Cabinet Report *Date: 15th August 2017*

Heading: 2017/18 Budget Monitoring Report - Period 3	
Ward: All	
Author: Dave Willis	**Job title: Finance Business Partner**
Officer presenting report: Denise Murray (Director of Finance)	
Level of Decision: Non-Key Decision	

1. Purpose of Report

1.1. The Council approved budgets and directorate spending limits for the 2017/18 financial year on 21 February 2017. This report sets out the Period 3 (Quarter 1 - April to June 2017) financial position, including the following:

- Projections of potential revenue and capital spending during 2017/18 against approved Directorate and ring-fenced budget allocations
- Progress on the savings efficiency options and confidence of delivery
- Reviews of risks and the mitigating actions being undertaken to ensure that we do not overspend against our 2017/18 budgets
- Movement on reserves and sufficiency of general balance
- Aged Debt analysis

2. Latest Financial Summary as at Period 3 (P3)

2.1. The latest revenue forecast outturn (as provided in Appendix A) shows a potential overspend of £8.5m (2.3%) against an approved budget of £364.7m, a decrease of £0.5m over last month. Of this £8.5m forecasted overspend, £7.4m is attributed to the People directorate, areas including; Adult Social Care (£4.4m), Children's Social Care (£1.4m) and Education and Skills (£0.8m). The people function represent 64% of the Council's net operating budget (excluding Corporate financing etc.) and demand / market prices for these services are outstripping the Council's ability to contain spend or increase income at a fast enough pace to deliver a balanced budget. This presents a significant risk to the Council's financial position.

2.2. The ring fenced accounts are outside this figure and have net nil budgets that should ideally be contained:

- Dedicated School Grant (DSG)-£6.0m deficit / overspend against £202.9m approved expenditure allocation, unchanged from last month.
- Housing Revenue Account (HRA) - £1.2m underspend against -£51.8m approved net budget, £0.1m more underspent than last month
- Public Health (PH) - £454,000 underspend against £33.7m approved expenditure allocation

2.3. Deficits / overspends that materialise on the ring-fenced accounts should ideally be contained within individual reserves; however the level of schools reserves as at 31 March 2017 would be insufficient to support the forecasted level of overspend on the DSG; further increasing the pressure on the general fund balances above the forecasted outturn above..

2.4. Capital spending in year is forecast to be £213.6m compared to the current budget of £223.7m resulting in a forecast underspend of £10.1m.

2.5. The Council is exposed to further risks and opportunities which it is seeking to manage and are not at a sufficient level of realisation for incorporation into the forecast. These amounts to a net value of £3.1m. These net risks must be viewed in the context of the total risk reserve of c£7m.

Further details are outlined in the sections below and shown in dashboard style appendices

3. General Fund Revenue Forecast

3.1 The P3 forecasted outturn shows a potential overspend of £8.5m (2.3%) and the primary pressures are:

3.2 The People directorate £7.4m ((+) £0.2m movement)

Whilst the Council has invested £17m in the people directorate to re-baseline the 2017/18 budget, significant pressures are evident relating to increased provider costs for adult care services. The cost of Adult Social Care remains the biggest risk to the Council's budget.

The Improved Better Care Fund (iBCF) for Adult Social Care in 2017-19 will be pooled into the local BCF. There will be some opportunity to draw down on these funds but this will inevitably come with additional costs. The Council is working with Health partners to ensure a joined up approach exist and that a programme of interventions can be developed which will have optimum impact on reducing demand and tackling market failures.

3.3 Property services £2.6m ((-) £0.3m movement)

Pressures are associated to maintaining the existing estate. The service is is in the process of producing a recovery plan to which the £0.3m movement captured above forms part.

3.4 Management action that is being taken to alleviate the above pressures is as follows:

These are areas of corporate focus and there are a number of pieces of work being explored to help manage spend in this area notwithstanding the implementation of corporate spend reduction mechanisms. Further information will be brought back to Cabinet as part of the period 4 monitoring report.

The successful delivery of these recovery plans will be closely monitored through the monthly performance reporting process and Supplementary Estimates will be required if mitigating savings cannot be identified. It must be noted however that with the current financial outlook this will result in savings targets being extended across the full Council should this be required**.**

4. Housing Revenue Account

4.1 The forecast HRA position is a £1.2m underspend as at P3 as a result of reduced Planned Programme spend and additional rental income. This is due to reduced average repair cost, a lengthening of the programme cycle moving from 7 years to 10 years in most cases, and a reduction in voids.

The impact of fire safety on the capital and revenue provision, and other changes under consideration will be closely monitored and reported to a future meeting.

5. Dedicated Schools Grant £.0 net nil

5.1 Whilst a balanced position is currently forecasted a number of pressures are emerging, and if not successfully managed could have an impact on the Council's general fund.

The current risks, before mitigations total £6.0m, which includes £1.6m cumulative deficit brought forward and in-year net worsening of the projected overspend is £4.4m. The main pressures are in Special Educational Needs, Alternative Learning Provision and Specialist Support, offset by some underspends, mainly in funds set aside for growing schools. An action plan to address the underlying pressures in High Needs is in development, which will include measures to reduce costs in alternative learning placements and top up allocations in particular. Schools Forum considered the overall financial position of the DSG and the emerging action plan at its meeting on 10th July 2017.

5.2 School reserves are at a seriously low level of £3.3m (excluding earmarked project funds) Resulting in a temporary suspension of the licensed deficit scheme and a request for maintained schools and nurseries not holding surpluses to submit a balanced budget.

6. Public Health £.0 net nil

6.1 £454,000 underspend– Public Health are no longer required to fund the GF Health Strategy Team.

7. Capital Spending

7.1 The original 2017/18 Capital budget was £213.5m. There has been some re-profiling of schemes from 2016/17 into this financial year which accounts for the majority of the increase in the capital programme to a revised capital allocation of £223.7m for 2017/18. Capital spending in year is forecast to be £213.6m, resulting in a forecast underspend of £10.1m attributed primarily to the HRA and People programmes. The movement in capital expenditure is shown on the Capital table.

7.2 Major areas of current pressure or risks in the capital programme have been identified as Metrobus, The Arena, and Colston Hall with mitigating actions being investigated. The funding of the capital programme and reassessment of priorities is currently under review to be reported to Council in due course and resourcing principles to be covered as part of the developing of our Medium Term Financial Plan.

7.3 The governance of Capital spend is being reviewed, and a new process will be aligned with the current Delivery Working Group and Delivery Executive approach used for revenue project management.

8. Progress against Savings / Efficiency propositions

8.1 Progress against savings and efficiency targets is now presented as part of budget monitoring information. Summary tables highlighting our progress as at P3 are outlined within the appendix to this report. This has been expanded to include a comment on the progress. In agreeing a balanced revenue budget and directing funds available to our key priorities for 2017/18, the Council committed itself to delivering savings of £33.1m. Of these £6.5m (20%) are at risk and may not be achieved in this financial year. This position is included in the forecast outturn were appropriate or outlined on the risk and opportunities where mitigations are being explored.

9. <u>Risk and Opportunities Implications</u>

9.1 A range of risks and opportunities are being managed within Directorate Leadership Teams with an average **net impact of £3.1m** should these risks materialise. A range of risks are provided for within our Risk Reserve and some of this reserve is likely to be utilised if the above come to fruition during this financial year.

Reserves

9.2 The 2017/18 opening balance on reserves of £20.0m general balance, £65.4m earmarked reserve (£20.0m and £106m 2016/17 respectively). In February Council agreed an increase of £21.4m from one-off contributions from capital receipts, collection fund and review of the Council's Minimum Revenue Contribution policy. Current projections, as at the end of June, indicate a required drawdown of some £46.5m, reducing earmarked reserves to £40.3m.

10. Debt Management

10.1 At the end of June 2017 the Council had £39.8m of aged debt; £11.1m of which is outstanding for more than a year. c.36% of the aged debt within this period is attributed to Social Care.

See Appendix A for analysis of debt between departments, and client types. 36% of debts are owed by individuals, and these are the majority of the older debts. Trade debtors make up 24%, whilst **Schools (including BCC administered) owe £7.4m which is 17% of the total. NHS £5.4m (14%) and Local Authorities £3.0m (8%) make up the majority of the remainder**. Further improvements in our debt recovery processes, including reporting and a review of the Debt Management Framework are underway to ensure that the Council adopts a consistent, firm but fair policy in line with best practice and having regard for hardship**.**

11. S151 Officer Comments

11.1 The Council faces on-going challenges both within the current financial year and in developing a balanced budget as outlined in the Medium Term Financial Plan. The Council's general balance and reserves were set at an acceptable range given the size of the budget and taking into account the annual financial risk assessment.

11.2 The P3 forecast predicts a significant overspend and new unforeseen risks. Although it is early in the year, the magnitude of the projected overspend indicates that it must be tackled urgently to avoid the Council having insufficient resources to fulfil its core responsibilities. A number of financial control measures will need to be introduced with immediate effect to ensure that the forecast outturn position reduces and returns closer to budget.

Management actions to include expenditure moratoriums applied to staffing (including agency & consultancy) and third party/ contract spend.

11.3 These measures need to be applied in areas where we are currently overspending as these budgets represent almost £226m (68 %) of our net operational budget of £330m. We will need to gauge the impact of such actions and the directorates that are currently within budget or underspending will need to hold additional activity / funds in 'abeyance' to assist in offsetting the overspends should the mitigation action not have the desired impact.

Recommendation(s)

(i) That Cabinet consider the contents of this report, specifically the projected outturn position at period 3 2017/18 of £8.5m, and work in progress to develop a package of proposed management actions to mitigate overspends (Section 3 & 11), projected delivery against planned efficiency savings (Section 8), movement in the Capital Programme of £10.1m, movement on reserves (Section 9) and the current Aged Debt Analysis (Section 10).

(ii) That Cabinet notes the seriousness of school reserves as at 31 March 2017, forecasted outturn of the Dedicated Schools Grant and an anticipation that a number of schools will be in a deficit position by end of 2017-18 (Section 5).

(iii) That Cabinet note that Strategic Directors / Service Directors will continue to review the levels of over and underspends and reallocate budgets to remain within the directorate service allocations for 2017/18 and hold funds in 'abeyance' to assist in offsetting the overspends should the mitigation action not have the desired impact. A further update will be brought back to Cabinet for its meeting of the 19th September.

City Outcome:
Finance Issues: The resource and financial implications are set out in the report

Finance Officer: *N/A*	
Legal Issues: This monitoring report is an important component in assisting the Council to comply with its legal obligation to deliver a balanced budget	
Legal Officer: Nancy Rollason	
Other Issues: *N/A*	

DLT sign-off	**SLT sign-off**	**Cabinet Member sign-off**
Nicki Beardmore 26/07/17	Anna Klonowski 02/08/17	Cllr Cheney 04/08/17

Appendices:	
Appendix A – Council Summary	**Yes**
Appendix B – People Summary	**Yes**
Appendix C – Place Summary	**Yes**
Appendix D - Neighbourhoods Summary	**Yes**
Appendix E - Resources Summary	**Yes**
Appendix F - HRA Summary	**Yes**
Appendix G – DSG Summary	**Yes**
Appendix H – Budget Monitor Summary	**Yes**