**CABINET – 4 October 2016**

**EXECUTIVE SUMMARY OF AGENDA ITEM 14**

**Report title:** Period 4 (end of July 2016) 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 £32.8m forecast outturn deficit, as at the end of July 2016. This represents an increase to the deficit of £3.7m from end of June forecast;

2. And Cabinet where appropriate, continue to 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 10;

3. And Cabinet to note the total movement in the Capital Programme of £24.4m, including slippage of £18.8m from 2016/17 to 2017/18, as detailed in paragraph 30 and Table 6.

**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 Period 4 Budget Monitoring:

   The Council is in a serious financial position forecasting a General Fund revenue position of £32.8m outturn deficit before further mitigating actions or use of reserves. This represents an increase to the deficit of £3.7m from end of June forecast. 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 increase deficit arises from a combination of social care pressures and ongoing validation of savings identified within the 2016/17 financial year, which have reduced the savings total considered deliverable.

   As outlined in the Quarter 1 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. Therefore, the financial impact of these activities is not reflected in the general fund revenue forecast for Period 4. This will be updated in future reports (see paragraph 10).

Capital spending in year is forecast to be £273.5m compared to a current budget of £270.3m. The budget changes mainly arise from 2016/17 capital programme slippage to 2017/18. The transfer of the projects within Bristol Futures to the Business Change Directorate in 2016/17 should also be noted.

# BRISTOL CITY COUNCIL
# CABINET
# 4th October 2016

**REPORT TITLE:** **Period 4 (end of July 2016) 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 £32.8m forecast outturn deficit. This represents an increase to the deficit of £3.7m from end of June forecast;

2. And Cabinet where appropriate, continue to 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 10;

3. And Cabinet to note the total movement in the Capital Programme of £24.4m, including slippage of £18.8m from 2016/17 to 2017/18, as detailed in paragraph 30 and Table 6.

## Background

1. The Report provides information and analysis on the Council's financial performance and use of resources to the end of Period 4 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 £32.8m 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 increase deficit arises from a combination of social care pressures and ongoing validation of savings identified within the 2016/17 financial year, which have reduced the savings total considered deliverable.

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. The forecast does not include the financial impact of these actions, which will be updated in future reports (see paragraph 10). Until these key activities are completed, there continues to be a risk that the forecast outturn will worsen.

5. Future reports will include recommendations on mitigating actions, where required.

6. As explained in the Quarter 1 Finance Report, some service areas have moved between directorates. The whole of Housing Services is now included in Neighbourhoods and Bristol Futures has transferred to Business Change, which has resulted in movements in their gross and net revenue budgets.

## A - Revenue Expenditure

7. 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;

8. 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

9. Table 1 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.

10. 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, being implemented through September 2016;
- 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, due to commence week beginning 26th September.

Further updates will be included in future finance reports.

11. The following forecasts are based on actual expenditure to the end of July 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 £32.8m represents 9.5% of the General Fund net revenue budget.

12. 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 - Period 4** | **Net Budget** | **Forecasst Outturn** | **Forecast Outturn Variance (Under)/Over Spend** |
|---|---|---|---|
| **Directorate** | **£m** | **£m** | **£m** |
| People | 206.7 | 219.0 | 12.4 |
| Place | 18.1 | 26.7 | 8.6 |
| Neighbourhoods | 70.0 | 69.0 | -0.9 |
| Business Change | 32.3 | 36.1 | 3.8 |
| City Director | 3.0 | 3.0 | 0.0 |
| Corporate Savings Programme (Net Budget) | -12.8 | 2.5 | 15.3 |
| **SUB TOTAL – SPENDING ON SERVICES** | **317.2** | **356.3** | **39.1** |
| Other Budgets * | 28.2 | 21.9 | -6.3 |
| **TOTAL** | **345.4** | **378.2** | **32.8** |

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

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

### 13.1 People Directorate - £12.4m Pressure

| 2016/17 Budget | Gross Expenditure £m | Gross Income £m | Net Revenue Budget £m |
|---|---|---|---|
| People Directorate | 455.3 | (248.6) | 206.7 |

The major areas of identified pressures within the People Directorate are within Social Care. The reported position of £12.4m is after mitigating actions identified through the corporate workstreams of £1.9m, have been taken into account and represents a £1.7m increase since quarter 1, which is mostly in the area of Care & Support Adults.

**Care & Support Adults - £5.8m Pressure:**

There continues to be significant pressures from demographic growth in demand for services. This is due to the increasing numbers of frail older people, people living longer with dementia and increasingly people living longer with lifelong conditions which require significant input from health and social care services. The Care Act 2014, which came into force in April 2015, has led to significant increase in demand. The Care Act placed a duty on Councils to offer carers an assessment of their need, which changed previous legislation where carers had a right to ask for an assessment. There is some evidence that adult social care is managing demand.

There has been particular pressure on the residential and nursing care budgets, which has manifest itself in Period 4.

The performance reports indicate that there were 51 "new placements". However, there were 21 service users previously in receipt of home care, so an increase in forecast due to more expensive setting. 12 of the new placements were made prior to Period 4, being authorised in July which showed as a new placement in that period. There were a total of 26 new placements in month. Some of the rationale for this is set out below, though it is known that 26 new placements in a month is high.

Two nursing care homes changed - one closed and one reregistered to provide only standard residential. This has meant that we have had to re-provide some 40 nursing home beds - at additional costs.

Forecast placement cost has increased and lack of alternatives has meant that providers are asking for higher fees. Specifically, People With Dementia (PWD) Nursing placements are regularly quoting £1,000 pw or above and there are no suitable alternatives available due to lack of capacity. Currently there are 3 dementia beds available from providers with whom we contract.

PWD Nursing requesting one to one support on top of fees, usually due to risky / threatening behaviours. Providers are known to serve notice, which is a challenge as we do not have capacity to move people to. These scenarios require a great deal of negotiation and challenge but sometimes are the only option available and very high risk. There is evidence that adult social care is managing demand in terms of numbers, increasing complexity and acuity of need, and therefore the cost of care packages remains a very significant challenge. We have put in place new controls around the duration of the additional support, with each additional top up of a care package being time limited.

Difficulty in procuring home care has led to the need to make more care home placements if Service User is at high level of risk or carer unable to continue to support - there are currently 70 people awaiting a home care package with about 700 hours outstanding. Home Care spend reduced by £200k so we are placing people in Residential and nursing care as alternative to home care.

We continue to monitor the impact of Discharge to Assess - are people leaving hospital for the final stage of their care getting stuck in residential or nursing as the capacity in home care means we can't move people on. There continues to be pressure from the NHS to discharge people.

The Council is working hard with our partners to ensure that people leaving hospital are supported to return home as quickly and safely as possible and protecting services to ensure this is a key priority, as is working with the NHS in Bristol to ensure that funding is in place to support this ambition.

The Supreme Court (DOLS) judgement in March 2014 continues to reverberate and add significant pressure to the adult social care budget. The Council must ensure that people who are not able to make decisions about their care, for example some people with dementia, learning difficulties or mental ill health are properly supported to express a view about their care and treatment and are lawfully detained with the least restrictive measures in place to meet their needs safely. The increase in the number of Mental Health Act assessments (assessments where people are in severe mental health crisis which poses an immediate threat to themselves or others) has led to a rise in funding long term packages of care under Section 117 of the Mental Health Act. This represents a significant cost pressure to both the NHS and Council.

The very significant work being undertaken to commission services differently is vital in supporting the delivery of a balanced budget. A better, more productive relationship with the local care market is envisaged. Recommissioning of Home Care, Residential and Nursing Care and Community Support Services are seen as key to ensuring we have services which deliver value for money, increased quality and better outcomes for service users and carers. Addressing workforce challenges going forward is vital for the NHS and Council and speeding up the integration between health and social care is a vital component of the Better Care Bristol plan.

The Adult Care DMT and Senior leadership team review adult social care budgets, including benchmarking with core cities and regional authorities to both manage spend pressures whilst also planning for 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.

**Care & Support Children & Families- £2.8m pressure:**
Budget pressures are being faced in Children in Care. Whilst the numbers of Children in Care have remained around 700 over the last five years, 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 - £3.3m pressure:**
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.

**13.2 Place Directorate - £8.6m Pressure**

| 2016/17 Budget | Gross Expenditure £m | Gross Income £m | Net Revenue Budget £m |
|---|---|---|---|
| Place Directorate | 108.6 | (90.5) | 18.1 |

The directorate is reporting a £8.6m variance to budget which consists of a £9.1m pressure within Property, £0.4m in Economy and £0.6m in Energy offset by surpluses or underspends of £1.1m in Transport, £0.2m in the Place ABS team and £0.3m in Planning. This represents a £1.8m increase since quarter 1.

**Economy – pressures £0.4m**

£0.2m of the £0.4m total overspend is due to the existing cost of operating advertised opening hours at Museums. As approved at 6th Sept 2016 Cabinet, changes to museum opening hours 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 within Place are also forecasting a further pressure of £0.2m in Economy. These costs are being reviewed as one of the work streams established to address the in year pressures.

**Energy - pressures £0.6m**

There is anticipated to be a shortfall in rechargeable income from the HRA and Trading for Schools in the Energy (utility) Purchase budget. This is due to the Energy price reduction in recent years being captured as a corporate saving without any corresponding reduction in income target for the energy service. This presents a net pressure of £500k this year. There also income shortfalls in District Energy / Biomass (£58k) and Solar (£115k) partly offset by prudential borrowing savings in Wind Energy (£140k).

**Place Admin and Business Support (ABS) Team - surplus £0.2m**

There are forecast savings against salary budgets in the Admin and Business Support (ABS) service of £0.2m.

**Property - pressures £9.1m**

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

There is a £800k forecast overspend against the budget for National Non Domestic Rates (NNDR) due to properties transferring into the Property division without budget for this cost.

There is a £125k forecast shortfall in income against the budget target for Markets as a result of an historic revenue target, which has not been met for the last 5 years.

There are £100k 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 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 £75k 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- surplus £0.3m**
In the Planning division there is a forecast surplus of £0.3m and this is largely due to increased income from Development Management fees as well as from savings plans being implemented.

**Transport - surplus £1.1m**
There is a net surplus position in the Transport division of (£1.1m) in total as a result of additional income in Parking Services (£0.9m), non-recurrent underspend in Highways (£0.3m) and savings from Supported bus services (£0.2m), reduced by additional costs in Park and ride services (£0.2m) and in concessionary travel (£0.1m).

During Period 4, savings identified against the Transport Division in Quarter 1 have been secured and transferred to the Corporate Savings Programme, resulting in a reduced underspend reported against Transport.

**13.3 Neighbourhoods – (£0.9m) Underspend**

| 2016/17 Budget | Gross Expenditure £m | Gross Income £m | Net Revenue Budget £m |
|---|---|---|---|
| Neighbourhoods | 311.0 | (241.0) | 70.0 |

The main variance in this area relates to Waste (£1.2m) due to accrued expenditure from the previous year, which is no longer required and waste collection forecasting savings of £0.3m in third party payments, bad debt and consultants costs. Traded Services are forecasting a £0.2m 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 additional income of £150k to offset this.,

The underspend in General Fund Housing Delivery services (£0.1m) is as a result of

additional license scheme income.

**13.4 Business Change - £3.8m Pressure**

| 2016/17 Budget | Gross Expenditure £m | Gross Income £m | Net Revenue Budget £m |
|---|---|---|---|
| Business Change | 51.5 | (19.2) | 32.3 |

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. The overall pressure of £3.8m represents a reduction of £0.5m since quarter 1, which is mainly as a result reductions in the ICT forecast.

**ICT – pressures £4.0m**

In Period 4, the ICT budget pressure was reduced by £311,000.

The total movement was due to the following items:

| Reason | Detail | Value |
|---|---|---|
| ICT cost reduction | Reduction in hardware and maintenance costs as a result of Month 1 of *Application Rationalisation Working Group* (see below) | -£256,000 |
| Reduced employee costs | Deletion of vacant posts in software development services | -£372,000 |
| Increased costs of BNET IT delivery | Interim business relationship management, contract management and asset management for delivery and concession partners. | +£200,000 |
| Vacant Post deletion | Error in post deletion in Digital Transformation team in previous month. | +£47,000 |
| Reduction in recharges to the Change Programme | Digital delivery recharge reduction. | +£16,000 |
| Vacant Post deletion | Error in post deletion in CSRM in previous month. | +£52,000 |
| | **Total** | **-£311,000** |

We expect further reductions in the Period 5 budget reporting onwards, due to the mitigations reported in detail below.

**<u>Active mitigation</u>**

The following activities are ongoing and will show effect in the Period 5 budget but are reported here for your information.

The ICT management team have investigated opportunities for mitigation and further cost reduction. This has resulted in the following actions:

**Application Rationalisation Working Group:**

ICT have set up an Application Rationalisation Working Group, this has three functions:

a. Dedicated, line by line analysis of ICT Application licence and support costs for 2016/17 savings;
b. Analysis and validation of ICT Manager's 2016/17 budget savings proposals from ICT Application licence and support costs;
c. Informing and guiding the service for further savings in 2017/18.

The Group report their forward plan into the Contract Review Board.

After analysing roughly half of the ICT service contract costs, the Group has found:

| | |
|---|---|
| - *Identified* savings of | £0.5m |
| - *Subject to further analysis* savings of | £1.1m |

If we prudently assume 10% of the *subject to further analysis savings,* or £100k, this will provide approximately £0.6m of savings. These potential savings will be reported into the forward plan at the Contract Review Board where associated ICT implementation costs will be considered and deducted from the potential savings.

**In year contract management:**
CSRM monitor all ICT managed contracts, in-year for best value. To ensure that this work is actioned by ICT Managers, CSRM produce a monthly report to be reviewed at the ICT Management Meeting. ICT Managers will be expected to reflect CSRM's savings in their end of period budget reports, for review by the ICT Service Director with the Finance staff.

**Addressing previous under-delivery:**
The ICT Sourcing programme has been reported as having a budget pressure of circa £1.3m. This is being reviewed by ICT, working with Finance, to address this and identify any reductions against this forecast.

**<u>Ongoing activities to avoid increasing pressure on ICT budget</u>**

**Pressure incurred from other service areas:**
ICT, with assistance from Finance, has put in place governance to pursue budgets from other services areas where their activities would have previously created budgetary pressure on ICT. If no budget is found to be available, issues will be escalated through Business Change DLT for an executive decision.

**Tightened ICT project governance:**
ICT project governance has been tightened and all ICT projects, from within ICT or from the business, are subject to two layer governance, once from ICT then again via the PMO. The ICT Service Director now also reviews all weekly ICT project report summaries.

**Remaining Business Change Services – surplus £0.2m**

Cost pressures in other areas, mainly as a result of additional agency/interim staffing costs are being offset by small surpluses in Human Resources, Policy Strategy & Communications and Bristol Futures. Business Change are proactively recruiting permanent staff which has resulted in the appointment of the new S151 officer who will start at the end of November 2017.

Business Change is in the process of reviewing its structure at all levels and is planning to reduce the number of service director posts. This will reduce management costs, but in doing this we need to ensure that we have the appropriate spans of control and capacity to deliver these essential services.

**13.5 City Director - £0.0m**

| 2016/17 Budget | Gross Expenditure £m | Gross Income £m | Net Revenue Budget £m |
|---|---|---|---|
| City Director | 3.6 | (0.6) | 3.0 |

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.

**13.6 Corporate Savings Programme - £15.3 Pressure**

The current forecast pressure of £15.3m represents an increase of £1.5m since quarter 1. 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 Corporate Savings Programme Budget Position**

| | £m |
|---|---|
| 2016/17 Change Programme Savings | 19.5 |
| 2015/16 Undelivered change programme savings | 15.2 |
| **TOTAL** | **34.7** |
| Less: | |
| Savings Identified/Secured to address the gap | 14.6 |
| Release of Contingency | 6.3 |
| **TOTAL TO BE IDENTIFIED** | **13.8** |
| Overspend against change programme expenditure | 1.5 |
| **TOTAL CHANGE PROGRAMME** | **15.3** |

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. During Period 4, there has been a reduction in the level of idenfitied / secured savings due to:

- A reduction in the saving from the deletion of vacant posts;
- Ongoing validation of savings identified within the 2016/17 financial year, which have reduced the savings total considered deliverable.

Within this budget line, there is investment required to facilitate the delivery of some of the savings. There is a current forecast overspend of £1.5m 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.

**13.7 Other / Corporate Budgets – (£6.3m) Underspend**

The forecast underspend in Period 4 has increased by £1m. 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. As reported in the Quarter 1, 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. It is proposed that the forecast cost of this ruling be covered by the general contingency. Additional items have been identified to be funded from the general contingency, as summarised in the following table:

**Table 3: Summary of General Contingency**

| | £m |
|---|---|
| Quarter 1 Contingency Balance | 2.8 |
| Forecast cost of workforce court ruling | (0.5) |
| Support to Children's Service as part of Ofsted Improvement plan | (0.3) |
| **Period 4 Contingency Closing Balance** | **2.0** |

The remaining contingency is reduced to £2.0m and it is assumed that this will be required by the end of the financial year.

The Council receives an annual dividend in relation to the Port. This is budgeted to be £1.5m per annum. Indications are that the dividend for this financial year will be higher than this and therefore an additional £0.5m has been included in the forecast. Further updates will be included in future reports.

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

14. 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 £137.9m.

15. There continues to be pressures against the high needs block, which is forecast to be c£4.7m 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.

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

    a) In April the top up rates were reviewed and reduced across mainstream schools which has been followed by a further reduction in September, generating a total annual saving of £2.1m

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

    c) special school and Pupil referral unit budgets have also been reviewed, top up and site specific rates have been cut by 5% which will generate an annual saving of 600k, further work is planned to continue review of special schools and also resource bases.

17. 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**

18. 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 2015/16 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)**

19. The following is a summary of the HRA budget position as at the end of Period 4. Further detail is included as part of Appendix A to the report.

**Table 4: Housing Revenue Account Budget Forecast**

| HOUSING REVENUE ACCOUNT | Gross Exp £m | Gross Income £m | Revised 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 | 47.5 | -17.4 | 30.1 | 30.6 | 0.5 |
| Planned Programmes | 18.1 | -1.3 | 16.8 | 15.9 | -0.9 |
| Estate Management | 13.3 | -2.2 | 11.0 | 10.7 | -0.3 |
| HRA Financing & Funding | 46.2 | -0.5 | 45.7 | 45.7 | 0.0 |
| **HOUSING REVENUE ACCOUNT TOTAL** | **152.8** | **-152.8** | **0.0** | **-1.3** | **-1.3** |

20. There is currently a forecast underspend within the HRA of £1.3m. 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;

21. 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

22. 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 and will be risk assessed for full delivery within the planned timescales.

23. Due to the severity of the forecast outturn variance (potential deficit of £32.8m), 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 10.

## C - Reserves

24. 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.

25. 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.

26. Members should note that there is a need for a finance transformation programme which will address areas such as the core financial system, financial processes and areas of technical financial matters to provide a stronger platform for council moving forward. This will be funded from the Operational Reserve. 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

27. 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). I.e. 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 have been challenged on the projected variances and the full outcome of this review will be reported within the Period 5 Finance Report. Monitoring indicates that capital spending in 2016/17 will be £273.5m compared to the latest revised budget of £270.3m.

28. 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 29 below.

**Table 5: Capital Programme Forecast Expenditure & Financing**

| | P4 2016/17 Budget £m | Capital Budget proposed adjustments £m | 2016/17 Combined Budget £m | 2016/17 Forecast Outturn £m | Forecast Outturn Variance £m |
|---|---|---|---|---|---|
| People | 58.8 | (20.7) | 38.1 | 38.2 | 0.1 |
| Place | 131.1 | 0.3 | 131.4 | 133.5 | 2.1 |
| Neighbourhoods | 8.5 | 2.0 | 10.5 | 10.6 | 0.1 |
| Business Change | 11.7 | 12.3 | 24.0 | 25.0 | 1.0 |
| City Director | 12.3 | (12.3) | 0.0 | 0.0 | 0.0 |
| Housing Revenue Account | 56.0 | 0.0 | 56.0 | 57.8 | 1.8 |
| Corporate | 16.3 | (6.0) | 10.3 | 8.2 | (2.1) |
| **Totals** | **294.7** | **(24.4)** | **270.3** | **273.5** | **3.2** |
| **Finance By:** | | | | | |
| Prudential Borrowing | | | 130.4 | 131.5 | 1.1 |
| Capital Grants | | | 65.0 | 65.0 | 0.0 |
| Capital Receipts | | | 5.0 | 5.3 | 0.3 |
| Revenue Contributions | | | 13.9 | 13.9 | 0.0 |
| Housing Revenue Account (Self-Financing) | | | 56.0 | 57.8 | 1.8 |
| **TOTAL CAPITAL FINANCING** | | | **270.3** | **273.5** | **3.2** |

29. The actual capital spend to the end of Period 4 is £47.1m. Whilst historic trends indicate that capital spending increases towards the end of the financial year, the level of forecast spend to date (31st July 2016) year suggest a degree of caution in the forecasts. The Capital Board has met 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 and will also be reported through a separate Capital Plan report to Cabinet. Capital resources to finance the programme will also be reviewed as part of this process.

30. The following variations to the Capital Programme were considered by the Capital Board. Note the re-profile of spend from 2016/17 to 2017/18, in particular in the People Directorate, which was reported as part of the Quarter 1 Report. These changes are recommended to Cabinet for noting.

**Table 6: Changes to the Capital Programme, being slippage from 2015/16**

| | £m |
|---|---|
| **People** | |
| - Education Capital Programme re-profiled from 2016/17 to 2017/18 following the forecast position reported in the Q1 Finance Monitor report. | (18.8) |
| - A directorate structure change has transferred the Private Housing projects to be aligned within the Neighbourhoods directorate. | (1.9) |
| Sub-total People | **(20.7)** |
| **Place** | |
| - New external funding received from a Housing Association for Housing Enabling activities. | 0.3 |
| Sub-total Place | **0.3** |
| **Neighbourhoods** | |
| - A directorate structure change has transferred the Private Housing projects from the People directorate. | 1.9 |
| - Minor variance | 0.1 |
| Sub-total Neighbourhoods | **2.0** |
| **Business Change** | |
| - A directorate structure change has transferred the Bristol Futures (Super Connected Cities and Open Programmable City projects) from City Director. | 12.3 |
| Sub-total Business Change | **12.3** |
| **City Director** | |
| - A directorate structure change has transferred the Bristol Futures projects into the Business Change directorate. | (12.3) |
| Sub-total City Director | **(12.3)** |
| **Corporate** | **-** |
| - Corporate budgets have been amended to exclude technical accounting adjustments for service concession contracts (PFI schemes) and the re-profiling of Corporate capital schemes that will occur in future years. | (6.0) |
| Sub-total Corporate | **(6.0)** |
| **Total** | **(24.4)** |

31. As at the end of July 2016, there is a forecast overspend against the Capital Programme of £3.2m, against an underspend of £26.2m at the end of Quarter 1. The main reason for this movement has been the re-profiling of the budget into 2017/18, as described in the table above.

**Capital Receipts**

32. 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 £5.3m for 2016/17 (an increase from £1.8m forecast at quarter 1), £18m for £2017/18 and £14m for 2018/19.

**Capital Financing**

33. The capital financing assumptions are detailed in Table 5 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

34. 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

35. No borrowing has been undertaken to date during 2016/17. Net debt (borrowing less investment) has decreased by £18m between the 30th June to 31st July from £279m to £261m due to an expected increase in grant income.

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

37. In addition the Council's agreed policy is to defer borrowing while it has significant levels of cash balances (£153m at July 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.

38. 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

39. To the end of Period 4 2016/17, no additional loans / investments have been made to the Council's Subsidiaries. The amount of loans / investments as at the 31st July 2016 is set out below:

    Bristol Holding Company - £6.5m

    Bristol is Open - £0.350m

40. A list of further funding requests are currently being considered. The next tranche of investment in Bristol Energy via Bristol Holding Company has since been processed at a value of £3m, the majority of which will be used to repay the outstanding debt on intercompany service transactions with the Council.

### Risk Assessment

41. In the Budget Report presented to Full Council in February 2016, a number of significant risks were identified. The finance reports this year have identified 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, i.e. 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 July 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 £32.8m), 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 10.

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 recommendations are in accordance with the Council's constitution and financial regulations.

Advice given by Shahzia Daya – Service Director Legal & Services
Date: 22nd September 2016

**d. Land / property implications:**

The relevant property implications have been included within the body of the report.

Advice given by Robert Orrett – Service Director Property
Date: 23rd September 2016

**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 was issued in August 2016. The s188 notice provided 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: 22nd September 2016