

## **CABINET – 1 September 2015**

### **EXECUTIVE SUMMARY OF AGENDA ITEM 8**

**Report title:** Quarter 1 Finance Report

**Wards affected:** All

**Strategic Director:** Max Wide

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

#### **RECOMMENDATION for the Mayor's 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 paragraph 25.

#### **Key background / detail:**

1. To provide a progress report on the Council's overall financial performance against revenue and capital budgets for the 2015/16 financial year that were approved by Council on the 17th February 2015. The report focuses on significant variances to meeting the budget in 2015/16 in order to take timely actions to deliver a balanced position at year end.

#### **b. Key details:**

2. Key messages from the Quarter 1 Budget Monitoring:
  - a) Whilst pressures of £2.048m are currently forecast. It is anticipated that management actions will be taken throughout the year to contain them within the overall approved budget.
  - b) There continues to be significant budget pressures within the People Directorate due to increased demand in both adults and children's services and statutory changes due to implementation of the Care Act. However, officers will be working throughout the year to ensure actions continue to mitigate and manage the cost pressures.
  - c) The net savings proposals for the year, agreed by Council in February 2015 totalled £31m and are on track to be delivered in most areas and are being closely monitored.
  - d) Capital spending in year is forecast to be £238.2m compared with an original budget of £208.8m and revised budget of £282.5m. The budget changes arise from spending re-profiled from 2014/15 to 2015/16 and recent additions and updates to the capital programme.
  - e) Treasury Management activity for April to June has been carried out in accordance with the approved Treasury Management Strategy
  - f) Income collection performance is on target.

**BRISTOL CITY COUNCIL  
CABINET  
1<sup>st</sup> September 2015**

**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 a progress report on the Council's overall financial performance, including against the approved revenue and capital budgets for the 2015/16 financial year that were approved by Council on the 17<sup>th</sup> February 2015.

**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 paragraph 25.

**Background**

1. The Report provides information and analysis on the Council's financial performance and use of resources to the end of the first quarter of 2015/16. Council set its budget for 2015/16 on 17<sup>th</sup> February 2015. The report focuses on forecast variances to meeting the budget in 2015/16 in order to take timely actions to deliver a balanced position at year end.
2. The Financial Services team 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 will 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 (HRA), which is reported separately to the general fund, and is managed within Neighbourhoods;
  - c. The 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 within 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 2015/16 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 to 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 June 2015 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 is £362.2m. The current forecast overspend represents 0.57% of the General Fund net revenue budget

**Table 1**

<b>General Fund Revenue Budgets Directorate</b>	<b>QTR1 Revised Net Budget £m</b>	<b>QTR1 Forecast Spend £m</b>	<b>QTR1 Variance (Under)/ Over Spend £m</b>
People – Direct Service Provision	207.351	213.451	6.100
Place	29.586	29.705	0.119
Neighbourhoods	46.897	47.312	0.415
Business Change	21.739	21.933	0.194
City Director	4.069	4.089	0.020
<b>SUB TOTAL – SPENDING ON SERVICES</b>	<b>309.642</b>	<b>316.490</b>	<b>6.848</b>
Other Budgets *	50.511	45.711	(4.800)
<b>TOTAL</b>	<b>360.153</b>	<b>362.201</b>	<b>2.048</b>

\*Other Budgets includes capital financing & borrowing costs, 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 Directorate	4.039	<p><b>Adult Social Care</b>            Adult Purchasing Residential and Nursing Care: – this is due to growth in demographic demand as more older people meet increased eligibility criteria due to statutory legislation on Local Authorities as a result of the Care Act implementation from 1<sup>st</sup> April, 2015.</p> <p>There are also spending pressures in Nursing Care as a result of higher than budgeted placements costs, which are on average 11% higher than budgeted.</p> <p>Furthermore, high costs of higher and complex cases that have long term conditions and the lack of alternatives in the care home market are driving up the costs and prices by providers.</p> <p>Home Care and Direct Payments: – this has an increase of 48 older people from 690 to 738 which equates to an additional £1.179m forecast expenditure per annum and additional pressures across direct payments as a result higher than budgeted package costs.</p> <p>(0.339) The pressures in direct care spend are being offset against savings in other areas of the Directorate.</p> <p>1.400 <b>Children and Family Support</b>            Children’s Service and Looked After Children (LAC): – there has been an increase in the number of in-house looked after children from 452 in April to 464 in June 2015 resulting in projected overspend of £311k. Also increase in special guardianship and residency orders from 419 in April to 441 in June with a projected overspend of £1.29m</p> <p>1.000 <b>Housing Solutions &amp; Crime Reduction</b>            There continues to be growing demand for families needing temporary accommodation (B&amp;B). Since the end of the 2014/15 financial year and the end of quarter 1, the number of families supported has increased by 40 from 140 to 180.</p>
Neighbourhoods	0.415	There is currently a small forecast pressure in Neighbourhoods, which primarily relates to an income target in the Environment and Leisure projects team.
Place	0.119	Place is currently forecasting a small overspend at the end of the year, there are no substantial issues to report at this stage.

City Director	0.020	There is a small projected overspend within the management budgets, which is under review.
Business Change	0.194	Spending pressures have been identified within: <ul style="list-style-type: none"> <li>• ICT in relation to hardware, software and maintenance costs</li> <li>• Legal services in relation to elections and procurement</li> </ul> These are being offset in part by underspends within finance and citizen services
<b>Total pressures</b>	<b>6.848</b>	
<b>Offset by:</b>		
Other Budgets	<b>(4.800)</b>	Capital financing decisions and other Corporate budgets
<b>Overall Position</b>	<b>2.048</b>	

The major areas of identified pressures within the general fund are within the People Directorate. The main areas for planning and mitigation are

- a) Adult Social Care have implemented a significant review of vulnerable adults in receipt of home care. Officers are working actively to review all areas of spend with a view of mitigating the current budget gap. The Strategic Director (People) and Service Director (Finance) are continuing the 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.
- b) The impact of the remodelling of Children Social work is expected to reduce the upward trend of spend within the children in care (CiC) and care after. 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 2015/16 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 above. 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
- Children in care and care after re-modelling,

## Housing Revenue Account (HRA)

8. The following is a summary of the HRA budget position as at the end of Quarter 1.

**Table 3**

<b>Housing Revenue Account</b>	<b>Gross Exp £m</b>	<b>Gross Income £m</b>	<b>Revised Net Budget £m</b>	<b>Current Forecast Outturn £m</b>	<b>Current Variance £m</b>
Strategy, Planning & Governance	32.808	(124.386)	(91.578)	(92.022)	(0.444)
Responsive Repairs	27.022		27.022	29.769	2.747
Planned Programmes	16.973		16.973	16.875	(0.098)
Estate Management	7.424	(0.882)	6.542	6.164	(0.378)
Corporate Funding	44.717		44.717	44.717	0.000
<b>TOTALS</b>	<b>128.944</b>	<b>(125.268)</b>	<b>3.675</b>	<b>5.503</b>	<b>1.828</b>

9. There is currently a forecast overspend within the HRA of £1.828m. This is the result of the following budget variances:

- There is a £2.7m forecast overspend against demand led services, including repairs
- Additional pressures of £100k in gas servicing

These pressures are offset against savings in the following areas:

- £700k savings against salary budgets due to delays in filling posts
- Savings of £250k in relation to the procurement process for painting contracts
- Savings of £200k against materials costs

10. 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, however the service will continue to mitigate and manage these pressures.

## Dedicated Schools' Grant (DSG)

11. In 2015/16, the Council has received £180.602m 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.

12. 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 off PFI projects;

- b. £3.4m for the capital costs of providing additional places for 2 year olds
- c. £3m on early intervention actions
- d. £7.2m for early years capital provision

## Public Health

13. In 2015/16 the Council has 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 currently forecasting a breakeven position. In addition, £3.360m has been brought forward in reserves to be spent in year.
14. It should also be noted that following the election in May, central government has announced its intention to reduce Public Health funding to local authorities in this financial year. The amount of this reduction is as yet unknown.

## B - Managing Savings

15. The savings included in the MTFS and agreed at Full Council on 17<sup>th</sup> February 2015 totalled £31m in 2015/16, increasing by £35.3m in 2016/17. 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. The following table summarises the current assessment of delivery by the relevant managers.

**Table 4**

Directorate	TOTAL £'m	GREEN £'m	AMBER £'m	RED £'m
People	5.978	3.251	2.027	0.700
Neighbourhoods	2.868	2.168	0.700	0.000
Place	3.565	0.665	2.900	0.000
Business Change	0.949	0.949	0.000	0.000
Held corporately	0.500	0.000	0.500	0.000
Change Programme	17.145	3.435	13.710	0.000
<b>Totals</b>	<b>31.005</b>	<b>10.468</b>	<b>19.837</b>	<b>0.700</b>

### 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

16. The table indicates that 97.7% of the savings proposals have either been delivered or are on target to be delivered by the end of the year.

17. However, it should be noted that the delivery of this scale of savings is increasingly challenging. Progress is monitored on a monthly basis and delivery of the savings is assumed within the forecast spend information reported. In the event that savings are not delivered, the Council would forecast an overspend unless other mitigating savings could be found. To mitigate this risk, a corporate exercise is underway to review current budgets for expenditure and income to identify areas of potential further efficiencies. This is particularly relevant to ensure that the next tranche of savings for 2016/17 are delivered.

## C - Reserves

18. 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 2015/16. This represents 2.1% of the Council's gross budget (5.5% of the net budget) and has been set with reference to an assessment of the risks to which the Council is exposed.

19. At the start of the financial year the Council had general fund earmarked reserves of £86.347m. Some of these reserves will be spent during this financial year, others are set aside for specific purposes to be incurred in future periods.

20. 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

21. Monitoring indicates that capital spending in 2015/16 will be £238.2m compared to the latest revised budget of £282.5m.

22. 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 2015/16 £m	Forecast £m
People	33.3	29.3	3.3	65.9	48.7
Place	102.9	16.4	12.3	131.6	112.4
Neighbourhoods	0.5	1.4	1.7	3.6	3.6
Business Change	18.5	-0.5	3.6	21.6	21.3
City Director	-	-	6.2	6.2	3.0
HRA	53.6	-	-	53.6	49.2
<b>Totals</b>	<b>208.8</b>	<b>46.6</b>	<b>27.1</b>	<b>282.5</b>	<b>238.2</b>

23. The Capital Board (CB) oversees 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.

24. The actual capital spend to the end of quarter one is £29.4m. Whilst historic trends



indicate that capital spending increases towards the end of the financial year, the level of forecast spend to date (30<sup>th</sup> June 2015) year suggest a degree of optimism in the forecasts. However, there is no risk of loss of non-earmarked resources.

25. The following variations to the Capital Programme were considered by the Capital Board and are recommended to Cabinet for approval. Note the re-profile of spend from 2014/15 to 2015/16 has been reported in further detail within the 2014/15 outturn report presented to Cabinet on 4 August 2015.

**Table 6**

<b>People</b>	<b>£'m</b>
- Re-profile spend from 2014/15 to 2015/16 for the Schools Programme, Adult Social Care & Strategic Housing	2.2
- Aids & Adaptations – The provision of a disabled facilities grant (DFG) is a mandatory grant that assists older and disabled people gain better access to and within their homes, thus ensuring their ability to live independently. Bristol has a statutory duty as set out in the Housing Construction and Regeneration Act 1996 to provide this grant and is allocated a Central Government allocation. This was budget at £1m, but the actual allocation was £1.338m. In addition the demand for this type of grant has increased and a further £700k (approved by the Capital Board) is required to meet this change in demand. The grant provides for disabled people to: <ul style="list-style-type: none"> <li>• Being able to wash , eat, sleep and move safely around their homes, independently or with reduced care</li> <li>• Supporting carers to enable them and the disabled person to continue to remain independent</li> <li>• Reducing delays in hospital discharge</li> <li>• Preventing falls and unexpected hospital admissions</li> <li>• Reducing cost of care packages or delaying admission to Care/residential homes</li> </ul> <p>The additional £700k will be funded by Prudential Borrowing with the debt financing costs contained centrally.</p>	1.1
<b>Sub-total People</b>	<b>3.3</b>
<b>Place</b>	
- Re-profile spend from 2014/15 to 2015/16 primarily for Transport and Energy Schemes.	9.6
- Transport. The budgeted grant allocation from the department of Transport to enhance the highways infrastructure of the authority was £4.6m, the actual allocation £6.7m. This will also be supplemented by a revenue contribution from parking services (£138k).	2.3
- Clean Vehicle Technology Fund. To improve air quality the authority has been awarded £378k from the department of Transport to fit technology to buses to reduce emissions.	0.4
<b>Sub-total Place</b>	<b>12.3</b>

<b>Neighbourhoods</b>	
- Re-profile spend from 2014/15 to 2015/16 primarily for investment in Parks (£800k) that was disrupted due to the inclement weather the region suffered during the autumn and winter months.	1.7
<b>Sub-total Neighbourhoods</b>	<b>1.7</b>
<b>Business Change</b>	
- Bristol Workplace Programme spend re-profile from 2014/15 to 2015/16	3.6
<b>Sub-total Business Change</b>	<b>3.6</b>
<b>City Director</b>	
- Super Connected Cities (Gigabit Bristol) spend re-profile from 2014/15 to 2015/16	6.2
<b>Sub-total City Director</b>	<b>6.2</b>
<b>TOTAL</b>	<b>27.1</b>

26. The following variations to the Capital Programme were approved by their respective Divisional Leadership Teams and endorsed by the Capital Board. These are presented for noting.

<b>Project</b>	<b>Amount £000</b>	<b>Reason</b>
Superconnected Cities	(66)	Reduction in grant funding
Lockleaze Adventure Playground	50	S106 provision of improvements to Lockleaze Adventure Playground

## **E – Managing Income**

27. Collection performance for Local Taxation is broadly on target following an improvement in NNDR collection at the end of the current period. With regards to sundry debt collection, collection rates for short term debt continue to be maintained at levels consistent with the last quarters of the previous financial year. An initiative is underway to review and resolve issues around longer term debt.

## **F - Treasury Management**

28. No borrowing has been undertaken during 2015/16. Net debt (borrowing less investment) decreased from £222m to £177m during the period primarily due to certain grant funding being received in advance and expensed later in the year.

29. 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 comprehensive 2014/15 treasury

management outturn report will be presented to Cabinet on 4 August 2015 with a 2015/16 mid-year treasury management report scheduled for November 2015.

## **Risk Assessment**

30. As outlined in the Revenue Budget report, presented to Cabinet in February 2015, the most substantial risks within the 2015/16 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 (£31m identified and included in the approved budget)
- 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
- Welfare reforms
- corporate budget pressures

## **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 based on spending from April to June and service projections for the remainder of the year. 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