Agenda item

Bristol City Council
Resources Scrutiny Commission
23rd March 2017

Report of: **Service Director, Finance**

Title: **Period 9 Finance report for Resources**

Ward: Citywide

Officer presenting report: **Denise Murray**

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Recommendation

That the Commission consider and comment on the relevant Resources extracts detailed below taken from the Period 9 Finance Report.

Extracts from the Period 9 Finance Report

Extract 1

12. The following forecasts are based on actual expenditure to the end of December 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 £11.0m represents 3.1% 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 Annex 1A, with directorate details provided at Annex 1B to 1G. Budgets are profiled equally across the year, but spending profiles may be different.

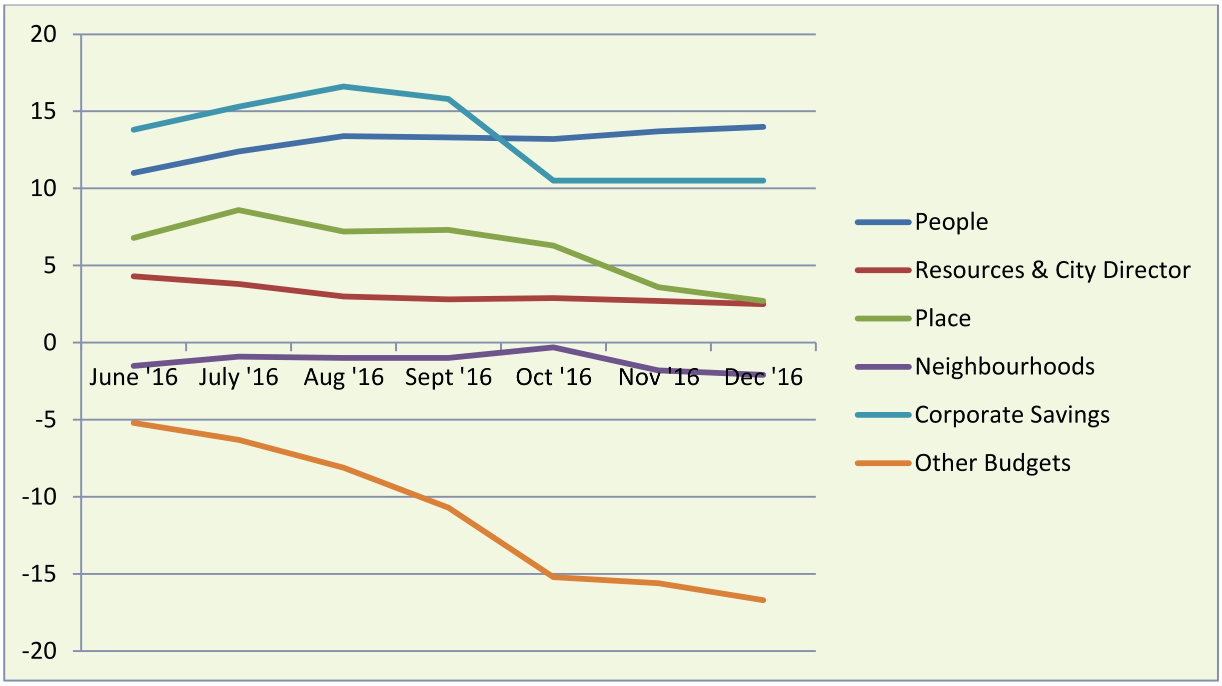
Table 1: General Fund Forecast Net Expenditure

General Fund Revenue Budgets - Period 9 Directorate	Net Budget £m	Forecasst Outturn £m	Forecast Outturn Variance (Under)/Over Spend £m	Forecast Outturn Variance at Period 7 £m	
People	206.1	220.1	14.0	13.2	↑
Place	17.2	20.0	2.8	6.3	↓
Neighbourhoods	69.1	67.0	-2.1	-0.4	↓
Resources	25.6	28.5	2.8	3.1	↓
City Director	6.9	6.6	-0.3	-0.4	↓
Corporate Savings Programme (Net Budget)	-8.7	1.8	10.5	10.5	
SUB TOTAL – SPENDING ON SERVICES	**316.2**	**343.9**	**27.7**	**32.7**	↓
Other Budgets *	29.6	15.3	-14.3	-13.4	↓
Released from Reserves	0.0	-2.4	-2.4	-2.4	
TOTAL	**345.8**	**356.8**	**11.0**	**16.9**	↓

*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 - £2.8m Forecast Overspend

2016/17 Budget	Gross Expenditure £m	Gross Income £m	Net Revenue Budget £m

Resources	40.1	(14.4)	25.7

The Resources directorate is reporting a forecast outturn of £2.8m overspend for period 9 which is an improvement of £0.4m from period 7. 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.

Extract 3

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 9, there is a forecast underspend for the year of £7.4m. Monitoring indicates that capital spending in 2016/17 will be £216.9m compared to the latest approved budget of £224.3m. It should be noted that this is primarily slippage and will increase costs in 2017/18.

The following table sets out the forecast of spend by Directorate. Additional detail is provided at Annex 2.

Table 6: Capital Programme Forecast Expenditure & Financing

	Period 7 2016/17 Budget £m	Capital Budget Adjustments £m	Period 9 2016/17 Combined Budget £m	2016/17 Forecast Outturn £m	2016/17 Forecast Outturn Variance £m	2016/17 Actual Spend to Date £m
People	40.8	(0.1)	40.7	41.3	0.6	19.2
Place	87.3	0.4	87.7	82.5	(5.2)	44.4
Neighbourhoods	9.8	1.1	10.9	9.5	(1.4)	5.5
Resources	18.7	(7.0)	11.7	12.2	0.5	8.9
City Director	0.0	7.0	7.0	6.9	(0.1)	0.6
Housing Revenue Account	56.0	0.0	56.0	52.9	(3.1)	39.3
Corporate	10.2	0.1	10.3	11.6	1.3	7.6
Totals	**222.8**	**1.5**	**224.3**	**216.9**	**(7.4)**	**125.5**
Finance By:						
Prudential Borrowing			83.7	83.8	0.1	
Capital Grants			70.3	65.9	(4.4)	
Capital Receipts *			0.4	0.4	0.0	
Revenue Contributions			13.9	13.9	0.0	
Housing Revenue Account (Self-Financing)			56.0	52.9	(3.1)	
TOTAL CAPITAL FINANCING			**224.3**	**216.9**	**(7.4)**	

26. The actual capital spend to the end of Period 9 is £125.5m (56% 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 (31st December 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 £167.3m or 75% of the current budget (67% as at Period 7).

27. During Period 9, there has been the following approved changes resulting in the budget for Period 9 increasing from £222.8m to £224.3m:

- a virement of budget (£7m) from the Resources Directorate to the City Director, reflecting the Bristol Futures service moving between the directorates. A budget increase of £0.4m for Severn Road Avonmouth development to provide the construction of a road access as part of the contract agreement funded from the resulting capital receipt.
- Minor variations to the budget agreed by the Capital Board of £0.1m, which is now reflected in the Neighbourhoods budget. This relates to the receipt of external funding to support the provision of additional play facilities.
- Colston Hall Phase II – At the meeting of the 29th June 2016, Cabinet approved a contribution of £1.6m to progress design work to enable a detailed planning application to be submitted. In addition to this, the Bristol Music Trust have been granted £0.4m from the Arts Council England (ACE) to contribute to this work. It is anticipated that the spend will be £1.6m in 2016/17 and £0.4m in 2017/18.
- The additional award of Disabled Facilities Grants for the year has been incorporated (£1m)

28. As at the end of December 2016, there is a forecast net underspend against the Capital Programme of £6.4m, 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- Managing Income

36. 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 £15.9m. 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 Sundry Debt Analysis by Directorate

Directorate	Outstanding Value £000's	Average Value £
People	17,724	1,606
Resources	317	568
Neighbourhoods	3,416	353
Place	5,387	1,549
City Director	135	9,627
Corporate & Other	3,632	1,691
TOTALS	**30,610**	875

Extract 5 – Risk Assessment

APPENDIX D

OVERALL RISK ASSESSMENT: PERIOD 9 FINANCE REPORT

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, the result of the application for mandatory charitable relief made by a number of hospital trusts and the transfer of properties between rating lists. Once these changes are made the Council may have to refund several years back dated rates from a single years income.

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, the delivery of the Arena and Bristol Temple Meads Easts (development area around the arena);
- current lack of policy clarity on proposed changes to business rate retention;
- 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.

DIRECTORATE RISK ASSESSMENT: RESOURCES

ICT Risks identified:

- Unexpected business demand, such as a result of an Ofsted, or other regulatory body, inspection.
- 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.
- Remedial actions in the event of sudden or unanticipated change of law or statue.
- Potential additional costs incurred as result of local/regional elections.
- The potential for additional costs incurred as result of currency fluctuations or due to major external influences such as Brexit.
- Capacity to deliver the required pace of change, set upon a backdrop of reducing resources through VS.
- Restructure of the ICT function will require short term additional flexible resource to ensure that approved service projects that have savings requirements, can still be delivered.

  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.

HR 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. Stress risk assessments may be required to assess the impact on employees and this could lead to a requirement to prioritise key activities that are achievable, consider temporary resources, or work ceasing.

- Capacity to deliver the required pace of change, set upon a backdrop of reducing resources through VS. Restructure of the HR function will require short term additional flexible resource to ensure that approved service projects that have savings requirements can be delivered. However, this is expected to be able to be delivered within the proposed financial envelope.

- 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-restructure. 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.

- The staff survey has highlighted a number of key areas for consideration that will require detailed attention to address them.

Legal Services Risks Identified (including 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 arears 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 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.

Change Services (incl. PMO) Risks identified:

- Where projects were relying on internal resources to support the delivery of service related projects but due to lack of available resources may need to request external resource which could have a higher cost implication.
- Unfilled vacancies in the team due to the recruitment freeze, in addition to previous reduction through VS, leading to resource pressures. In particular in management roles increasing pressures and the ability of the service to respond quickly to requests/ needs
- Staff Retention – experienced change delivery staff (e.g. Project Managers, Business Analysts, IT Specialists) with marketable skills could opt to leave the organisation, intensifying resource pressures and resultant higher costs already referenced above.
- Unexpected business demand (winning unexpected bids and needing Change resource to deliver them, unexpected IT changes which require change input etc).
- Risk that CPG group will trigger previously unexpected/not-anticipated demand.
- The Change Business Partners are currently covering the Service Manager role and working with Finance colleagues to manage the budget position and year end forecast, to mitigate this risk.