

**Audit Committee – 23 September 2014**

**EXECUTIVE SUMMARY**

**Report title:** Quarter 1 Finance Report

**Wards affected:** All

**Strategic Director:** Max Wide

**Report Author:** Peter Gillett (Service Director – Finance)

**RECOMMENDATION:**

1. To note the contents of the Report.
2. To note the changes to the Capital Programme detailed at paragraph 17.

**Key background / detail:**

1. To provide an update on the Council's revenue and capital budgets, based on the first quarter of the 2014/15 financial year. Given the early stage in the financial year, the report essentially highlights potential risks and spending pressures, rather than making formal projections - in order to ensure timely actions are underway to deliver a balanced position at year end.

**b. Key details:**

2. Key messages from the Quarter 1 Budget Monitoring:
  - a. Whilst potential pressures of £3m have been identified as risks to the net revenue budget, it is anticipated that by the year end, management actions will have contained spending within approved budgets during the course of the year.
  - b. The main budget pressures identified are largely related to increased service demand (Adult social care Placements). A review of eligible expenditure charged to ring fenced budgets (Dedicated Schools Grant and Housing Revenue Account) is also underway. These pressures are already partly compensated by savings on capital financing budgets.
  - c. The savings proposals agreed by Council in February 2014 totalled £26.2m and are on track to be delivered.
  - d. Capital spending in year is forecast to be £280.3m for the year. This includes amendments to the Capital Programme of £10.7m (the significant items being grant approvals of £7m for Green Deal and £4m for Transport Grants).
  - e. Treasury Management activity for the year to date is within the approved Treasury Management Strategy limits.

**BRISTOL CITY COUNCIL  
CABINET  
2<sup>nd</sup> September 2014**

**REPORT TITLE:** Quarter 1 Finance Report

**Ward(s) affected by this report:** All

**Strategic Director:** Max Wide

**Report Author:** Peter Gillett (Service Director - Finance)

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**Purpose of the report:**

To provide an update on the Council's revenue and capital budgets, based on the first quarter of the 2014/15 financial year. Given the early stage in the financial year, the report does not make formal projections, but highlights potential risks and spending pressures, in order to take timely actions to deliver a balanced position at year end.

**RECOMMENDATION for Mayor approval:**

1. That Cabinet notes the contents of the Report.
2. To approve the changes to the Capital Programme detailed at paragraph 17.

**Background**

The Report provides an update on the Council's revenue and capital budgets based on the first quarter of 2014/15 and confirmation that Treasury Management activities have been carried out in accordance with the approved strategy.

As this is an early point in the financial year, the report focuses on potential risks and spending pressures identified in the first quarter, to ensure timely actions are taken to deliver the expected balanced position for the year.

Financial Services continue to support budget managers to monitor their budgets, with a focus on those budgets assessed to be high risk and/or subject to volatility due to factors such as changes in demand or activity. This has identified the areas where costs have risen quicker than forecast and potential risk areas. The Finance Teams continue to work with Budget Managers to rationalise and improve the financial management reporting arrangements to ensure that budgets are in the right place and align with management responsibility and accountability.

## A - Revenue

- The following table provides a summary of the potential risks or pressures identified in each Directorate, based on the first quarter of the year. It is not unusual for the first quarter monitoring to identify areas of budget pressure and risks which will subsequently be managed within year. Strategic Directors have indicated their commitment to implement actions to deliver services within approved budgets.
- The following forecasts are based on actual expenditure to the end of June 2014 and Budget Managers' estimates of future spending for the rest of the financial year.

Directorate	Budget £m	Pressures (or underspends) identified
People	215.205	5.681
Place	18.943	(0.350)
Neighbourhoods	59.466	0.134
Business Change	58.510	0.127
City Director	8.448	0.280
<b>SUB TOTAL – SPENDING ON SERVICES</b>	<b>360.572</b>	<b>5.872</b>
Other Budgets *	16.037	(2.800)
<b>NET PRESSURES IDENTIFIED AT THE END OF Q1</b>	<b>376.609</b>	<b>3.072</b>

\*Other Budgets includes one off change programme funding, capital financing, un-apportioned central overheads and contingencies.

- The table below provides a summary of the spending pressures identified across the council.

Directorate	Pressures/ Risks identified (£m)	Notes
People	1.900	Adult Purchasing – growth in demographic demand and complexity of packages of care.
	0.750	Adult Social Care Home Care – growth in demand of 900 hours home care per week which equates to an additional £0.750m expenditure per annum
	0.445	Non-Looked After Children (LAC) Children and Family Support – there has been an increase in the number of placements through special guardianship and residence orders in the first quarter from 320 in April to 384 in June.
	2.000	A potential budget pressure arising from the statutory funding changes related to the Dedicated Schools Grant, which is currently being reviewed by managers.
	0.286	Shortfall in employee budgets due to Directorates historic use of turnover factor to balance the budget

		(£0.450m) and other minor variances
	0.300	Asylum Seekers - increased demand
City Director	0.280	Advertising income targets included in the current MTFP, and reported within Communications and Marketing, have been identified as unachievable in this financial year.
Business Change	0.127	Business Change is currently forecasting a small projected overspend. This is mainly as a result on increase security costs at Customer Service Points. A review of budgets in this area is planned and it is expected that savings elsewhere will be identified to mitigate this pressure and will be reflected in future reports as appropriate.
Neighbourhoods	0.134	There is currently a small overspend forecast against Environment & Leisure relating to the ability to meet income targets within that area. Actions are being prepared to mitigate this pressure and will be reflected in future reports, as appropriate.
	<b>6.222</b>	
Offset by:		
Place	(0.350)	Additional forecast parking Income, in particular relating to Bus Lane Enforcement and on & Off Street Parking. Use of these monies is clearly regulated for transportation/parking purposes.
Other Budgets	(2.800)	Capital financing decisions and active treasury management activity indicate in year savings of circa £2.8m
<b>Net risks/potential pressures identified</b>	<b>3.072</b>	

4. Directorates produce action plans to ensure the identified risks are mitigated, which will be reflected in future monitoring reports.
5. In addition to the above pressures, a number of risks and financial pressures have been identified, which at this stage are difficult to quantify. These include:
  - a. As a result of a recent Supreme Court Ruling and a change to the statutory requirements on local authorities there has been an increase in assessments of deprivation of liberty (DoLS) estimated at £1m
  - b. Increased provision of Bed and Breakfast, a continuation of the trend identified in 2013/14, with a forecast overspend of £0.224m
6. Where directorates have identified risks and pressures within budgets, these will be taken into account when framing the revisions to and updating of the medium term financial strategy. Finance will work with Service Directors to ensure that sustainable savings options are identified to offset these pressures

## **Public Health**

7. In 2014/15 the Council will receive £29.122m Public Health Grant. This is a ring fenced grant and must be spent to support the funding of these services and the delivery of Public Health outcomes. The delivery of these outcomes, alongside spend, is reported annually to the Department of Health.

## **Housing Revenue Account**

8. The Housing Revenue Account (HRA) is a separately maintained ring-fenced account. As the HRA is a ring-fenced account, any surplus or deficit at the end of the financial year is retained within the HRA. No significant variances are reported at this stage.

## **B - Managing Savings**

9. The savings included in the MTFs and agreed at Full Council on 18<sup>th</sup> February 2014 totalled £26m in 2014/15, increasing by £36m in each of the subsequent financial years. These savings have been built into the budgets reported above. The plans to deliver these savings are being monitored through the financial year to ensure their delivery.
10. Overall, the savings proposals have either been delivered or are on target to be delivered by the end of the year. It is currently forecast that the Change Programme will deliver net savings sooner than originally planned. Any surplus in 2014/15 will be carried forward to minimise risk in future years.

## **C - Reserves**

11. The balance on the general reserve will be reviewed annually in setting the budget and in the context of the MTFs and the risks to which the Council is exposed. The balance on the General Reserve is £20m with no planned utilisation in 2014/15.
12. At the start of the financial year the Council had general fund earmarked reserves of £67.7m. Some of these reserves will be spent during the year, others are set aside for specific purposes to be incurred in future periods.
13. Where reserves are identified as no longer required for the purpose that they were earmarked, they will be transferred to the General Reserve.

## **D - Capital Programme**

14. Monitoring indicates that capital spending in 2014/15 will be £280.293m for the year.
15. The table overleaf sets out a summary of the proposed capital programme changes and forecast spending by Directorate.

<b>Capital Programme</b>						
	<b>Original Budget 2014/15 £m</b>	<b>Reprofiled from 2013/14 £m</b>	<b>Proposed Changes £m</b>	<b>Revised Budget 2014/15 £m</b>	<b>Forecast £m</b>	<b>Forecast Variance £m</b>
People	85.390	6.094	6.551	98.035	83.035	(15.000)
Place	68.290	15.099	3.199	86.588	86.588	0
Neighbourhoods	3.330	4.437	(1.481)	6.286	6.286	0
Business Change	16.210	4.554	(5.000)	15.764	15.764	0
City Director	17.690	6.466	7.414	31.570	31.570	0
HRA	57.050	0	0	57.050	57.050	0
<b>Totals</b>	<b>247.960</b>	<b>36.650</b>	<b>10.683</b>	<b>295.293</b>	<b>280.293</b>	<b>(15.000)</b>

16. The Capital Programme Board (CPB) has been established to oversee and improve the coordination of the Capital Programme, ensuring that projects are delivered within their allocation of funding and planned timescales. Responsible Officers are challenged on the projected variances by the CPB.

17. The following adjustments to budget have been considered by the Capital Programme Board and are recommended to Cabinet for approval.

<b>People</b>	<b>£'m</b>
Children and Young People	
- Government grant for Universal Free School Meals	0.708
- Early Years capital	1.117
- Use of Building Schools for the Future reserve	2.640
Health and Social Care	
- Connecting Care IT project agreed by CPB June 2014	0.171
Housing Solutions	
- Increased enabling budget agreed by CBP May 2014	0.499
- Additional Disabled Facilities Grant	0.035
- Contribution from HRA to Private Housing and Adaptations	1.040
- Enabling activities re-profiled to 14/15 in March	0.305
- Contributions from service users	0.036
<b>Sub-total People</b>	<b>6.551</b>
<b>Place</b>	
- Additional transport grants	4,036
- Re-profile of Cycle Ambition budget to 2015/16	(1,077)
- Other	240
<b>Sub-total Place</b>	<b>3,199</b>
<b>Neighbourhoods</b>	
- Review of spending plans requested by CPB arising from previously reported slippage of £4.4m	(1,481)
<b>Sub-total Neighbourhoods</b>	<b>(1,481)</b>
<b>Business Change</b>	
- Bristol Work Place spend profile has been reviewed. CPB has agreed a request to re-profile £5m from 2014/15 into 2016/17	(5.000)

Sub-total Business Change	<b>(5.000)</b>
<b>City Director</b>	
- Green Deal Government Grant	7.000
- Additional allocation re Gigabit Bristol	0.076
- Rapid Charge Points – approved after original budget set	0.338
Sub-total City Director	<b>7.414</b>
<b>TOTAL</b>	<b>10.683</b>

18. Expenditure on the Schools' Organisation Strategy is forecast to be re-profiled into future periods;

## **F - Treasury Management**

19. No borrowing has been undertaken during the first quarter of 2014/15. Net debt (borrowing less investments) fell from £218m to £171m during the period. This is consistent with the Councils cash flow projections where grant income is traditionally received at the beginning of the financial year ahead of spend being incurred.

20. The Council has complied with all treasury management legislative and regulatory requirements during the period and all transactions were in accordance with the approved Treasury Management Strategy.

### **Risk Assessment**

21. As outlined in the Revenue Budget report, presented to Cabinet in February 2014, the most substantial risks within the 2014/15 budget have been assessed and will be closely monitored throughout the year. These were identified as:

- the scale of overall reductions to all directorate budgets (£26m identified and included in the approved budget)
- the impact of current economic conditions on income budgets (e.g. local land charges and commercial property estate) and expenditure budgets (e.g. benefits and homelessness)
- housing benefit changes
- Care placements & budgets, both in terms of activity as a result of demographic pressures and also unit costs
- inflationary pressure on contract and energy costs
- corporate budget pressures
- changes to business rate income

### **Consultation and scrutiny input:**

#### **a. Internal consultation:**

Strategic Directors, Service Directors and the finance team.

#### **b. External consultation:**

Not applicable

### **Other options considered:**

No other options are considered prudent at the present time.

**Public sector equality duties:**

There are no proposals in this report which require either a statement as to the relevance of public sector equality duties or an Equalities Impact Assessment.

**Environmental checklist / eco impact assessment**

Not applicable.

**Resource and legal implications:**

***Finance***

**a. Financial (revenue) implications – Service Director - Finance:**

As set out in the Report. The report has identified potential risks to achieving the budget, acknowledging that it is however early in the financial year. Budget risks are currently being managed and closely monitored. Finance staff resources have been targeted to ensure that support for budget monitoring is concentrated on areas of particularly high risk. The planned actions to contain spending within budget and to manage and monitor expenditure and income are important to prevent the need to draw on reserves. The level of reserves is limited and a one off resource that cannot be used as a long term sustainable strategy for financial stability. Budget monitoring and management, of which this report forms part of the control environment, is a mitigating process to ensure early identification of pressures and action plans.

**b. Financial (capital) implications:**

Set out within the report.

**c. Legal implications:**

Not applicable for this report

**d. Land / property implications:**

Not required for this report

**e. Human resources implications:**

Not applicable for this report