**CABINET – 6 September 2016**

**EXECUTIVE SUMMARY OF AGENDA ITEM X**

**Report title:** Quarter 1 Finance Report
**Wards affected:** All
**Strategic Director:** Anna Klonowski
**Report Author:** Annabel Scholes: Interim Service Director: Finance & S.151 Officer

**RECOMMENDATION for the Mayor's approval:**

It is recommended that the Mayor:

1. Notes the contents of the Report and in particular the seriousness of the General Fund financial position of £29.1m forecast outturn deficit;

2. And Cabinet where appropriate, work with Officers in undertaking mitigating actions to bring the General Fund position closer to balance, in particular endorsing the actions to be led by the Interim Chief Executive, Interim Service Director: Finance and Strategic Leadership Team set out at paragraph 11;

3. Approves the changes to the current advertised opening hours of Museums, as outlined in page 8 of the report, under Economy;

4. And Cabinet to note that capital slippage from 2015/16 of £46.8m has been combined with the 2016/17 Capital Programme, as detailed at paragraph 32 and Table 5.

**Key background / detail:**

1. To provide a progress report on the Council's overall financial performance against revenue and capital budgets for the 2016/17 financial year that were approved by Council on the 16th February 2016. The report focuses on significant variances to meeting the budget in 2016/17 in order to take timely actions to deliver a balanced position at year end.

**Key details**:

2. Key messages from the Quarter 1 Budget Monitoring:

The Council is in a serious financial position forecasting a General Fund revenue position of £29.1m outturn deficit before further mitigating actions or use of reserves. This must be addressed now to ensure that we end the financial year in a balanced position and avoid unnecessarily making the financial challenges in future years larger.

The situation arises from a combination of under delivered savings from 2015/16, 2016/17 and other budget pressures, which are outlined within the report.

The interim Chief Executive has put in place a number of activities which should bring the position closer to balance but, as yet it is too early to quantify the impact. This will be updated in future reports (see paragraph 11).

Future reports will include further recommendations on mitigating actions. The recommendation on museum opening hours is the first of these mitigating actions and is included in this report as proposals were already developed.

Capital spending in year is forecast to be £268.4m compared to a current budget of £294.7m. The budget changes arise from 2015/16 capital programme slippage to 2016/17. The transfer of the project delivery of the Bristol Operation Centre from the Business Change Directorate to Neighbourhoods in 2016/17 should also be noted.

**AGENDA ITEM xx**

# BRISTOL CITY COUNCIL
# CABINET
# 6th September 2016

**REPORT TITLE:** **Quarter 1 Finance Report**

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

**Strategic Director:** **Anna Klonowski**


**Report Author:** **Annabel Scholes (Interim Service Director – Finance & S.151 Officer)**

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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 2016/17 financial year that were approved by Council on the 16th February 2016.

**RECOMMENDATION for the Mayor's approval:**

It is recommended that the Mayor:

1. Notes the contents of the Report and in particular the seriousness of the General Fund financial position of £29.1m forecast outturn deficit;

2. And Cabinet where appropriate, work with the Officers in undertaking mitigating actions to bring the General Fund position closer to balance, in particular endorsing the actions to be led by the Interim Chief Executive, Interim Service Director: Finance and Strategic Leadership Team set out at paragraph 11;

3. Approves the changes to the current advertised opening hours of Museums, as outlined in page 8 of the report, under Economy;

4. And Cabinet to note that capital slippage from 2015/16 of £46.8m has been combined with the 2016/17 Capital Programme, as detailed at paragraph 32 and Table 5.

## 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 2016/17. Council set its budget for 2016/17 on 16th February 2016. The report focuses on forecast variances to meeting the budget in 2016/17 in order to take timely actions to deliver a balanced position at year end.

2. The Council is in a serious financial position forecasting a General Fund revenue position of £29.1m outturn deficit before further mitigating actions or use of reserves. This must be addressed now to ensure that we end the financial year in a balanced position and avoid unnecessarily making the financial challenges in future years larger.

3. The situation arises from a combination of under delivered savings from 2015/16, 2016/17 and other budget pressures which are outlined within the report.

4. The interim Chief Executive has put in place a number of activities which should bring the position closer to balance but, as yet it is too early to quantify the impact. This will be updated in future reports (see paragraph 11).

5. Future reports will include further recommendations on mitigating actions. The recommendation on museum opening hours is the first of these and is included in this report as proposals were already developed.

6. During quarter 1, as a result of the senior management restructure of the organisation, some service areas have moved between directorates. The main changes have been the transfer of Citizen Services from Business Change to Neighbourhoods and Procurement Services has transferred from Business Change to People. In addition, it is planned to transfer all of the Housing Service to Neighbourhoods and this and other subsequent changes, including transfer of Bristol Futures to the Business Change, will be reflected in future reports.

7. Agreed items within the MTFS in February 2016 to cover spending pressures in social care during 2016/17, totalling £9.5m, have now been transferred to the relevant directorate service areas.

## A - Revenue Expenditure

8. The Council's overall annual revenue spend is managed across a number of areas:

   a. The General Fund with a net budget of £345.4m, providing revenue funding for the majority of the Council's services:
   b. The Dedicated Schools Grant (DSG) (£176.8m in 2016/17), which is ring-fenced for schools funding, overseen by the Schools' Forum, and managed within the People Directorate;
   c. Public Health, a ring-fenced grant of £36.2m in 2016/17, must be spent to support the delivery of the,Public Health Outcomes Framework and is managed within Neighbourhoods.
   d. The Housing Revenue Account (HRA) of £152.7m gross spend in 2016/17, is reported separately to the general fund, and is managed within Neighbourhoods;

9. 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

10. Table 2 provides a summary of how each directorate is performing against the general fund revenue budget for the 2016/17 financial year. Actions are in progress and further actions are being identified to manage and mitigate the identified budget pressures and risks. The Interim Chief Executive, Strategic and Service Directors are actively identifying proposals to minimise the gap, with all budget holders ensuring the forecasting is as accurate as possible.

11. Given the scale of the forecast outturn deficit, officers have established a series of workstreams designed to reduce the deficit including, but not limited to:

    - A review of the capital programme, see section D;
    - A voluntary severance programme;
    - Technical accounting adjustments;
    - Capital disposals programme;
    - Reduction in non-essential expenditure;
    - Review of income;
    - Assurance on the validity of expenditure e.g. utility bills, VAT and procurement (including contracts);
    - Vacancy freeze;
    - Review of all agency spend;
    - Series of detailed savings and budget review meetings with the Interim Chief Executive, Interim Service Director: Finance and Strategic and Service Directors to identify further mitigations.

    Further updates will be included in future finance reports.

12. The following forecasts are based on actual expenditure to the end of June 2016 and Budget Managers' estimates of future spending for the rest of the financial year, as approved by each DLT. The net overall forecast outturn of £29.1m represents 8.4% of the General Fund net revenue budget.

13. The following table provides a summary of the general fund revenue position at directorate level. A more detailed analysis is provided at Appendix A.

**Table 1: General Fund Forecast Net Expenditure**

| **General Fund Revenue Budgets – QTR1**<br><br>**Directorate** | **Net Budget £m** | **Forecast Outturn £m** | **Forecast Outturn Variance (Under)/ Over Spend £m** |
|---|---|---|---|
| People | 222.6 | 233.6 | 11.0 |
| Place | 20.1 | 26.9 | 6.8 |
| Neighbourhoods | 54.8 | 53.3 | (1.5) |
| Business Change | 25.9 | 30.2 | 4.3 |
| City Director | 9.4 | 9.4 | 0.0 |
| Change Programme (Net Budget) | (15.6) | (1.8) | 13.8 |
| **SUB TOTAL – SPENDING ON SERVICES** | **317.2** | **351.5** | **34.3** |
| Other Budgets * | 28.2 | 23.0 | (5.2) |
| **TOTAL** | **345.4** | **374.5** | **29.1** |

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

14. The following sections provide more detail of the main variances and any mitigating actions being proposed.

### 14.1 People Directorate - £11m Overspend

| 2016/17 Budget | Gross Expenditure £m | Gross Income £m | Net Revenue Budget £m |
|---|---|---|---|
| People Directorate | 491.8 | (269.2) | 222.6 |

The major areas of identified pressures within the People Directorate are within Social Care. The reported position of £11m is after mitigating actions identified through the corporate workstreams of £2.6m, have been taken into account.

**Care & Support Adults - £3.7m:**
Growth in demand for services 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. Between April 2015 and April 2016 there was an additional 200 people in receipt of care services, from around 6,000 to almost 6,200.

In addition, 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. Expenditure across all settings of Adult Social Care is showing budget pressures.

There are pressures in home care budgets due to delays in delivery of planned savings because of the slow transfer of service users to new providers and no reduction in demand as a result of the maximising independence model of care.

There are pressures in purchasing residential and nursing placements due to delays in long term re-commissioning projects in achieving price savings through brokering placements via a dynamic purchasing system and more effective use of block contracts.

There is significant pressure in Community Support Services due to the increase in the number of service users receiving support and in the average unit cost paid to suppliers.

**Care & Support Children & Families- £2.7m:**
Budget pressures are being faced in Children in Care. Whilst the numbers of Children in Care have remained around 700 over the last five year, against a rising child population, the average unit cost has increased due to an increase in the number of out of authority placements from an average of 26 during 2014/15 to currently 39, resulting in budget pressure of £2m.

There also continues to be a significant pressure as a result of increases in special guardianship orders (SGOs) and residency orders (ROs). The number of SGOs and ROs has increased from 375 in 2014/15 to just fewer than 500 in 2016.

**Early Intervention & Targeted Support - £3.9m:**
The majority of the pressure in this area is as a result of increased costs for "Preparing for Adulthood" Placements. These are services for young people with more complex disability and Special Educational Needs which Local Authorities now have a duty to support until 25 years old.

There is also a pressure within the Home to School Travel budgets as the third year of planned savings are not yet being delivered.

**The main areas for planning and mitigation are:**
The People Directorate have increased restrictions of recruitment to vacancies to help mitigate the budget pressures, it is acknowledged this has high risks and isn't a sustainable solution. Recruitment to vacant posts will be assessed to determine the absolute necessity. In addition, the directorate will be reviewing all non-pay related expenditure with a view to managing spend down in these areas.

Care & Support – Adults have implemented a significant review of vulnerable adults in receipt of home care. The Strategic Director (People) is continuing the review of social care budgets, including benchmarking with core cities and regional authorities to manage:

- spend pressures whilst also planning for meeting the statutory eligibility requirements of the Care Act;
- growing ageing population in the City, the area of highest spend in all local authorities.

There are national concerns about the pressure on reducing overall local authority budgets to meet growing demand and eligibility.

There are recommissioning exercises for Community Support Services, Residential and Nursing Care and Out of Hours Home Care to ensure commissioned services represent best value for money.

Significant work is being undertaken to embed a model of care that ensures citizens are supported to maintain their independence as long as possible where appropriate by improving our information, advice and guidance and ensuring conversations with citizens is focussed around care that builds on the strengths and abilities of people, their families and their local communities.

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 to mitigate the impact of and manage the increased demand of rising child population.

A panel has recently been established to strengthen the existing review processes for all residential placements on a regular basis to make sure only children who need to be in care are, and to safely minimise placement cost and duration.

New incentives in fostering are being used to increase the capacity of in-house foster carers to ensure the most appropriate forms of care are used rather than being constrained by capacity.

**14.2 Place Directorate - £6.8m overpsend**

| 2016/17 Budget | Gross Expenditure £m | Gross Income £m | Net Revenue Budget £m |
|---|---|---|---|
| Place Directorate | 109.9 | (89.8) | 20.1 |

The directorate is reporting a £6.8m variance to budget which consists of a £9m pressure within Property, £0.4m in Economy and £0.4m in Energy offset by surpluses or underspends of £2.5m in Transport, £0.3m in the Place ABS team and £0.2m in Planning.

**Economy**

£0.2m of the £0.4m total overspend is due to the existing cost of operating advertised opening hours at Museums. As part of a service redesign, it is proposed that from 1st January 2017 some small changes to the current advertised Museum Opening hours be made and these are recommended to Cabinet for approval.

The hours are proposed to be as follows:

- M Shed will be open Tuesday to Sunday, as currently, and will also open every Monday from 10am-5pm during school holidays following a successful trial of this in 2016;
- Both M Shed and Bristol Museum and Art Gallery will close at 5pm rather than 6pm on Saturdays and Sunday in order to allow private groups to hire the museums in the evening. Visitor figures between 5-6pm on weekends are generally low (below 1% of our total figure), so there is little impact on the visitor offer;
- Bristol Museum and Art Gallery (which is currently open Monday to Sunday) will be closed on Monday during the school terms but open on Mondays in the school holidays, in line with the proposed opening hours of M Shed. It will still be available to private groups by appointment The Historic House's opening will remain the same:
    - Red Lodge and Georgian House open from 11am-4pm Saturday to Tuesday;
    - Blaise castle house being open from 11am-4pm Wednesday to Sunday from 1st April to 31st Dec.

The public will see a slight reduction in access to museums on a Monday, but should experience improvements in customer care when visiting all the museums. This will result in a £0.2m saving in year and a whole year saving of £0.4m which will bring the team back to base budget.

Printing costs which are held centrally are also forecasting a further pressure of £0.2m in Economy. These costs are being reviewed as one of the workstreams established to address the in year pressures.

Following the report to Cabinet in June 2016; “Support for capital development of Cultural venues, with particular focus on Colston Hall”, the most appropriate funding options are being considered and any revenue financial implications will be incorporated into future reports.

**Energy**
Within the Energy division there are budget pressures totalling £0.6m resulting from unachievable income targets in Energy Utility purchase (£0.5m) and Solar Energy (£0.1m). These are partly offset by increased income of £0.2m from the Wind turbines at Avonmouth and £0.1m lower than budgeted cost of capital financing of the turbines.

**Place Admin and Business Support (ABS) Team**
There are forecast savings against salary budgets in the Admin and Business Support (ABS) service of £0.3m.

**Property**
The structural pressure in the Property service relates mainly to a forecast £7.7m shortfall in the delivery of the MTFS savings target (relating to 2015/16 and 2016/17), which broadly to assumed savings in the following areas:

- Increased return on investment property holdings;
- Reduced running costs from the disposal of admin buildings;
- Reductions in facilities management costs.

In addition, there is a £0.6m pressure caused by costs of 100 Temple St for which there is no budget set aside.

There are £160k costs due to increased workload in Security/ staff sickness/ vacancies and an urgent review is in hand to mitigate this.

There is a £100k shortfall in income within Building Practice due to a reduced volume of projects and there will be an urgent review of workload and staffing levels before the next forecast period.

There is a £100k shortfall in income at the Create centre resulting from loss of external tenants due to reduced parking; a letting rationalisation is underway to mitigate this.

There is a £87k pressure due to unbudgeted rental payments required re: Underfall Yard.

There is a £83k shortfall in conference services income from the Passenger shed (old station building Temple Meads) due to its poor condition, but the position is expected to improve.

**Planning**
In the Planning division there is a forecast surplus of £0.2m and this is largely due to increased income from Development Management fees as well as from savings plans being implemented.

**Transport**
There is a net underspend position in the Transport division of (£2.5m) in total as a result of income surpluses and savings released in Parking Services (£0.9m) and

Sustainable transport (£0.6m). There are also forecast savings in costs of street lighting (£0.2m) and Highways (£0.4m).

**14.3 Neighbourhoods – (£1.5m) underspend**

| 2016/17 Budget | Gross Expenditure £m | Gross Income £m | Net Revenue Budget £m |
|---|---|---|---|
| Neighbourhoods | 310.9 | (256.1) | 54.8 |

The main variance in this area relates to Waste (£1.2m) within Environment & Leisure due to accrued expenditure from the previous year, which is no longer required.

Waste Collection is forecasting savings of £0.3m in third party payments, bad debt and consultants costs. There is a forecast £150k overspend on payments to Bristol Waste Company, but this is offset by additional income from sale of recyclates. Traded Services are forecasting a £0.3m underspend mainly due to additional income from cremation fees.

The forecast pressure within Citizen Services relates to an error in setting of income targets within regulatory services, including Pest Control (£0.2m) and Trading Standards (£0.1m). The Service is taking measures to address this and since the close of quarter 1 have identified £25k against these pressures, which will be included in period 4 forecasting.

The underspend in General Fund Housing Delivery services (£0.2m) is as a result of additional license scheme income.

**14.4 Business Change - £4.3m overspend**

| 2016/17 Budget | Gross Expenditure £m | Gross Income £m | Net Revenue Budget £m |
|---|---|---|---|
| Business Change | 39.2 | (13.3) | 25.9 |

The main variance within Business Change is within the ICT Service. This relates to additional hardware and maintenance costs (£2.8m), software development service increases (£1.3m) as a result of growth in additional demand for license costs. This is in part as a result of investment in new technology and digital developments.

**Historical ICT budget management**
The cost of ICT within BCC has reduced by 47% since 2013/14, equating to a £7.4m reduction (from £16.9m to £8.5m by the end of 2015/16). This was achieved by an internal project that:

- Reduced ICT headcount from 129 (at end of 2014) to 105 (by end of 2015)
- Saved £3.0m by reviewing other major ICT costs and strict management of ICT contracts. A contracts register was built, bringing the number of contracts managed within IT procurement from 12 to 319 and allowing us to renegotiate costs savings from, for example, major contracts with IBM and Vodafone2b.

**Sources of budget overspend**

However, despite the above, the overspend has grown on ICT budgets to £4.4m, at present the analysis is believed to be as follows but, the Interim Strategic Director of Business Change is planning to undertake some detailed investigatory and remedial action sessions with the team over the next few weeks to assure herself of the causes and solutions going forward:

| Name | £k | Description |
|---|---|---|
| Data Centre Relocation | 740 | Data centre was moved, at necessary increased scope, from council-run to outsourced supplier to allow release of capital asset of Romney House |
| Digital Services platform licences and support | 530 | Change Programme: Charges to provide web based digital services. E.g. Liferay, Experian, Salesforce. |
| Alfresco | 266 | As a result of the move to reduce storage of paper associated with more agile and flexible ways of working there has been a significant growth in the number of licences to support use of Electronic Document (EDRM) storage (700 to 5000) which was not budgeted for. |
| Laptop and other mobile working support and replacement costs | 250 | As part of the move to more agile ways of working there has been a need to support and replace laptops, accessories and related infrastructure. |
| Small service/support contracts | 70 | For additional systems support, e.g. Election System |
| Data Centre ongoing costs | 276 | There has been a growth in kit, usage and connectivity due to new systems and new more agile ways of working associated with the changes |
| Web platforms | 300 | Change Programme: PFIKS support contract (£75k), AWS (£125k), Arcus (£14k), plus various other smaller platforms |
| Storage Growth | 50 | Anticipated EDRM driven growth |
| Unanticipated further systems | 255 | Vision HR unanticipated contract renewal (£240k), plus unanticipated additional costs for more users and additional licences on other platforms |
| **TOTAL** | **£2,737** | |

There is also significant use of interims in ICT (52) which needs to be reviewed. This will part of the Interim Strategic Director's review agenda.

| | |
|---|---|
| Total (above) | £2.7m |
| Under delivery in previous MTFP | £1.4m |
| Miscellaneous items | £0.3m |
| Sum total: | £4.4m |

The following paragraphs provide more detail in relation to the above but needs further investigation and verification:

a) The Change Programme
   As projects in the Change Programme were scoped out it was identified that there would be an ongoing dis-benefit to the ICT budgets of a minimum of £1.5m per annum from 15/16 onwards.

b) Variations from the planned Change programme business case
   The Change Programme was agreed in October 2013 but it subsequently grew and added projects outside of its original scope, such as the new Council website. In total, 12 additional projects were added without any further contribution to ICT budgets being made.

c) Agile and mobile working
   The original BWP Business Case incorporated £5.8m for ICT expenditure; this consisted of a budget for devices, software for those devices and software to support flexible working. No year on year ICT revenue budget was identified but, it is believed that ICT were left with the challenge of rationalising existing services to address this but no plan was put in place, This will be verified as part of the Interim Strategic Director's investigations.

d) Data centre relocation project
   Two aspects have been identified as leading to the increased the costs of the data centre on an ongoing basis from that included in the original business case because of:
      i. the need to improve the resilience because of necessary protection, and service levels;
      ii. the need to include additional capacity as more of our storage is digital rather than physical.

e) Increased demand for ICT services
   a. The additional 12 new systems in 2 (above) were initiated without the additional revenue costs being recognised on an ongoing basis.

   b. In addition, the Change Programme original business cases were based on an estimated number of users, whereas, in practice this has proven to be an under-estimate in almost all cases.

f) Previous under-delivery
   The ICT Sourcing programme was expected to deliver savings totalling £7.6m between 2013/14 and 2018/19 which was incorporated into the approved MTFS and relevant year's budgets. However, this was based on estimates which have not come to fruition. There is therefore a shortfall of circa £1.3m at present.

g) Interim management costs
   As stated above there are circa 52 interim and agency staff currently engaged within the delivery of ICT services, including the projects listed above.

**Mitigation**
As previously highlighted, the Interim Strategic Director for Business Change will be undertaking a series of meetings with the ICT management team to investigate the causes overspend, opportunities for mitigation and further savings opportunities.

Stronger governance, and an understanding from ICT of the Bristol Plan strategy, are the two biggest factors that can mitigate this overspend.

The first factor, strong governance, reduces spend immediately by limiting access. The second, required direction, ensures any remaining spend is strategic.

Governance has immediately been changed. All requests for ICT services must have a fully structured business case including approval by Finance and budget transfer. ICT's own expenditure requests are analysed externally via the PMO team. That same PMO team also analyse business requests before they get to ICT, those are then subject to a second layer of ICT analysis.

Towards further mitigating this overspend, a service improvement plan has been drafted and will be tested during the meetings above. This plan, now in progress, will be implemented to move towards an effective, benchmarked ICT service.

The Service Director meets with his team daily to discuss actions, forward planning and meeting structures. In addition, all ICT management staff are attending twice weekly management team meetings.

**Other areas of cost pressure in Business Change**
Cost pressures in other areas are mainly as a result of additional agency/interim staffing costs. Business Change are proactively recruiting permanent staff with two of the vacant Service Directors Roles out to recruitment currently.

**14.5 City Director - £0.0m**

| 2016/17 Budget | Gross Expenditure £m | Gross Income £m | Net Revenue Budget £m |
|---|---|---|---|
| City Director | 15.6 | (6.2) | 9.4 |

Overall, the directorate is currently forecasting a balanced position by year end. There are additional cost pressures in year as a result of the cost of running elections, but these will be managed over a period of years through an offsetting arrangement, whereby budget is set aside in non-election years to fund election years.

**14.6 Change Programme - £13.8m Overspend**

At the beginning of the financial year, the Council had a savings target against the Change Programme of £34.7m, which comprised £15.2m undelivered savings from 2015/16 and £19.5m relating to 2016/17. For the purposes of this report, we have shown a net figure. The following table provides estimates of the forecast savings delivery split between items previously identified within the change programme and newly identified (non-change programme) savings.

**Table 2: Summary of Net Change Programme Budget Position**

| | |
|---|---|
| 2016/17 Change Programme Savings | £19.5m |
| 2015/16 Undelivered change programme savings | £15.2m |
| **TOTAL** | **£34.7m** |
| Less: | |
| Change Programme Savings Secured or in Delivery | £6.3m |
| New Savings Identified/secured to address the gap | £9.7m |
| Release of Change Programme Contingency | £6.3m |
| **TOTAL TO BE IDENTIFIED** | **£12.4m** |
| Overspend against change programme expenditure | £1.4m |
| **TOTAL CHANGE PROGRAMME** | **£13.8m** |

The Council has initiated a Council Wide programme of activities and workstreams to specifically focus on delivering the savings needed in the current financial year. This has included:

- A review of all spend against corporate budget lines resulting in reduced budgets across areas such as staff expenses, conference and training budgets, printing etc;
- A review of all vacancies to delete any vacant posts that are no longer required, resulting in budget reductions;
- All services and directorates developing and preparing savings proposals for delivery through the remainder of this financial year;
- A contingency was included in the original programme to mitigate against risks of non-delivery of savings or savings double counts. This has been released;
- A review is underway of all the Council's service directorate earmarked reserves.

As savings are validated, budgets across services and directorates are being reduced to secure these savings.

Within this budget line, there is investment required to facilitate the delivery of some of the savings. There is a current forecast overspend of £1.4m against these items. As part of the current programme of activity and to mitigate this overspend, all current planned expenditure is subject to review.

The reported pressure in this area mainly relates to savings yet to be identified.

**14.7 Other / Corporate Budgets – (£5.2m) Underspend**

The main budget in this area is the capital financing budget of £19.3m. It is currently forecast that this budget will be underspent by £4.1m as a result of re-profiling of the capital programme. This area also includes certain contingency budgets and other expenditure budgets of a corporate nature, including expenditure on levies.

The general contingency included in other budgets stands at £2.8m. This is held as a contingency to cover miscellaneous cost pressures across all service areas. To date, there has been no call on this contingency in this financial year, but it is assumed that it will be required by the end of the financial year. Other budget contingencies of £1.6m have been released to support the overall financial position.

In this quarter, the Council has identified a potential workforce pressure as a result of a court case ruling on annual leave entitlements for staff in receipt of regular overtime. The current estimated cost of this is £0.5m, and this is included in this section.

The Medium Term Financial Plan agreed items to support social care expenditure have been transferred to the People Directorate. In addition, the Council Tax levy collected in support of adult social care has been transferred to the Social Care Adults division.

**Dedicated Schools' Grant (DSG)** (Included in Directorate analysis above)

15. In 2016/17, the Council will receive £176.8m 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 – this amounts to a further £132.9m.

16. There continues to be pressures against the high needs block, which is forecast to be c£5m in the financial year, which includes brought forward pressures from 2015/16 of £1.9m. There has been significant pressure on the "Top Up" element of the high needs block during 2015/16 and into 2016/17, as a result of:

    a) there has been an increase in the level of demand of pupils requiring "Top Ups", by 9% in Primary Schools (£0.5m) and 20% in Secondary Schools (£1m);

    b) there has been a 52% increase in pupil exclusions within the secondary sector which has resulted in an increase of spend within pupil referral units of £1.0m to accommodate these pupils;

    c) the service implemented a minimum banding level within special schools to provide a more stable budget however this resulted in an increase spend of £1m.

17. The service is undertaking significant level of work in conjunction with Schools Forum in order to manage this budget:

    a) the top up rates have been reviewed and reduced across mainstream schools;

    b) an inclusion panel has been created with the aim of reducing pupil exclusions;

    c) work has started with special schools to review the top up rates paid to them.

18. The balance on the DSG will have to be managed through the DSG and should therefore have no effect on the Council's general fund budget.

**Public Health**

19. The ring-fenced Public Health service is currently forecasting an overspend of £2m. This is mainly due to a government in year cut of the grant of 7.6% in year during 15/16 and further 2% cut to the grant this year. As a reduction in the grant was anticipated, Public Health are managing this overspend to prevent impact on service delivery through the Public Health reserves built up for this purpose. The reserve currently has a balance of £4.8m and is as a result of underspends in previous years. Therefore, there is no impact on the general fund of this overspend in this financial

year. However the service is currently undertaking a thorough financial review to ensure that delivery is brought within the new budget envelope, reflecting key priorities.

**Housing Revenue Account (HRA)**

20. The following is a summary of the HRA budget position as at the end of Quarter 1. Further detail is included as part of Appendix A to the report.

**Table 3: Housing Revenue Account Budget Forecast**

| Housing Revenue Account | Gross Exp £m | Gross Income £m | Net Budget £m | Forecast Outturn £m | Forecast Outturn Variance £m |
|---|---|---|---|---|---|
| Strategy, Planning & Governance | 27.7 | (131.3) | (103.6) | (104.2) | (0.6) |
| Responsive Repairs | 49.1 | (17.4) | 31.7 | 31.9 | 0.2 |
| Planned Programmes | 18.1 | (1.3) | 16.8 | 15.8 | (1.0) |
| Estate Management | 11.6 | (2.2) | 9.4 | 9.3 | (0.1) |
| Corporate Funding | 46.2 | (0.5) | 45.7 | 45.7 | 0.0 |
| **TOTALS** | **152.7** | **(152.7)** | **0.0** | **(1.5)** | **(1.5)** |

21. There is currently a forecast underspend within the HRA of £1.5m. This is the result of the following budget variances:

- Savings released in Strategy, Planning and Governance through staff vacancies and stationery budget reviews;

- There are pressures in responsive repairs due to greater than budgeted relets (£0.5m), with these being offset by staffing savings in Admin and Business Support;
- The Investment Review Plan (in response to rental changes planned for the HRA) has changed the paint programme in planned programmes resulting in a saving against budget;

22. 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 impact of the 1% rent reduction and other proposed government changes mean that the current HRA Business Plan is not sustainable in the long term. The Business Plan is being re-calibrated to reflect what is a very financially challenging future.

## B - Managing Savings

23. To ensure that there is transparency and clarity in relation to the source of savings (from which department and service area from which the saving is to be delivered) and avoid any possible double counting etc, we will in future monitor a single savings tracker. This will be reported under each directorate heading and will be risk assessed for full delivery within the planned timescales.

24. Due to the severity of the forecast outturn variance (potential deficit of £29.1m), the Interim Chief Executive, supported by the Interim Service Director: Finance (s.151 Officer), are putting in train a number of actions as outlined in paragraph 8.

## C - Reserves

25. 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 and at present the Interim Chief Executive and Interim Service Director: Finance (s.151 officer) are taking all appropriate actions to avoid any utilisation in 2016/17. This will be kept under constant review.

26. At the start of the financial year the Council had general fund earmarked reserves of £106m. Some of these reserves will be spent during this financial year, others are set aside for specific purposes to be incurred in future periods. Included within this total, as part of the risk based reserves is a £2.4m Operational Reserve, which is earmarked to fund emerging operational pressures during the year.

27. A review of all existing earmarked reserves is being concluded and where reserves are identified as no longer required for the purpose that they were earmarked, they will be released to the Operational Reserve, which will be reported in the next report.

## D - Capital Programme

28. The capital programme changes during the year as the phasing of schemes is reviewed and the notifications of additional schemes and resourcing are received (to the extent that these projects are fully funded). Variations to the 2016/17 capital programme approved by Council on 16 February 2016 are shown in table 5. Recommendation 3 to this report relates to these.. The Capital Board (an officer working group) 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. Monitoring indicates that capital spending in 2016/17 will be £268.4m compared to the latest revised budget of £294.7m.

29. The following table sets out a summary of the proposed capital programme changes and forecast spending by Directorate. Additional detail is provided at Appendix B. It is important to note that the presentation of the capital programme will be reviewed as part of the review referred to in paragraph 27 below.

**Table 4: Capital Programme Forecast Expenditure**

| | 2016/17 Budget £m | Capital Slippage from 2015/16 £m | Combined Budget 2016/17 £m | Forecast Outturn £m | Forecast Outturn Variance £m |
|---|---|---|---|---|---|
| People | 56.9 | 1.9 | 58.8 | 41.5 | (17.3) |
| Place | 94.6 | 36.5 | 131.1 | 120.3 | (10.8) |
| Neighbourhoods | 0.6 | 7.9 | 8.5 | 8.4 | (0.1) |
| Business Change | 11.2 | 0.5 | 11.7 | 11.7 | 0.0 |
| City Director | 12.3 | - | 12.3 | 11.3 | (1.0) |
| Housing Revenue Account | 56.0 | - | 56.0 | 58.9 | 2.9 |
| Corporate | 16.3 | - | 16.3 | 16.3 | 0.0 |
| **Totals** | **247.9** | **46.8** | **294.7** | **268.4** | **(26.3)** |
| **Finance By:** | | | | | |
| Prudential Borrowing | | | 154.8 | 154.8 | 0.0 |
| Capital Grants | | | 65.0 | 65.0 | 0.0 |
| Capital Receipts | | | 5.0 | 1.8 | 3.2 |
| Revenue Contributions | | | 13.9 | 13.9 | 0.0 |
| Housing Revenue Account (Self-Financing) | | | 56.0 | 56.0 | 0.0 |
| **TOTAL CAPITAL FINANCING** | | | **294.7** | **291.5** | **3.2** |

30. The actual capital spend to the end of quarter one is £35m. Whilst historic trends indicate that capital spending increases towards the end of the financial year, the level of forecast spend to date (30th June 2016) year suggest a degree of caution in the forecasts. The Capital Board agreed at its meeting on 26th July 2016 to undertake a Strategic Leadership Team review of the forecasts to identify any potential slippage into 2017/18 which will be reflected in the next report to cabinet. Capital resources to finance the programme will also be reviewed as part of this process.

31. The following sections provide more detail of the main variances.

**31.1 People Directorate – Forecast Variance (£17.3m) Underspend**

The majority of the forecast variance is in relation to the Education Capital Programme (Programmes 2 & 3), in the following areas:

- Individual school project delays as a result of a variety of reasons including, land contamination, establishing planning permission requirements and the requirement to amend project scope;
- The Education Programme's capital spend has been re-profiled in response to individual project specific constraints, risks and issues. These risks and issues are being managed through the Education Capital Board but have resulted in some slip to the next financial year. The capital programmes key objectives remain on programme for realisation in particular ensuring sufficient school places are delivered within the City. The projects are being delivered in accordance with the agreed business case objectives and budgets.

Where spend is now expected to take place in 2017/18 due to delays, or is now planned to happen in 2017/18, the budgets will be re-profiled into future years.

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**31.2 Place Directorate – Forecast Variance (£10.8m) Underspend**

The majority of the forecast variance relates to transport projects, where the expenditure is now expected to happen in 2017/18. This includes the Cycle Ambition Fund, Long Ashton Park & Ride and also spend as part of the Metro Bus Scheme in relation to Ashton Vale to Temple Meads and North Fringe / Hengrove.

**31.3 Neighbourhoods – Forecast Variance (£0.1m) Underspend**

Capital expenditure is broadly forecast to be in line with the budget for the current financial year.

**31.4 City Director – Forecast Variance (£1m) Underspend**

The forecast underspend relates to capital expenditure on Super Connected Cities. The spending profile for this project will be reviewed and where the expenditure is now expected to happen in 2017/18, the budget will be re-profiled.

**31.5 Housing Revenue Account – Forecast Variance £2.9m Overspend**

There are projected overspends in "Investment in Blocks" projects due to works showing greater than expected costs (£3m) and spend in 2016/17 on Biomass Projects (£0.8m). These have been offset by reducing expenditure and delaying projects in some areas, including on low rise cladding and laundries (£3m).

In addition there are projected overspends in New Build and Land Enabling projects, mainly due to procurements issues causing delayed starts in 2015/16.

32. The following variations to the Capital Programme were considered by the Capital Board. Note the re-profile of spend from 2015/16 to 2016/17 has been reported in further detail within the 2015/16 outturn report presented to Cabinet on 16th July 2016.

**Table 5: Changes to the Capital Programme, being slippage from 2015/16**

| | |
|---|---|
| **People**<br>- Re-profile spend from 2015/16 to 2016/17 primarily for the integrated Education Management system. | **£m**<br>1.9 |
| Sub-total People | **1.9** |
| **Place**<br>Re-profile spend from 2015/16 to 2016/17 (£36.5m) and 2017/18 (£7.9m) primarily for the Arena, project and Transport and Energy related schemes, | 36.5 |
| Sub-total Place | **36.5** |
| **Neighbourhoods**<br>- Re-profile spend from 2015/16 to 2016/17 (£2.3m) and 2017/18 | 2.4 |

| | |
|---|---|
| (£0.7m) primarily investment in Parks.<br><br>- Bristol Operations Centre Project vired to Neighbourhoods.<br>- | <br><br>5.5 |
| Sub-total Neighbourhoods | **7.9** |
| **Business Change**<br>- Re-profile spend from 2015/16 to 2016/17 in relation to the Bristol Workplace programme.<br><br>- Bristol Operations Centre Project vired to Neighbourhoods. | <br>6.0<br><br><br>(5.5) |
| Sub-total Business Change | **0.5** |
| **Total** | **46.8** |

**Capital Receipts**

33. The assumed level of Capital Receipts to support the general fund element of the Capital Programme (excluding HRA) is £5m pa. The current disposal programme estimates general fund receipts of £1.8m for 2016/17, £18m for £2017/18 and £14m for 2018/19.

**Capital Financing**

34. The capital financing assumptions are detailed in Table 4 above. As part of the overall review of the capital programme already referred to, the capital financing assumptions and the future revenue implications will be revised. However, with a programme of this size, it is unlikely that there will be future underspends on the capital financing budget, and therefore the contribution being made towards the 2016/17 forecast outturn variance should be assumed to be a one-off position.

## E – Managing Income

35. Collection rates for both business rates and council tax are broadly on target. However, for future reports officers will provide further information to confirm the actual position and highlight any upsides or downsides resulting from current performance. Officers are closely monitoring business rates appeals applications. The Council has received applications from a number of health care trusts for mandatory charitable rates relief. In line with advice from the Local Government Association, all claims have been rejected and, to date, no counter applications have been made. The trusts are continuing to pay their business rates.

## F - Treasury Management

36. No borrowing has been undertaken to date during 2016/17. Net debt (borrowing less investment) increased by £8m from £271m to £279m due to a small change in working balances as at the end of quarter one.

37. The average level of funds available for investment purposes during the quarter was £175m. The return for period was 0.60% compared to the recognised benchmark of 0.36% (7 day Libid).

38. In addition the Council's agreed policy is to defer borrowing while it has significant levels of cash balances (£136m at June 2016), £75m estimated for March 2017). This strategy is prudent as investment returns are low and counterparty risk is relatively high. However, due to the significant change in the financial markets and fall in interest rates due to the referendum long term borrowing rates are at historic low levels and external borrowing will be considered if rates are expected to rise significantly from their current position. If implemented, this action will reduce the authority's exposure to interest rate risk.

39. 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.

## G – Bristol City Council Owned Companies

40. During quarter 1 2016/17, no additional loans / investments have been made to the Council's Subsidiaries. The amount of loans / investments as at the 30th June 2016 is set out below:

    Bristol Holding Company - £6.5m

    Bristol is Open - £0.1m

41. A list of further funding requests are currently being considered. The next tranche of investment in Bristol Energy via Bristol Holding Company is planned to be £3m, the majority of which will be used to repay the outstanding debt on intercompany service transactions with the Council.

42. Since the 30th June 2016 Bristol is Open has received further investments of £250k in addition to the above mentioned £100k, bringing the total investments to £350k.

### Risk Assessment

43. In the Budget Report presented to Full Council in February 2016, a number of significant risks were identified. This report identifies that a significant number of these risks have come to fruition in the early part of the financial year, or remain relevant. The list below highlights the most significant of these risks:

- the scale of overall reductions to all directorate budgets (£35.4m identified and included in the approved budget) and the potential of non-delivery of these savings;
- the potential of overspends against budgeted net expenditure;
- Care placements & budgets, both in terms of activity as a result of demographic pressures and also unit costs;
- Potential delay in delivery of capital receipts;
- Increase in pension liabilities;

- volatility in business rate income including the level of successful appeals and the result of the application for mandatory charitable relief made by a number of hospital trusts;

As well as the risks highlighted above, the following additional risks have been identified:

- wholly owned company delivery of agreed business plans;
- Sustainability of Council owned and managed assets, including infrastructure previously identified, property, fleet and ICT.
- Schools PFI contracts;
- Living Wage Accreditation – this will require a full review of all external contracts and may result in additional contractual costs;
- inflationary pressure on contract and energy costs;
- increased capital costs of major projects, Metrobus and Bristol Temple Meads Easts (development area around the arena);
- Current lack of policy clarity on proposed changes to business rate retention;
- The effect of Brexit both on house building industry and general economic confidence;
- There will be other costs, such as the Mayoral Combined Authority, still to be fully quantified.

Any risk assessment requires constant review and will form part of the ongoing future monitoring.

**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 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 – Interim Service Director - Finance:**

As set out in the Report, the Council is currently forecasting an overspend based on service spending from April to June and service projections for the remainder of the year, offset by savings in other corporate budgets. 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. Due to the severity of the forecast outturn variance (potential deficit of £29.1m), the Interim Chief Executive, supported by the Interim Service Director: Finance (s.151 Officer), are putting in train a number of actions as outlined in paragraph 11.

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:**

No significant legal issues are raised by the recommendations in this report.
The rationale to the changes in museum hours are clearly set out in the report and the other recommendations are in accordance with the Council's constitution and financial regulations.

Advice given by Shahzia Daya – Service Director Legal & Services
Date: 18th August 2016

**d. Land / property implications:**

**e. Human resources implications:**

In line with the financial position and the mitigating actions set out in this paper (paragraph 10) a Section 188 notice will be issued in August 2016. The s188 notice will provide formal notification to Trade Unions that the scale of the potential workforce reduction is estimated to be up to 975 employees by 31 March 2017.

The identified actions to close the budget gap are likely to result in redundancies; we are however seeking to avoid compulsory redundancies wherever possible. Full consultation with Trade Unions will be undertaken throughout the period of organisation change and restructure and we will seek to reach agreement with the recognised Trade Unions on how to mitigate the need to make any further compulsory redundancies.

If, after meaningful consultation and after mitigating actions have taken place, compulsory redundancies are unavoidable, employees will be given notice of dismissal in accordance with the Council's agreed policies.

Advice given by Richard Billingham – Service Director HR & Workplace
Date: 18th August 2016