

Agenda item

Bristol City Council

Resources Scrutiny Commission

20th February 2017

Report of: Denise Murray, Service Director, Finance

Title: Period 8 Finance Report for Resources Scrutiny

Ward: Citywide

Officer presenting report: Denise Murray, Service Director, Finance

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Recommendation

That the Commission consider and comment on the relevant Resources extracts detailed below taken from the Period 8 Finance Report.

Members are to note that is a **DRAFT** report until considered by Cabinet on the **7th March 2017**

Extracts Period 8 Finance Report – Resources

Extract 1

12. The following forecasts are based on actual expenditure to the end of October 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 £12.9m represents 3.7% 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. Budgets are profiled equally across the year, but spending profiles may be different.

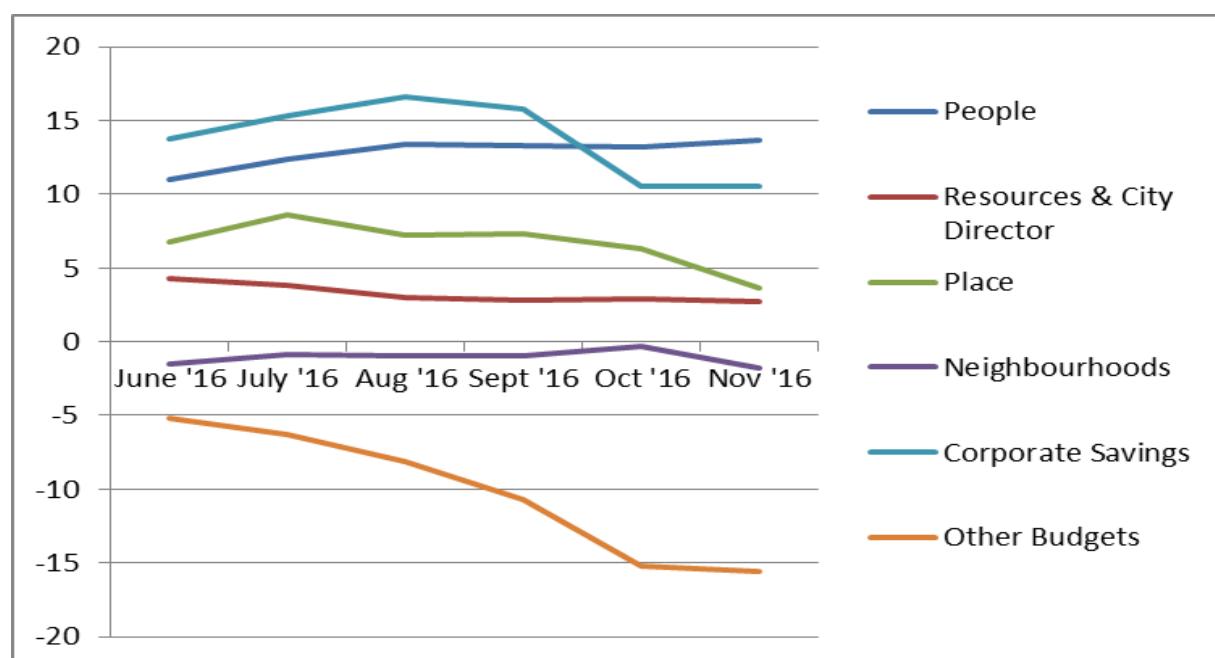
Table 1: General Fund Forecast Net Expenditure

General Fund Revenue Budgets - Period 8		Net Budget £m	Forecast Outturn £m	Forecast Outturn Variance (Under)/Over Spend £m	Forecast Outturn Variance at Period 7 £m
Directorate					
People		206.6	220.3	13.7	13.2 ↑
Place		17.2	20.8	3.6	6.3 ↓
Neighbourhoods		68.7	66.9	-1.8	-0.4 ↓
Resources		25.7	28.8	3.1	3.2 ↓
City Director		6.9	6.4	-0.4	-0.3 ↓
Corporate Savings Programme (Net Budget)		-8.7	1.7	10.5	10.5
SUB TOTAL – SPENDING ON SERVICES		316.2	344.9	28.7	32.7 ↓
Other Budgets *		28.6	15.2	-13.4	-12.8 ↓
Released from Reserves		0.0	-2.4	-2.4	-2.4
TOTAL		344.8	357.7	12.9	17.5 ↓

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

The following chart provides a trend analysis of the forecast outturn, by directorate, reported since quarter 1, end of June 2016.

Chart 1: Trend Analysis of Forecast Outturn



Extract 2

13.4 Resources - £3.1m Pressure

2016/17 Budget	Gross Expenditure £m	Gross Income £m	Net Revenue Budget £m
Resources	40.0	(14.5)	25.5

The main variance within Resources is within the ICT Service, which has been offset by savings in other areas. The overspend against budget for ICT relates to additional hardware and maintenance costs (£2.8m) and 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 current pressure of £3.6m is a £0.2m reduction from P7.

ICT – £3.6m Pressure

In Period 8, the ICT budget pressure decreased by £226K. This reduction mainly relates to a forecast reduction of £82k in the Information Security budget and a further reduction in forecast of employee costs. Adjustments have also been made to reflect the reduction of costs resulting from the early departure of the Interim Service Director amounting to £72K. Further reductions have been made by bringing agency arrangements to an end (£36K) and reduced forecasts for employee spend.

A full review of agency spend is underway, particularly targeting ICT Delivery. This is looking at overall use of contractors/agency and particularly focussing on those contractors/agency staff who have been in post longer than 13 weeks. These arrangements are being ceased and ICT Delivery will be transitioning to a service delivery model that does not incur contingent workforce fees where they are not absolutely required. Further any ongoing and future Agency spend will be directed through Guidant with remaining off-contract arrangements being ceased. This will relieve both in-year pressure and transfer through into 2017/18.

Risks identified

The following risks have been identified to the current budget position within ICT:

- Unexpected business demand, such as a result of an Ofsted, or other regulatory body, inspection. (For example requiring issue of laptops, tablets).
- Any remedial actions that may be required to achieve compliance with connection standards, e.g. Public service Network (PSN).
- Remedial actions in event of serious cyber or other event, (e.g. ransomware), resulting in loss of data/access to key BCC systems and data.
- Information Commissioners fine in case of Data Breach or Loss (may not be an ICT related loss, i.e. may be loss of case papers) and remedial actions in event of Data Breach or Loss;
- Remedial actions in event of major supplier commercial failure.

The high level detail is given here. It is important to note that, at this point in time, if

these items were to occur they would result in expenditure being drawn down from reserves or contingencies.

Human Resources – £0.6m Surplus

Human Resources is reporting a forecast of £0.65m underspend which is an improvement of £81k since P7. During the period adjustments were made to the Annual Leave Top Up Scheme arising from recalculations following the Voluntary Severance scheme and benefits due to the HRA. This resulted in a loss of income of £124K. This was offset by budget adjustments relating to vacancies and the spending freeze amounting to £163K together and further one-off savings from Learning and Development.

Risks identified:

- Unfilled vacancies plus staff leaving through VS will deliver savings but may increase workplace pressures and the ability of the service to respond to organisational requirement during a period of significant workforce change.
- The income target through the Annual Leave Top Up scheme is dependent on staff take-up across the organisation and this may not be possible as staffing levels will be lower post-structure. This may mean that the income target in 16/17 is not realised. Also, staff leaving on VS who are in the scheme will cause loss of income in the current year.

Legal Services – £0.1m Overspend

The underspend of £63k reported for Legal Services at Period 7 has now moved to a £96k overspend, which is a movement of £160k deficit on the previous forecast. Although there have been savings across the Division of c£100k relating to the spending freeze there have been further pressures that are highlighted below:

Electoral Services

As previously reported, there are cost pressures in year as a result of the cost of running elections and electoral registration (£1.3m). These pressures will be managed in this financial year through a drawdown in reserves and in future years through an offsetting arrangement, whereby budget is set aside in non-election years to fund election years.

Legal Place

The income forecast for local land charge income has been reduced by £213k as a lower volume of searches has been conducted.

Legal People

Court cases have increased substantially this year for litigation cases where the Council is being challenged in the High Court through claims and judicial review and therefore increasing the forecast by a further £75k.

Risks Identified (including Legal Services, Electoral Services, Mortuary & Coroner, & Register Office):

- demand led and cannot predict its spend – high cost/profile cases could happen at any time;
- there may be an increase in an area of work through e.g. court rulings or practice;
- income is more predictable over the short term as clients are known, but will fluctuate over the longer term with changes in external clients as work and projects come to an end and new work will need to be identified;
- there may be a parliamentary election in 2017 or other smaller elections and referenda, which are not currently included in the 4 year budget predictions and which would have budget implications;
- legislative changes, such as the introduction of medical examiners, could cause significant budget pressures;
- increases in the number of deaths due to widespread fatalities that could not be predicted;
- births and deaths registration are reactive services and cannot be completely estimated.
- **Electoral Services** - Currently the postage amount is estimated because printing is billed three months in arrears by Print and Mail Operations. The canvass printing for Oct and Nov for annual canvass printing is currently estimated.
- **Lord Mayor's Office** - Spending freeze - risk that no maintenance spend may reduce income generation potential. **Democratic Services** - Risk of impact of no longer supporting P&CP and also concerns that school appeals income is not covering reality of staffing costs - review required
- **Members Green** - Political Assistant is due to go on maternity cover in Feb 17, backfill process needs clarification in line with spending freeze
- **Member Development** - Limited Activity on member development, - risk of lack of training to members in chairing positions etc

Finance – On budget

Expenditure is being maintained within budget; a number of vacancies are evident within the service (full time equivalents FTE's at the beginning of the financial year was 110 and is at 97.5 through vacancies and VS); non-essential expenditure against non-staffing budgets as also ceased, reducing the forecast expenditure against travel & subsistence.

As previously reported, the Finance Transformation work must continue and where this cannot be contained in existing budgets it will be funded from reserves earmarked for this purpose.

Risks identified:

- Unfilled vacancies plus staff leaving through Voluntary Severance will deliver savings but may increase workplace pressures and the ability of the service to respond to organisational requirement during a period of significant workforce change.
- Under resourcing finance can lead to a risk of not meeting the requirements of the role of S151 officer.
- Income targets for future years are dependent on successful bidding and provision of an effective, value for money service offer. There is a risk associated with the income from Avon Fire & Rescue for future years as the contract is due for renewal at the end of 2017/18.

Extract 3 – Capital Programme

25. 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). 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. As at the end of Period 8 there is a forecast underspend of £2.1m. Monitoring indicates that capital spending in 2016/17 will be £220.8m compared to the latest approved budget of £222.9m.

The following table sets out the forecast of spend by Directorate. Additional detail is provided at Appendix B.

Table 6: Capital Programme Forecast Expenditure & Financing

	Period 7 2016/17 Budget	Capital Budget Adjustments	Period 8 2016/17 Combined Budget	2016/17 Forecast Outturn	2016/17 Forecast Outturn Variance	2016/17 Actual Spend to Date
	£m	£m	£m	£m	£m	£m
People	40.8	(0.1)	40.7	40.9	0.2	16.3
Place	87.3		87.3	84.0	(3.3)	38.7
Neighbourhoods	9.8	0.1	9.9	8.4	(1.5)	3.9
Resources	18.7	(7.0)	11.7	12.2	0.5	7.8
City Director	0.0	7.0	7.0	7.0	0.0	0.6
Housing Revenue Account	56.0		56.0	56.7	0.7	34.4
Corporate	10.2	0.1	10.3	11.6	1.3	7.7
Totals	222.8	0.1	222.9	220.8	(2.1)	109.4
Finance By:						
Prudential Borrowing			83.7	84.3	0.6	
Capital Grants			69.3	65.9	(3.4)	
Capital Receipts *			0.0	0.0	0.0	
Revenue Contributions			13.9	13.9	0.0	
Housing Revenue Account (Self-Financing)			56.0	56.7	0.7	
TOTAL CAPITAL FINANCING			222.9	220.8	(2.1)	

* As reported in the P7 Cabinet Report -The amount included against capital receipts £5m have transferred to Prudential Borrowing, as the capital receipts will be used to fund transformation activity expenditure within the general revenue fund.

26. The actual capital spend to the end of Period 8 is £109.4m (49% of Combined Budget). Whilst historic trends indicate that capital spending increases towards the end of the financial year, the level of forecast spend to date (30th November 2016) is low compared to the current budget for the financial year. Projected spend to the year end, based on a pro-rata basis, would be £164.1m or 73% of the current budget.
27. During Period 8, there has been a movement of budget (£7m) from the Resources Directorate to the City Director. This reflects the movement of the Bristol Futures service between the directorates. In addition, there has been a minor variation to the budget agreed by the Capital Board of £100k, which is now reflected in the Neighbourhoods budget. This relates to the receipt of external funding to support the provision of additional play facilities. As a result, the combined budget for Period 8 has increased from £222.8m to £222.9m.
28. As at the end of November 2016, there is a forecast net underspend against the Capital Programme of £2.1m, against an overspend of £3.1m at the end of Period

7. The following is a summary of the significant areas where budget pressures have been identified:

Extract 4 - Income Collection

37. At the end of each financial year, the Council is required to calculate a bad debt provision based on its level of outstanding debt. The amount of provision required is dependent on the age of the debt, with all debt over 2 years, being 100% provided for. The current bad debt provision (as at 31st March 2016) is £11.8m. Based on the current level of debt in table 8, if no further action is taken, the required bad debt provision is estimated to be £15.5m. Single, large debts can have a disproportionate impact on the provision required. However, action will continue to be taken between now and the end of the financial year to ensure that the value of outstanding debt is reduced.

Table 8 – Outstanding Debt Analysis by Directorate

Directorate	Outstanding Value £000's	Average Value £
People	19,777	2,052
Resources	330	599
Neighbourhoods	3,566	352
Place	3,832	1,197
City Director	166	9,738
Corporate & Other	3,564	356
TOTALS	31,234	931

Extract 5

Overall Risk Assessment

43. 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;
- Increase in pension liabilities;

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

- 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;
- 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.