

Report title: Quarter 3 Finance Report

Wards affected: All

Strategic Director: Max Wide

Report Author: Peter Gillett (Service Director – Finance)

RECOMMENDATION for the Mayor's approval:

1. That the Mayor and Cabinet notes the contents of the Report and identifies any issues or areas that they would like Scrutiny to give particular attention to.
2. To approve the changes to the Capital Programme detailed at paragraph 20.

Key background / detail:

1. To provide a progress report on the Council's overall financial performance against revenue and capital budgets for the 2014/15 financial year that were approved by Council on the 18th February 2014. The report focuses on significant variances to meeting the budget in 2014/15 in order to take timely actions to deliver a balanced position at year end.

Key details:

2. Key messages from the Quarter 3 Budget Monitoring:
 - a) Whilst pressures of £1.673m are currently forecast, this is an improvement of £2.7m since the last quarter's report. It is anticipated that management actions will continue to improve the forecast position during the last quarter of the financial year.
 - b) The significant areas of budget pressure remain in the People Directorate and are largely related to increased demand (Adult Social Care Placements) or in the ability to transfer costs to ring fenced budgets (Dedicated Schools Grant and Housing Revenue Account). However, through the management actions taken during the last quarter, the overall position has improved by £1.3m. These pressures are partly offset by savings on capital financing budgets.
 - c) The net savings proposals agreed by Council in February 2014 totalled £26.2m and have either been delivered or are on track to be delivered by the end of the year.
 - d) Capital spending in year is forecast to be £190.8m compared with an original budget of £248.0m as spending has substantially been re-profiled to later years.
 - e) Treasury Management activity is within the approved Treasury Management Strategy
 - f) Income collection performance is now on target with an improvement identified during quarter three.

**BRISTOL CITY COUNCIL
CABINET
3 March 2015**

REPORT TITLE: Quarter 3 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 a progress report on the Council's overall financial performance, including against the approved revenue and capital budgets for the 2014/15 financial year that were approved by Council on the 18th February 2014.

RECOMMENDATION for Mayor approval:

1. That Cabinet notes the contents of the Report and identifies any issues or areas that they would like Scrutiny to give particular attention to.
2. To approve the changes to the Capital Programme detailed at paragraphs 20.

Background

1. The Report provides information and analysis on the Council's financial performance and use of resources to the end of the third quarter of 2014/15. Council set its budget for 2014/15 on 18th February 2014. The report focuses on forecast variances to meeting the budget in 2014/15 in order to take timely actions to deliver a balanced position at year end.
2. Finance continues 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 Expenditure

3. The Council's overall annual revenue spend is managed across a number of areas:
 - a. The general fund providing revenue funding for the majority of the Council's services;
 - b. The Housing Revenue Account, which is reported separately to the general fund, and is managed within Neighbourhoods;
 - c. Dedicated Schools Grant (DSG), which is ring-fenced for schools funding, overseen by the Schools' Forum, and managed within the People Directorate;
 - d. Public Health, a ring-fenced grant, which must be spent to support the delivery of the Public Health Outcomes Framework, and is managed with Neighbourhoods.
4. Each area represents a significant element of the Council's overall revenue expenditure. Further details of the current spend position against budget is provided in the remainder of this section.

General Fund

5. The following table provides a summary of how each directorate is performing against the general fund revenue budget for the 2014/15 financial year. Actions are in progress to manage and mitigate the identified budget pressures and risks. Strategic Directors have indicated their commitment to deliver services within approved budgets. However, it is becoming increasingly difficult to respond and manage in year pressures as they materialise, as year on year budget reductions continue.
6. The following forecasts are based on actual expenditure to the end of December 2014 and Budget Managers estimates of future spending for the rest of the financial year. The overall reported position for the Council's spend against its general fund services has improved by £2.7m. The current forecast overspend represents 0.4% of the

Table 1

General Fund Revenue Budgets Directorate	QTR3 Revised Net Budget £m	QTR3 Variance (Under)/ Over Spend £m	QTR2 Variance (Under)/ Over Spend £m
People – Direct Service Provision	216.086	3.475	4.715
Place	26.164	(1.544)	(0.302)
Neighbourhoods	56.930	0.702	0.301
Business Change	65.662	(0.110)	0.479
City Director	3.731	0.033	0.000
SUB TOTAL – SPENDING ON SERVICES	368.573	2.556	5.193
People – Non Service / grants	(2.297)	1.417	1.510
Other Budgets *	10.360	(2.300)	(2.300)
TOTAL	376.636	1.673	4.403

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

7. The table below provides a summary of the budget variances identified in paragraph 2 for the general fund:

Table 2

Directorate	Variance (£m)	Notes
People – Direct Service Provision	2.450	<p>Adult Social Care Adult Purchasing Residential and Nursing Care – growth in demographic demand as more older people meet statutory eligibility criteria and complexity of packages of care. At the end of quarter 3, we were supporting, on average 980 adults in residential care compared to a budgeted average of 895. There are spending pressures in Nursing Care as a result of higher than budgeted placements costs, which are on average 5% higher than budgeted. This equates to additional budget pressures of £2.641m</p> <p>Home Care & Direct Payments – an increase of 1,195 hours home care per week which equates to an additional £0.932m expenditure per annum and additional pressures across direct payments as a result higher than budgeted package costs. The pressures in direct care spend are being offset against savings in other areas, for example staffing budgets.</p>
	1.363	<p>Children & Family Support Children’s Service and Looked After Children (LAC) – there has been an increase in the number of special guardianship & residency orders from 320 in April 2013 to 399 in December.</p>
	(0.338)	<p>There is now a small projected underspend across other services in the directorate (Education & Housing Solutions), which are helping to mitigate the pressures across social care</p>
People – Non Service / Grants	1.417	<p>A potential budget pressure arising from the statutory & technical funding changes governing the use of Dedicated Schools Grant for non-school related services, which is currently being reviewed to mitigate the impact. This also includes the latest forecast of the potential cost of the Supreme Court Ruling and the change to the statutory requirements on local authority assessments of deprivation of liberty (DoLS).</p>
Neighbourhoods	0.702	<p>There is currently a forecast pressure in Environment & Leisure and Neighbourhoods which primarily relates to meeting income targets within these areas. A review of the budget in these areas is currently underway.</p>
City Director	0.033	<p>There is a small projected overspend within Bristol Futures, which is under review.</p>
Total pressures	5.627	

Offset by:		
Business Change	(0.110)	Business Change is forecasting a small underspend by the end of the financial year. There are forecast pressures across ICT, due to the increased use of ICT across the organisation, which continues to be carefully monitored. However, this is offset by forecast underspends, particularly within HR services. Since the last QTR, the directorate has taken mitigating actions to manage previously forecast pressures against income budgets in Legal Services and Policy, Strategy and Communications.
Place	(1.544)	Place is currently forecasting an underspend at the end of the year. This is mainly due to: <ul style="list-style-type: none"> • An improved forecast in relation to Concessionary Fares • Unbudgeted rental income at 100 Temple St • A forecast underspend against the now centralised stationery budgets • Income Surplus's in Development Management & Engineering Design • Parking Services Income Surplus
Other Budgets	(2.300)	Capital financing decisions and active treasury management activity indicate in year savings of circa £2.3m .
Overall position	1.673	

8. The major areas of identified pressures within the general fund are within the People Directorate. However, management actions taken in the last quarter has led to an improvement in the overall position of £1.3m. The main areas for planning and mitigation:

- a) Adult Social Care has implemented a significant transformation programme which successfully resulted in savings and a reduction in its net budget of £20m between 2011/12 to 2013/14. The Strategic Director (People) and Service Director (Finance) have initiated a major review of social care budgets, including benchmarking with core cities and regional authorities to both manage spend pressures whilst also planning for the meeting the statutory eligibility requirements of the Care Act and growing ageing population in the city. This is the area of highest spend in all local authorities and there are national concerns about the pressure on reducing overall local authority budgets to meet growing demand and eligibility. This will inform future financial planning for the Council.
- b) Within Children's Care and Support Services, the redesign of the social work function and investment in early help are targeted at reducing the number of looked after children in the medium to long term, but the directorate is reviewing spend to stay within budget in 2014/15 whilst in transition, and manage the increased demand of rising child population.

Officers have and are taking action and developing interventions that aim to reduce these pressures overall by the year end, and the impact of these is reflected in the forecasts reported in table 1. Other mitigating actions to control expenditure include:

- Reviewing out of area funded nursing care packages;
- Reviewing of care packages following the installation of home adaptation;
- Review of high cost care packages and additional approval requirements for the highest cost care packages

9. 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

Housing Revenue Account (HRA)

10. The following is a summary of the HRA budget position as at the end of Quarter 3.

Table 3

Housing Revenue Account	Gross Exp £m	Gross Income £m	Revised Net Budget £m	Current Forecast Outturn £m	Current Variance £m
Strategy, Planning & Governance	89.965	(130.919)	(40.954)	(57.244)	(16.290)
Responsive Repairs	45.007	(17.986)	27.021	28.222	1.201
Planned Programmes	17.358	(1.000)	16.358	15.676	(0.682)
Estate Management	9.055	(2.732)	6.323	6.294	(0.029)
Other	0.182	0.000	0.182	0.182	0.000
TOTALS	161.567	(152.637)	8.930	(6.870)	(15.800)

11. There is currently a significant forecast underspend within the HRA of £15.8m. This is higher than the forecast underspend of £13.987m reported at the end of Quarter 2. This is the result of the following budget variances:

- The removal of a planned revenue contribution to capital costs of £14.5m in this financial year as work and therefore spend on the HRA Capital Programme for 2014/15 has been delayed to 2015/16, including the new Housing Management System and the cladding programme.
- Forecast underspend of £1m in the Landlord Business Development Unit due to underspends against salary budgets;
- Forecast underspend of £0.775m in Strategy, Planning & Governance due to underspends against staffing budgets
- A forecast underspend of £0.680m against gas servicing due to lower than budgeted costs
- In addition, there are forecast pressures against the responsive and planned repairs programmes of £1.2m.

12. The increase in the underspend between quarter 2 and 3 is as a result in the forecast underspends now being reported against the Landlord Business Development Unit and Planned Programmes.
13. Any under or overspend at the year-end will increase or decrease the HRA Reserve and therefore this does not impact on the General Fund.

Dedicated Schools' Grant (DSG)

14. In 2014/15, the Council received £183.162m Dedicated Schools' Grant, which is ring-fenced and passported through to fund schools. Schools that have transferred to academy status receive their funding directly from the Department of Education.
15. An underspend against the DSG of £2.670m has been identified in quarter 3 and reported to the School's Forum, which relates to early years and high needs provision.
16. In addition, there are balances carried forward from previous years relating to the DSG and plans, agreed by the Schools' Forum, are in place to spend these balances, including:
 - a. £5m on one of PFI projects;
 - b. £3.4m for the capital costs of providing additional places for 2 year olds
 - c. £3m on early intervention actions

Public Health

17. In 2014/15 the Council received £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. The division is now forecasting breakeven on the basis that £938k will be carried forward in reserves (in addition to £1,232k from prior year) for expenditure in the next Financial Year.
18. The underlying underspend trend in Public Health will be required to contribute toward funding additional services that meet the Public Health Outcomes Framework, as part of the Council's approved three year financial plan.

B - Managing Savings

19. The savings included in the MTFs and agreed at Full Council on 18th 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.

Table 4

Directorate	TOTAL £'m	GREEN £'m	AMBER £'m	RED £'m
People	6.700	3.708	2.992	-
Neighbourhoods	5.625	4.852	0.773	-
Place	1.887	1.418	0.469	-
Business Change	2.209	2.209	-	-
Held corporately	3.500	0.400	3.100	-
Change Programme (net)	6.328	6.328	-	-
Totals	26.249	18.915	7.334	0.000

Key

Green – Action plan in place and savings have been delivered or delivery assured

Amber – Action plan in place and delivery of saving against plan being monitored

Red – cashable savings not being delivered – mitigating actions to be identified to achieve balanced outturn

20. The table indicates that 100% of 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 not required to offset overspending elsewhere will be carried forward to minimise risk in future years.

C - Reserves

21. 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. This represents 1.6% of the Council's gross budget (5% of the net budget) and has been set with reference to an assessment of the risks to which the Council is exposed.

22. 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.

23. 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

24. Monitoring indicates that capital spending in 2014/15 will be £190.8m compared to the latest revised budget of £192.0m.

25. The following table sets out a summary of the proposed capital programme changes and forecast spending by Directorate.

Table 5

	Original Budget £m	Approved Changes £'m	Proposed Changes £m	Revised Budget 2014/15 £m	Forecast £m
People	85.390	13.331	-7.511	64.548	64.148
Place	68.790	-2.213	-3.869	62.708	62.209
Neighbourhoods	3.330	2.329	-1.711	3.948	3.948
Business Change	16.210	-0.746	0.251	15.715	15.464
City Director	17.190	-5.040	-	12.150	12.150
HRA	57.050	-23.300	-0.829	32.921	32.921
Totals	247.960	-42.301	-13.669	191.990	190.840

26. 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 will be challenged on the projected variances by the CPB.

27. The actual capital spend to the end of quarter three is £99m (£104m to 23rd January 2015) and historic trends indicate that capital spending increases towards the end of the financial year.

28. The following variations to the Capital Programme were considered by the Capital Programme Board and are recommended to Cabinet for approval:

Table 6

People	£'m
Schools' Programme	
- Re-profile spend on additional pupil places to future years due to <ul style="list-style-type: none"> o Extend project for operational purposes o Scheme changes o Delays in acquiring sites and changes to schemes as a result of changing circumstances of individual schools included in the programme 	(7.511)
Sub-total People	(7.511)
Place	
- Re-profile spend on schemes to future years as set out below – <ul style="list-style-type: none"> - Energy – Primarily the re-profile of provision of Green Deal grants - Transport – re-scoping of works, extended consultation periods and delays caused by planning and site acquisitions. - 	
Sub-total Place	(3.869)
Neighbourhoods	
- The investment in Parks has been disrupted due to the inclement weather the region has suffered over recent months. Spend has been re-profiled to future years.	
Sub-total Neighbourhoods	(1.711)

Business Change	
- Bristol Workplace Programme spend re-profile	0.251
Sub-total Business Change	0.251
HRA	
- Re-profile spend on schemes to future years, primarily new build and enabling works.	
Sub-total HRA	(0.829)
TOTAL	(13.669)

29. The following adjustments to budget were considered by the Capital Programme Board and are recommended to Cabinet for approval.

E – Managing Income

30. Collection performance for Local Taxation now remains broadly on target following an improvement in council tax collection at the end of the current period. With regards to sundry debt collection, the promptness of raising invoices appears to have improved significantly with collection rates being maintained.

F - Treasury Management

31. No borrowing has been undertaken during 2014/15. Net debt (borrowing less investment) rose from £178m to £222m during the period primarily due to certain grant funding being received in advance and expensed during the year.

32. 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. A more comprehensive mid-year treasury management report is included elsewhere on the Agenda.

Risk Assessment

33. 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 Council is currently forecasting an overspend. Failure to take action to contain spending within budget and to manage and monitor expenditure and income could result in a requirement 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.

Budget risks and pressures have been identified, as outlined above, and 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.

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