Extracts Period 5 Finance Report – Business Change/Resources

Extract 1

11. 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 5 **Directorate**	**Net Budget £m**	**Forecasst Outturn £m**	**Forecast Outturn Variance (Under) /Over Spend £m**	**Forecast Outturn Variance at Period 4 £m**	
People	207.3	220.6	13.3	12.4	↑
Place	18.5	25.7	7.2	8.6	↓
Neighbourhoods	70.1	69.1	-1.0	-0.9	↓
Resources	32.2	35.1	2.8	3.8	↓
City Director	3.0	3.2	0.2	0.0	↑
Corporate Savings Programme (Net Budget)	-12.2	4.3	16.6	15.3	↑
SUB TOTAL – SPENDING ON SERVICES	**318.9**	**358.1**	**39.2**	**39.1**	↑
Other Budgets *	26.5	20.2	-6.3	-6.3	
Released from Reserves	0.0	-1.8	-1.8	0.0	↓
TOTAL	**345.4**	**376.5**	**31.1**	**32.8**	↓

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

Extract 2

12.4 Resources - £2.8m Pressure

2016/17 Budget	**Gross Expenditure £m**	**Gross Income £m**	**Net Revenue Budget £m**
Resources	51.2	(19.0)	32.2

The main variance within Resources is within the ICT Service. This 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 overall pressure of £3.7m represents a reduction of £0.3m since quarter 4, which is mainly as a result reductions in the ICT forecast.

The overall forecast pressure for Business Change of £2.8m represents an improvement of £1m since Period 4. The forecast position has improved across all service areas.

ICT – Pressures £3.7m

In Period 5, the ICT budget pressure was reduced by £292,000.

The total movement was due mainly to the following items:

Reason	Detail	Value
ICT Support Costs	Reassessed forecast of Hardware & Maintenance costs, including £376k of new costs. Significant new items include: • Risk Based Verification Software £67.3k • Recruitment Module 2nd year costs £61.3k • Continuation of Selima Payroll/HR. £199k Measures being taken to seek funding for these items.	+£546,000
Reduced employee costs	Employee cost savings	-£272,000
Reduced employee costs	Deletion of posts in Digital Transformation service following Voluntary Severance and resignations	-£255,000
Revised income	Revised income forecast from Trading With Schools	-£124,000
Reduction in Digital Transformation supplier costs	Review of systems identified opportunity to cancel one support contract from November saving £15k per month.	-£60,000
Digital Transformation contract staff	Failure to appoint to several key roles within the service requires continued cover by contract staff to mitigate risk of non-delivery of digital services and ensure support for fault-fixing. Most contractors will leave the service at the end of October, with all going by end December 2016.	+£31,000
Reduction in Digital Transformation recharges to Change Programme	Reduction in Digital Transformation posts above also results in reduction in balancing recharges	+£53,000
Reduction in Interim Service Director costs	Interim Service Director leaving contract early, reducing forecast costs	-£97,000
Forecast savings ICT Sourcing Programme	Reduction in ICT Sourcing Programme costs mainly relating to forecast of (£100k) income from Guidant	-£100,000

<u>Active mitigation</u>

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.

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.

Ongoing activities to avoid increasing pressure on ICT budget

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.

Risks with major budget impact identified

The following is a summary of risks that have been identified to the current budget position within ICT. 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 from reserves or contingencies.

- 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. PSN, PCI;

- 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;

- Remedial actions in event of serious incident or natural event , (e.g. terror attack/fire/flood), resulting in loss of hardware and subsequent replacement costs;

- 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);

- Remedial actions in event of Data Breach or Loss;

- Remedial actions in event of major supplier commercial failure. (Steven already has this in his list);

- Software Development & Support Service is releasing contractors and switching to internal staff from November 2016, but demand for digital delivery and integration of packaged applications from council services remains higher than capacity. Retaining one additional team of external resources would cost approx. £150k per quarter.

Human Resources – Surplus £0.5m

Human Resources is currently reporting a forecast of £0.5m underspend. This mainly relates to £485k savings within STS HR relating to unfilled vacancies and additional savings released within this service area. A further £60k underspend within Redeployment is offset by a pressure within Admin Business Support of £49k relating to salaries and early retirement plus other minor variances.

There is a variation of £345k saving from Period 4 to Period 5 and this mainly relates to a full review of the staffing budget and the details are shown as follows:

- HR (£324k) additional savings mainly due to unfilled vacancies to date and savings within the marketing/advertising budget;
- Graduate programme with a further (£16k) savings;
- Holiday purchase scheme increase of estimated income of (16k);
- Inclusion of Media/PR and Marketing to the HR structure with savings of (£20k);
- Offset by increased expenditure with Occupational Health of £30k

<u>Risks identified</u>

- Unfilled vacancies plus staff leaving through VS will deliver savings but may increase workplace pressures
- 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 income target is not realised. Also, staff leaving on VS who are in the scheme will cause loss of income in the current year

Legal Services – On Budget
Legal Services are currently reporting an outturn forecast variance that is broadly on budget. However, as the spend is demand led and is dependent on cases brought against and by the Council, there is the risk that spend will fluctuate and the forecast will change through the year.

Finance – On budget
Finance continue to review spend on the service budget to minimise the outturn forecast spend. As previously reported though the Finance Transformation, work must continue and will be funded from reserves earmarked for this purpose.

12.5 City Director - £0.2m Pressure

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

The Directorate is forecasting a pressure of £0.2m which mainly relates to the cost of one off payments paid to employees offset by savings within the employee budget. 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.

12.6 Corporate Savings Programme - £16.6 Pressure

The current forecast pressure of £16.6m represents an increase of £2m since quarter 4. The reason for this is twofold. Firstly, a review of forecast salary savings has taken place. Most salary saving forecasts estimated savings taking effect from 30th September 2016. The council is awaiting the general fund budget effect of the voluntary severance programme (taking place through September 2016) and therefore it is considered prudent to revise the effective date of these savings. Secondly, a number of savings will take longer to delivery (e.g. due to decision making requirements) and these have been re-profiled to take into account the future delivery date and expected outcomes.

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.

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[1]	13.3
Release of Contingency	6.3
TOTAL TO BE IDENTIFIED	**15.1**
Overspend against change programme expenditure	1.5
TOTAL CHANGE PROGRAMME	**16.6**

The Council has initiated a Council Wide programme of activities and work streams 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 5, there has been a reduction in the level of identified / secured savings due to:

- Amendment of the effective date for salaries savings delivered through the Voluntary Severance Programme already assumed;
- 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, which includes the delivery of IT solutions. 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.

[1] The table has been updated, as the original table as presented did not include the correct Savings Identified/Secured amount – the totals presented in the report were accurate as at Period 5.

12.7 Other / Corporate Budgets – (£6.3m) Underspend

The forecast underspend in Period 5 has remained as £6.3m. 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. Proposed current usage of the contingency was reported in the Period 4 report and is summarised in the table below:

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)
Period54 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. As previously reported, 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.

Extract 3

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 30 below.

Table 5: Capital Programme Forecast Expenditure & Financing

	Period 4 2016/17 Budget £m	Capital Review Re-profile of budget to 2017/18 £m	Capital Budget proposed adjustments £m	2016/17 Combined Budget £m	2016/17 Forecast Outturn £m	Forecast Outturn Variance £m
People	38.1	(1.9)	3.0	39.2	39.6	0.4
Place	131.4	(54.2)	11.1	88.3	89.2	0.9
Neighbourhoods	10.5	(0.7)		9.8	11.0	1.2
Business Change	24.0	(5.3)		18.7	18.7	0.0
Housing Revenue Account	56.0			56.0	58.0	2.0
Corporate	10.3			10.3	8.2	-2.1
Totals	**270.3**	**(62.1)**	**14.1**	**222.3**	**224.7**	**2.4**
Finance By:						
Prudential Borrowing				79.7	79.8	0.1
Capital Grants				67.7	67.7	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	58.0	2.0
TOTAL CAPITAL FINANCING				**222.3**	**224.7**	**2.4**

Extract 4

Corporate ERP Project

33. A project to deliver an integrated employee resource application to replace the finance, HR and Payroll systems, commenced in December 2014. To date we have been unable to go live with the product. We are in the process of commissioning a review to gain an independent perspective of the issues and challenges. Whilst commissioning this review we continue to have discussions with the external supplier and systems integrator.

34. As a result of the delay and to avoid the risks of the finance system becoming unsupported we are upgrading the finance system and extending the contract for the current HR and Payroll systems. This will incur additional expenditure above that which has been budgeted for and has yet to be factored into the forecasts. The impact of this will be reported in future updates.

Extract 5

F - Treasury Management

46. No borrowing has been undertaken to date during 2016/17. Net debt (borrowing less investment) has increased by £25m between the 31st July and 31st August from £261m to £286m, due to an expected change in grant income.

47. The average level of funds available for investment purposes during the first five months of the year was £172m. The return for period was 0.60% compared to the recognised benchmark of 0.31% (7 day Libid).

48. In addition the Council's agreed policy is to defer borrowing while it has significant levels of cash balances (£128m at 31st August 2016). 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.

Extract 6

Risk Assessment

51. 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, 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;
- 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.