

CABINET – 24 November 2015

EXECUTIVE SUMMARY OF AGENDA ITEM 13

Report title: Quarter 2 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, table 6. To endorse the changes summarised at paragraph 26 (table 7) and 27 (table 8).

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 2 Budget Monitoring:
 - a) Whilst pressures of £2.8m are currently forecast, it is anticipated that management actions will be taken throughout the remainder of 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 £231.0m compared with an original budget of £208.8m and revised budget of £263.9m. The budget changes arise from spending re-profiled and recent additions and updates to the capital programme as set out in this report, and the report approved on the 1st September 2015.
 - e) Treasury Management activity for April to September has been carried out in accordance with the approved Treasury Management Strategy.
 - f) Income collection performance is on target.

**BRISTOL CITY COUNCIL
CABINET
24th November 2015**

REPORT TITLE: Quarter 2 Finance Report

Ward(s) affected by this report: All

Strategic Director: Max Wide

Report Author: Peter Gillett (Service Director - Finance)

Contact telephone no. & e-mail address: 0117-922 2007
Peter.Gillett@bristol.gov.uk

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 17th 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 second quarter of 2015/16. Council set its budget for 2015/16 on 17th 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.

3. Budget contingencies agreed within the MTFS in February 2015 to cover spending pressures during 2015/16 have now been transferred to the relevant directorate service areas.

A - Revenue Expenditure

4. 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.
5. 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

6. 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.
7. The following forecasts are based on actual expenditure to the end of September 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 £2.8m. The current forecast overspend represents 0.81% of the General Fund net revenue budget

Table 1

General Fund Revenue Budgets Directorate	QTR2 Revised Net Budget	QTR2 Forecast Spend	QTR2 Variance (Under)/ Over Spend	QTR1 Variance (Under)/ Over Spend
	£m	£m	£m	£m
People	214.6	220.9	6.3	6.1
Place	27.7	28.2	0.5	0.1
Neighbourhoods	46.0	46.9	0.8	0.4
Business Change	35.1	35.1	0.0	0.2
City Director	4.1	4.1	0.0	0.0
SUB TOTAL – SPENDING ON SERVICES	327.5	335.2	7.6	6.8
Other Budgets *	32.6	27.8	(4.8)	(4.8)
TOTAL	360.1	363.0	2.8	2.0

*Other Budgets includes capital financing & borrowing costs, un-apportioned central overheads and contingencies.

8. 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	4.2	<p>Care & Support – Adults 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 April 2015 has led to significant budget pressures across Care & Support – Adults.</p> <p>In addition to the above, high costs of high need and complex cases that have long term conditions and the lack of alternatives in the care home market are driving up the costs of placements.</p> <p>Direct Payments: – this has an increase of 48 older people from 690 to 782 which equates to an additional £1.908m forecast expenditure per annum and additional pressures across direct payments as a result higher than budgeted package costs.</p> <p>A Supreme Court ruling on Deprivation of Liberty legislation in April 2014 has meant the number of applications has increased from 143 in 13/14 to 1,353 in 14/15, a trend continuing in 15/16. All granted applications require annual review significantly increasing pressure.</p>
	2.4	<p>Care & Support – Children’s Children in Care - there has been an increase in the number of out of authority placements from average of 26 during 2014/15 to currently 34 resulting in budget pressure of £1.51m. Also an increase in special guardianship and residency orders from 419 in April to 458 in September with a projected pressure of £1.45m</p> <p>There has been an increase in costs relating to asylum seekers due to an increase in asylum seekers presenting in the city.</p>
	(0.3)	<p>Housing Solutions & Crime Reduction There continues to be growing demand for families needing temporary accommodation (B&B). Since the end of the 2014/15 financial year and the end of quarter 2, the number of families supported has increased by 60 from 140 to 200</p> <p>The pressures in direct care spend are being partially offset against savings in other areas of the Directorate.</p>

Neighbourhoods	0.8	Neighbourhoods has a £800k revenue pressure as at Q2 which is made up of income and staffing variances across service lines. The majority has plans developed to mitigate this with the balance currently being investigated, all of which will continue to be closely monitored
Place	0.5	<p>Within the Economy division, Culture Services is reporting an estimated £294k overspend relating to incremental costs for operations during the advertised opening hours at all sites. In additional, Filwood Green Business Park is also forecasting a deficit of £274k in year. The business delivery models are currently under review.</p> <p>There is currently an estimated shortfall in Property division against 15/16 MTFS saving targets. However this is partly offset by underspends in Transport division particularly relating to parking income and Signals & Lighting spend.</p>
Total pressures	7.6	
Offset by:		
Other Budgets	(4.8)	Capital financing decisions and other Corporate budgets
Overall Position	2.8	

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

- a) Care & Support – Adults 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. The number of Children in Care has maintained at around 700 despite an increasing local population. Within Care and Support – Children’s, 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 mitigate the impact of 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.

Housing Revenue Account (HRA)

9. The following is a summary of the HRA budget position as at the end of Quarter 2.

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	18.932	(123.908)	(104.908)	(105.525)	(0.549)
Responsive Repairs	27.064		27.064	29.827	2.763
Planned Programmes	16.973		16.973	17.000	0.027
Estate Management	8.385	(1.037)	7.348	6.946	(0.402)
Corporate Funding	57.778	(0.512)	57.266	57.266	0.000
TOTALS	129.132	(125.457)	3.675	5.503	1.839

10. There is currently a forecast overspend within the HRA of £1.839m. This is the result of the following budget variances:

- There is a £2.8m forecast overspend against demand led services, including repairs

These pressures are offset against savings in the following areas:

- £870k savings against salary budgets due to delays in filling posts
- Savings of £210k against materials costs

11. 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)

12. 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.

13. Within the DSG there are specific amounts relating to Early Year's Education, Schools and High Needs. The High Needs element supports children who have special educational needs or disabilities. There is a forecast overspend of £0.8m on High Needs element of the grant. This will be mitigated in year by one-off use of prior year underspends carried forward.

14. 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

15. In 2015/16 the Council has received £29.122m Public Health Grant, with an additional 0-5 years allocation of £3.8m being transferred in October 2015. 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.
16. 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 by £200m nationally. The consultation on the way in which this reduction should be allocated has now concluded and it has been agreed that it will be on a flat percentage basic. This will result in an in-year reduction for the Council of £2.037m. This will be managed within existing resources in 2015/16.

B - Managing Savings

17. The savings included in the MTFS and agreed at Full Council on 17th 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	3.525	1.220	1.233
Neighbourhoods	2.868	2.868	0.000	0.000
Place	3.565	0.646	2.919	0.000
Business Change	0.949	0.949	0.000	0.000
Held corporately	0.500	0.500	0.000	0.000
Change Programme	17.145	4.145	13.000	0.000
Totals	31.005	12.633	17.139	1.233

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

18. The table indicates that 96% of the savings proposals have either been delivered or are on target to be delivered by the end of the year.
19. 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

20. 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.
21. 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.
22. 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

23. Monitoring indicates that capital spending in 2015/16 will be £231.0m compared to the latest revised budget of £263.9m.
24. The following table sets out a summary of the proposed capital programme changes and forecast spending by Directorate.

Table 5

	Approved Budget £m	Approved Changes £m	Proposed Changes £m	Revised Budget 2015/16 £m	Forecast £m
People	65.9	0.1	(19.9)	46.1	46.8
Place	131.6	6.8	(1.8)	136.6	107.5
Neighbourhoods	3.6	0.2	-	3.8	1.8
Business Change	21.6	2.0	-	23.6	23.3
City Director	6.2	0.2	(0.9)	5.5	3.6
HRA	53.6	-	(5.3)	48.3	48.0
Totals	282.5	9.3	(27.9)	263.9	231.0

25. 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.
26. The actual capital spend to the end of quarter two is £75.4m. Whilst historic trends indicate that capital spending increases towards the end of the financial year, the level of forecast spend to date (30th September 2015) year suggest a degree of optimism in the forecasts. However, there is no risk of loss of non-earmarked resources.
27. The following variations to the Capital Programme were considered by the Capital Board and are recommended to Cabinet for approval.

Table 6 – Proposed Changes to the Capital Programme recommended to Cabinet for approval

People	£'m
- Re-profile spend from 2015/16 to 2016/17 for the Schools Programme - Following a detailed review of the education capital programme, expenditure originally anticipated to occur in the 2015/16 financial year will now occur in 2016/17. This will not have any adverse impact on service delivery.	(19.3)
- Reduction of Targeted Basic Need Funding – The authority was originally allocated £29.581m Targeted Basic Need grant from the Department for Education to fund the increase of pupil places in eight specific schools/areas. However due to a necessary change in the nature of one of the projects for which the grant was given, Ashton Gate Primary, from 100% new build to include an element of refurbishment, meant that the DfE grant allocation was reduced by £602k. The shortfall in funding to the project has been addressed by applying previously unallocated basic need grant in place of the targeted basic need, so there is no risk to the Ashton Gate Primary project budget.	(0.6)
Sub-total People	(19.9)

Place	
- TQEZ RIF Infrastructure Programme – The Local Enterprise Board Partnership Investment Board have agreed the re-profiling of the £20.85m scheme, the net effect being (£3.69m) 15/16, £920k 16/17 & £2.77m 17/18.	(3.7)
- A403 Challenge Fund – As the programme of works have developed identified a revised spend profile of £1.925m 15/16, and (£1.925m) 16/17.	1.9
Sub-total Place	(1.8)
City Director	
- Super Connected Cities- The budget of £11.3m included revenue elements that have been transferred to the revenue account	(0.9)
Sub-total City Director	(0.9)
HRA	
- HRA Programme – Re-profile 2014/15 numerous spend budgets to bring HRA capital budget to latest forecast spend level. The resources supporting this spend will also be carried forward to deliver schemes in future periods.	(5.3)
Sub-total HRA	(5.3)
TOTAL	(27.9)

28. The variations set out below to the Capital Programme have been approved by Cabinet and are set out below for noting.

Table 7 – Cabinet Approved Changes

Place	
- Metrobus – CIL / S106 funding. To recognise the CIL / S106 contribution to this scheme as reported in the Cabinet report of the 13 th January 2015.	5.0
- Pinchpoints – Additional grant funding has been secured for the West of England to extend the Local Sustainable Transport Fund programme into 2015/16 to deliver sustainable transport improvements with this authority capital allocation totalling £1.214m (revenue element £1.6m) as approved by Cabinet on the 4 th November 2015	1.2
- ASEA Infrastructure Phase 1 - Design & Development Phase 1 - Design and development work for the Avonmouth Severnside Enterprise Area Infrastructure scheme as part of the Council's funding commitments under the Economic Development Fund of the West of England City Deal .Budget of £950k profiled as £305k 15/16, £645k 16/17 - Cabinet 2 nd June 2015.	0.3
Sub-total Place	6.5

Neighbourhoods	
- Libraries for the future – investment fund to modernise Bristol's libraries, as part of the libraries for the future project. Budget of £1.2m profiled as £163k 15/16, £587k 16/17 & £450k 17/18 - Full Council 17 th February 2015	0.2
Sub-total Neighbourhoods	0.2
Business Change	
- Corporate Accommodation Project – Refurbishment of all City Hall external windows and accelerated structural building works – Cabinet 4 th August 2015	2.0
Sub-total Business Change	2.0
Minor departmental variations approved / endorsed by Capital Board (para 27 Table 8)	0.6
TOTAL	9.3

E – Managing Income

29. 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 quarter. An initiative is underway to review and resolve issues around longer term debt.

F - Treasury Management

30. No borrowing has been undertaken during 2015/16. Net debt (borrowing less investment) decreased marginally from £177m to £167m during the period due to expected cashflow fluctuations including the £10m receipt from the Bristol Port Company for the sale of the freehold covering much of the land the Port occupies.

31. 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 2015/16 mid-year treasury management update report is scheduled to be presented to Cabinet on the 25th November 2015.

Risk Assessment

32. 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 September 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