57.144)	(24.850)	0.391	7.733	8.125	(16.725)
City Council General Fund	851.590	828.018	(23.572)	(3.742)	15.820	12.078	(11.494)

- 3.4 The base budget variations in each Directorate are detailed in Section 2 and Annexes 1-8 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 3 and the position is summarised in tabular form in Annex 3.

Highlights include:

- **An overall £11.5m underspend, which will increase the Financial Resilience Reserve.**
- **An £17.9m underspend on the base budget principally from significant underspends in Adult Social Care (£12.7m) and Corporate budgets (£16.7m), partly offset by a significant overspend in Neighbourhoods (£19.3m).**
- **£41.4m savings were delivered in 2019/20. £17.9m were not delivered, partly offset by £10.4m of one-off mitigations. This is set out in Appendix A Section 3 paragraphs 3.1 to 3.2.**

- 3.6 There has been an overall improvement of £10.0m on the forecast underspend of £1.5m reported to Cabinet at Month 9.

Estimated impact of Covid-19 Emergency in 2019/20

- 3.7 Whilst the main impact of the Covid-19 emergency will be seen in the 2020/21 financial year there has been a more limited impact in the final weeks of 2019/20. The reported outturn position takes account of the £0.9m of expenditure and an estimated £0.5m of lost income. Increases to specific bad debt provisions totalling £8.3m have been made for council tax and business rate income in the Collection Fund, £0.5m for housing rents in the Housing Revenue Account as well as £1.9m for housing benefit overpayments. To reflect the risk to the remaining income streams in the General Fund, a further corporate bad debt provision of £3.2m has been established, in addition to the normal bad debt provisions.
- 3.8 The Council received £38.7m in March 2020 as the first tranche of un-ringfenced government grant to support councils with Covid-19 financial expenditure. This funding will be held in a reserve and be applied against the significant Covid-19 financial pressures in 2020/21. The Covid-19 financial impact in 2019/20 has therefore been met from the years' underspend. A second tranche of £31.6m was received in May 2020. This takes the current total of un-ringfenced government funding to be applied in 2020/21 to £70.3m. Note that based on current forecasts of financial pressures and risks this funding is insufficient, resulting in a significant shortfall forecast for 2020/21.
- 3.9 In context of the Covid-19 emergency it is prudent to increase the Financial Resilience Reserve with the £11.5m underspend in the 2019/20 outturn.

Schools

- 3.10 The Dedicated Schools Grant (DSG) is reporting a balanced position at outturn after a net recommended appropriation to reserves of £1.4m. More details are provided in Annex 1.
- 3.11 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.
- 3.12 At 2019/20 out-turn the accumulated deficit on DSG is £8.4m which equates to 0.7% 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 £14.0m at 2019/20 out-turn) and it has been agreed at January 2020 Schools Forum that this deficit will be repaid by the High Needs Block over the next 3 years at £5m a year starting in 2020/21.

Reserves

- 3.13 The original budget provided for the use of £5.9m of General Reserves to fund the additional costs arising from a retrospective change in the Council Minimum Revenue Provision Policy (MRP) approved by the Council in February 2018. Taking into account the proposed movement of the £11.5m underspend into the Financial Resilience Reserve, there is a net contribution to General Reserves of £5.6m in 2019/20.
- 3.14 In addition, there are both planned uses of Other Reserves and contributions to Other Reserves. A £21.1m net use of Other Reserves was approved as part of setting the budget. At Month 9, Cabinet approved a net contribution of £66.2m. This was a £87.3m approved net increase in contributions to Other Reserves. This largely related to transfers in to the Underpayments and Disputed Sum Reserve related to the Highways PFI Contract. At Outturn, there are £43.3m further net contributions to Other Reserves proposed, largely related to Government funding for the costs of Covid-19 received at the end of the financial year. Further details of all uses of and contributions to reserves are set out in Appendix A Section 4 and Appendix A Annex 11.
- 3.15 It is proposed to transfer £2.6m from the Financial Resilience Reserve to create a Leasing Reserve to cover technical accounting adjustments as set out in Appendix A Section 4 paragraph 4.7.
- 3.16 It is proposed to transfer £0.5m from the Financial Resilience Reserve back to the Policy Contingency Reserve in order to meet costs related to Birmingham Museum and Art Gallery as set out in Appendix A Section 4 paragraph 4.8.

Policy Contingency

- 3.17 It is proposed to utilise £7.0m of Specific Policy Contingency to fund Birmingham Childrens Trust Contract Variation, as set out in Appendix A Annex 10 paragraph 2.2
- 3.18 It is proposed to utilise General Policy Contingency to fund the following:
- 3.19.1 £0.1m of fund an Independent Review to look at the future service options for the Waste Management Service, as set out in Appendix A Annex 10 paragraph 2.1.
 - 3.19.2 £0.4m of General Policy Contingency to fund response by Environmental Health to a public safety emergency called by West Midland Fire Service, as set out in Appendix A Annex 10 paragraph 2.1.
 - 3.19.3 £0.2m of General Policy Contingency to fund a Birmingham Community Investment Tax Relief (CITR) scheme to be run in partnership with Aston Reinvestment Fund (ART), as set out in Appendix A Annex 10 paragraph 2.1
- 3.19 It is recommended that the S151 Officer be given delegated authority for the verification and allocation of Specific Policy Contingency to fund expenditure in

2020/21 which is in line with the approval given as part of the Council Financial Plan 2020-2024 as described in Appendix A Annex 10 paragraph 2.4.

- 3.20 **Appendix B** is the **Capital Outturn**. For 2019/20, the outturn was £432.234m against the Quarter 3 revised budget of £636.159m.
- 3.21 The Council meeting of the 26th February 2019 agreed a 2019/20 capital budget of £631.505m. Over the course of the financial year the capital programme has been revised to take account of new projects and programmes as approved by Cabinet.
- 3.22 The appendices of this report provide information about the Capital Outturn position for 2019/20 and the reasons for the variations between the Quarter 3 approved budget of £636.159m and the outturn of £432.324m. A summary is shown below.

	£m Previous Quarter 3	£m Qtr 4 Movements	£m Annual Total
2019/20 Original Budget	631.505		631.505
Change in budget	4.654	0.000	4.654
2019/20 Revised Budget	636.159	0.000	636.159
Less: Cumulative Slippage	(134.687)	(80.389)	(215.076)
Less: Forecast/actual (under) / overspends	1.029	10.212	11.241
Equals: Outturn	502.501	(70.176)	432.234

- 3.23 **Appendix C** is the **Treasury management Annual Report**. The Council's total loan debt net of investments was £2,998.3m at the year end (£3,213.3m at 31 March 2019) compared with £3,532.7m expected in the Council Budget 2019+. This reflects slippage in capital expenditure and other cash flows resulting in lower than planned borrowing.
- 3.24 City Council treasury investments held at 31st March 2020 were £246.6m. The Council also held investments of £104.4m as accountable body.
- 3.25 Loan interest repayment charges and associated costs totalled £265.8m gross. The outturn on the Treasury Management budget was £112.3m after recharges to other services; this was £2.6m above the budget of £109.7m. This was due largely to the capital programme slippage being offset by lower than budgeted borrowing cost recharges.
- 3.26 The Council did not breach any of its prudential limits set under the Local Government Act 2003 and the CIPFA Prudential Code for Capital Finance.
- 3.27 **Appendix D** summarises the **Housing Revenue Account Outturn**. This shows a year end surplus of £3.0m before transfers to carry forward balances, which is

summarised below and explained in Appendix D. The surplus has been transferred to accumulated balances.

	Current Budget	Outturn	Outturn Over/ (Under)
	£m	£m	£m
Total Income	(274.075)	(275.136)	(1.061)
Repairs	61.697	58.889	(2.808)
General Management	72.984	68.195	(4.789)
Estate Services	18.296	18.358	0.062
Revenue Funding of Capital	51.249	58.531	7.282
Capital Financing	69.849	68.045	(1.804)
Total Expenditure	274.075	272.018	(2.057)
Total (Surplus) / Deficit	0.000	(3.118)	(3.118)
Appropriation to Carry Forward Balances	0.000	3.118	3.118
Net Position	0.000	0.000	0.000

3.28 **Appendix E** summarises the **Collection Fund Outturn**. The 2019/20 Council Tax outturn shows that the position, including the brought forward balance, gave a surplus of £3.9m. This compares to a surplus of £7.0m forecast when setting the 2020/21 budget. The variation from the forecast position was largely due to increases in Bad Debt provision related to Covid-19 and increases in reliefs. The Council's share of this outturn surplus was £3.4m (which was £2.7m less than that assumed when setting the 2020/21 budget). This is reflected in Appendix E paragraph 2.3.

3.29 The 2019/20 Business Rates outturn deficit was £17.0m compared with the £15.5m forecast when setting the 2020/21 budget. The variation from the forecast position was largely due to increases in bad debt provision related to Covid-19 and increases in reliefs, offset by reduction in the anticipated appeals losses or contributions to the appeals provision compared to that assumed when setting the 2020/21 budget. The Council's share of this outturn deficit was £16.8m (which was £1.4m more than that assumed when setting the budget), with the Fire Authority's share being £0.2m. This is reflected in Appendix E paragraph 3.4.

3.30 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 2021/22 and will be taken into account as part of the 2021/22 budget setting process.

4 Options considered and Recommended Proposal

4.1 Directors, in striving to manage their budgets, have evaluated all the options available to them to deliver services within the budget set.

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 additional issues.

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 2019/20 and the financial position at 31 March 2020. The budget against which the outturn position is compared was initially set out in the City Council Financial Plan 2019-2023 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 £851.6m (excluding benefit payments, HRA. Delegated schools budgets) with a savings requirement of £58.3m for 2019/20 (including savings achieved on a one-off basis in 2018/19). 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 Financial Plan 2019-2023 approved at Council 26th February 2019

8.2 Financial Monitoring 2019/20 Quarter 1 approved by Cabinet 30th July 2019

8.3 Financial Monitoring 2019/20 Quarter 2 approved by Cabinet 29th October 2019
Financial Monitoring 2019/20 Quarter 3 approved by Cabinet 11th February 2020

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