

## Extracts – Q1 Finance Report, Business Change

### Extract 1

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**

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
<b>SUB TOTAL – SPENDING ON SERVICES</b>	<b>317.2</b>	<b>351.5</b>	<b>34.3</b>
Other Budgets *	28.2	23.0	(5.2)
<b>TOTAL</b>	<b>345.4</b>	<b>374.5</b>	<b>29.1</b>

### Extract 2

#### 13.4 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
<b>TOTAL</b>	<b>£2,737</b>	

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.

### **13.5 City Director - £0.0m**

<b>2016/17 Budget</b>	<b>Gross Expenditure £m</b>	<b>Gross Income £m</b>	<b>Net Revenue Budget £m</b>
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.

### 13.6 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
<b>TOTAL</b>	<b>£34.7m</b>
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
<b>TOTAL TO BE IDENTIFIED</b>	<b>£12.4m</b>
Overspend against change programme expenditure	£1.4m
<b>TOTAL CHANGE PROGRAMME</b>	<b>£13.8m</b>

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.

### **13.7 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.

### **Extract 3**

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

<b>Business Change</b>	
- Re-profile spend from 2015/16 to 2016/17 in relation to the Bristol Workplace programme.	6.0
- Bristol Operations Centre Project vired to Neighbourhoods.	(5.5)
<b>Sub-total Business Change</b>	<b>0.5</b>

## **Extract 4**

### **F - Treasury Management**

1. 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.
2. 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).
3. 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.
4. 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.

## **Extract 5**

### **Risk Assessment**

5. 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.