Extracts Period 6 Finance Report – Business Change/Resources

Extract 1

9. As previously reported, officers have established a series of work streams designed to reduce the deficit (see paragraph 9 of the Period 5 Finance Report to Cabinet on 1st November 2016). A summary of the actions taken and outcomes of these actions is summarised below:

Item	Action Taken	Potential Financial Impact
1. Review of the Capital Programme	• The programme has been reviewed and £62.1m of capital expenditure has been re-profiled from 2016/17 into 2017/18 (as approved by Cabinet on 1st Nov 2016). A further £1.1m has been identified in Period 6, which is reflected in this report. • We have reviewed the funding sources of the capital programme, identifying an element of grant funding that can be applied to revenue rather than capital.	Potential release of c£1.3m grant funding to general revenue fund.
2. Voluntary Severance Programme	This was implemented through September 2016. The total reduction in 2016/17 revenue budgets & spend is £3.9m, with a further £5.4m to be delivered in 2017/18, a total of £9.3m. This includes reductions secured against Public Health, DSG, HRA etc also. These savings are reflected in the current forecasts. This has resulted in a workforce reduction of approximately 300 staff.	There is a reduction in spend of £3.9m in 2016/17 and a further £5.4m in 2017/18.
3. Technical Accounting Adjustments	• There has been a thorough review of the use of reserves. £1.8m was released from reserves to reduce the deficit in Period 5, with a further £0.6m released this month; • We have reviewed the Council's potential use of new powers on the Flexible Use of Capital Receipts, which would allow the release of funding, and a report	• £2.4m reduction in forecast outturn deficit, included in forecast; • Fund £5.3m transformational costs from Capital Receipts & release funding from

	will be presented to Full Council on 13th December 2016 with appropriate recommendations (please also see Section C : Reserves); • An initial review of the Council's Minimum Revenue Provision Policy has been concluded and the relevant conclusions are recommended to be referred to Full Council.	reserves • MRP Base Budget adjustment: anticipated in-year reduction to capital financing costs of £4.3m
4. Capital Disposals Programme See paragraph 38	Property Services and the Property Board (officer group) have reviewed the programme of capital disposals, identifying assets for sale in 2016/17 through to 2019/20 and beyond.	• Capital receipts of £5.3m are forecast for 16/17, with a further £15m over 2017/18 & 2018/19.
5. Reduction in non-essential expenditure	This is being reviewed through Directorate Leadership Teams and has been considered by SLT. Budget managers are responsible for forecasting expenditure in these areas, and are being challenged through the regular monitoring process.	• There has been a reduction in marketing and advertising forecast spend by £0.5m; • Reduction of equipment spend of £150k
6. Review of Income	A Directors' Working Group (officer group) has been set up and will be reviewing income generating opportunities. This group has been specifically tasked with reviewing all sources of income, to maximise income receipts.	
7. Review of agency spend	All off-contract agency spend has been reviewed – all such contracts to be ended by 31st December 2016. Reductions in forecast agency spend is reflected in the forecasts.	• There has been a significant reduction in the spend on IT agency from £1.1m in Q1 to £0.8m in Q2. • There are pressures in social care workforce which has increased spend in these areas.

8. Budget Review Meetings	These have now been completed, identifying reserves that could be released in the financial year, see above.	
9. Review of earmarked reserves (see Section C: Reserves)	• MRP Clawback – to be reviewed as part of the review on the Council's MRP policy;	

10. The following Table summarises the potential financial impact of these actions on the current general fund forecast outturn deficit, to the extent that they are not already reflected in the forecast.

Table 1: Potential Financial Impact on Forecast Outturn Deficit of Mitigating actions taken.

	£m	£m
Period 6 Forecast Outturn Deficit		27.5
Less: Release grant funding to revenue	c.1.3	
Less: Flexible use of Capital Reserves to release reserves	c.5.3	
Less: Adjustment to MRP Policy	c.4.3	
TOTAL POTENTIAL REDUCTIONS:		(10.9)
REVISED FORECAST OUTTURN DEFICIT (if actions taken)		**16.6**

Extract 2

11. The following forecasts are based on actual expenditure to the end of September 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 £27.5m represents 8.0% 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. Also included in the appendix is information on Year to Date spend, compared to Year to Date net budget. This is provided for additional information. Budgets are profiled equally across the year, but spending profiles may be different.

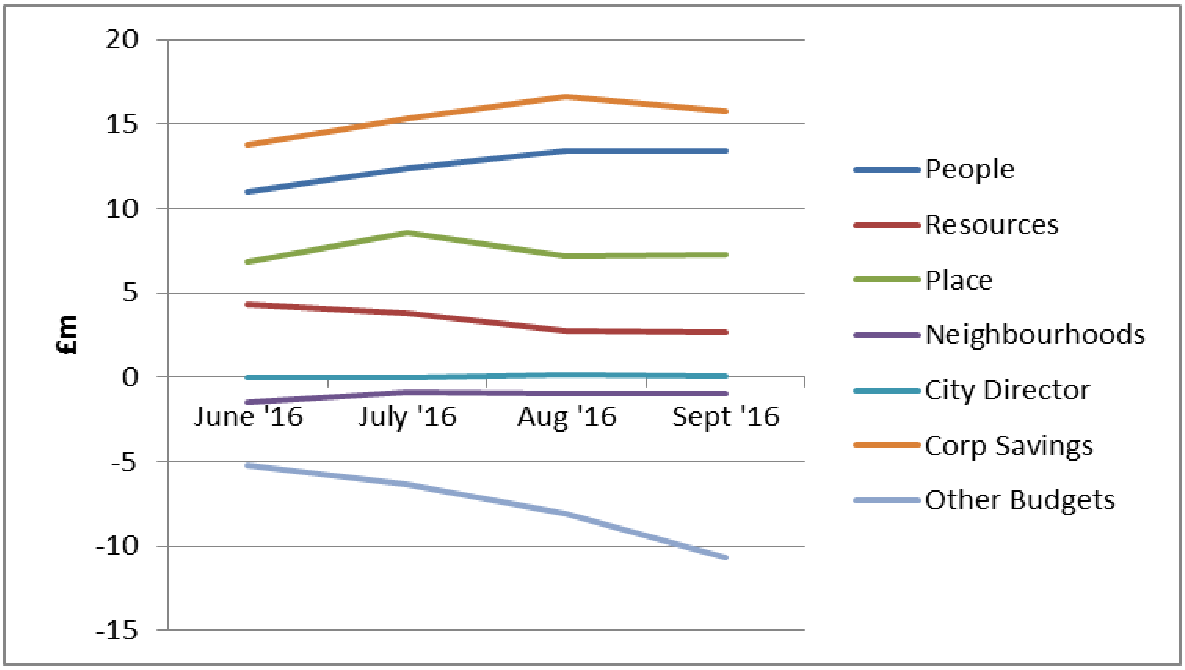
Table 2: General Fund Forecast Net Expenditure

General Fund Revenue Budgets - Period 6	Net Budget	Forecasst Outturn	Forecast Outturn Variance (Under)/Over Spend	Forecast Outturn Variance at Period 5	
Directorate	**£m**	**£m**	**£m**	**£m**	
People	207.0	220.3	13.3	13.3	
Place	17.9	25.3	7.3	7.2	↑
Neighbourhoods	69.7	68.7	-1.0	-1.0	
Resources	30.5	33.1	2.7	2.8	↓
City Director	2.0	2.1	0.1	0.2	
Corporate Savings Programme (Net Budget)	-10.2	5.6	15.8	16.6	↓
SUB TOTAL – SPENDING ON SERVICES	**316.9**	**355.1**	**38.2**	**39.2**	↓
Other Budgets *	28.6	20.2	-8.3	-6.3	↓
Released from Reserves	0.0	-2.4	-2.4	-1.8	↓
TOTAL	**345.4**	**372.9**	**27.5**	**31.1**	↓

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

13. 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 3

14.4 Resources - £2.7m Pressure

2016/17 Budget	Gross Expenditure £m	Gross Income £m	Net Revenue Budget £m
Resources	49.6	(19.1)	30.5

The overall forecast pressure for Resources of £2.7m represents an improvement of £0.1m since Period 5.

The main variance within Resources is within the ICT Service, which has been offset by savings in other areas. This 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 £3.8m represents an increase of £0.1m since Period 5, which is mainly as a result of increased employee costs.

ICT – £3.8m Pressure
In Period 6, the ICT budget pressure increased by £0.1m. This movement is attributable to previously under-forecast workforce cost pressures in the Software Development Service.

Active mitigation
The ICT management team are working through a series of opportunities for mitigation and further cost reduction. The following actions are being taken:

<u>Review of Agency Spend</u>
A full review is being undertaken to reduce agency spend, in particularly focussing on those contractors/agency staff who have been in post longer than 13 weeks with a view to ending these arrangements and transitioning to a service delivery model that does not incur contingent workforce fees where it is deemed they are not 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.

<u>Application Rationalisation</u>:
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.

This will be reviewed by the Service Director.

In year contract management:
Commissioning and Supplier Relationship Management (CSRM) will 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 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 continues to be 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 Service Director now also reviews all weekly ICT project report summaries.

Risks 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. 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; 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) and remedial actions in event of Data Breach or Loss;
- Remedial actions in event of major supplier commercial failure;
- 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.

Human Resources – Surplus £0.5m
Human Resources continues to report a forecast of £0.5m underspend. This mainly relates to £485k savings within transactional HR relating to ongoing and prudential 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.

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;
- 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 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
Electoral Services has moved from City Director to Resources during Period 6 and has a pressure of £1.3m in relation to increased costs in Electoral Registrations due to change of regulations, and the cost of elections in this financial year (the cost fluctuates between years). This will be managed in 2016/17 through a drawdown from reserves, which is built into the current forecast. Moving forwards, the budget requirement for 2017/18 and future years has been reviewed and the fluctuating nature of the cost of elections will be managed through a “balancing” reserve.

This is a small underspend of (£30k) reported for Legal Services at Period 6, which is a (£21k) improvement from Period 5, due to minor variances across Legal Services. Expenditure can be volatile though and the risks are highlighted below:

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.

Finance – On budget
Finance continue to review spend on the service budget to minimise the outturn forecast spend. Expenditure is being maintained within budget by holding a number of vacancies within the service and stopping non-essential expenditure against non-staffing budgets. As previously reported though, the Finance Transformation work must continue and will be funded from reserves earmarked for this purpose.

Finance 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;

Policy and Planning – £0.4m Surplus
Policy and Planning is currently under review with Corporate Communications recently moving under the Service Director for HR, for the Interim. There are a number of staff vacancies across these services and also savings from redundancies that contribute to the current forecast underspend. There are various minor variances as set out below:

- Performance and Infrastructure (£172k) underspend relates to salaries;
- Policy team (£136k) underspend relates to employee costs;
- Wellbeing Fund (£105k) underspend. This cost centre will move to the People Directorate for Period 7, which will reduce the Resource underspend but be reflected in the People Directorate forecast.

It should be noted that there are also pressures in relation to the resourcing of devolution within the Council above the £250k agreed as part of the budget report. This is largely driven by an increasing need to back fill posts across almost all directorates and create more capacity to deliver the current deal and develop future deals. At present a £25k forecast pressure is reported, but this is likely to increase significantly as a result of a review being led by the interim Chief Executive supported by SLT.

Bristol Futures - £0.1m surplus
Fixed term external funding is being used to reduce staff costs. Further savings have been made across the budgets by reducing operational activity and commissioning. For future Periods further reductions in costs will be seen from significantly reducing the management costs through removal of the Service Director post and one of the three Service Manager posts. This has resulted in the joining of City Innovation, Sustainability and Civil Protection teams into one service. In addition voluntary severance and vacancy management has reduced staffing levels significantly.

14.5 City Director - £0.1m Pressure

2016/17 Budget	Gross Expenditure £m	Gross Income £m	Net Revenue Budget £m
City Director	2.0	(0.0)	2.0

The budget for the City Director has reduced by £1.6m since Period 5 due to Electoral Services moving into the Resources Directorate. The Directorate is forecasting a pressure of £0.1m, which mainly relates to the cost of one off payments paid to employees offset by savings within the employee budget and the costs of the Interim Chief Executive and Interim Director of Resources.

14.6 Corporate Savings Programme - £15.8 Pressure

The current forecast pressure of £15.8m represents a reduction of £0.8m since Period 5. The reason for this is twofold. Firstly, the Project Management Office and delivery teams have reviewed resources and staffing requirements, resulting in reduced costs of £0.1m. The current review of savings identified to be delivered has increased by £0.7m. It is expected that the forecast position may fluctuate during the next few months as planned restructures are signed off and implemented.

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 3: 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	14.1
Release of Contingency	6.3
TOTAL TO BE IDENTIFIED	**14.3**
Overspend against change programme expenditure	1.5
TOTAL CHANGE PROGRAMME	**15.8**

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 6, the value of savings identified to be delivered has increased slightly since Period 5, and this is reflected in the forecast above.

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

14.7 Other / Corporate Budgets – (£8.3m) Underspend

The forecast underspend in Period 6 has increased to £8.3m. 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 Council receives S31 grant each year to cover various business rate reliefs. The budget for this financial year was assumed to be £1.0m. Current forecasts indicate this is likely to be £3.0m in this financial year, which is £2.0m above the budgeted amount. This is now reflected in the forecast for Other / Corporate Budgets.

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 previously reported, to date £0.8m has been set aside to cover the forecast cost of workforce court ruling and support to the Children's Service as part of the Ofsted Improvement Plan.

Therefore, the remaining contingency is reduced to £2.0m and it is assumed that this will be required by the end of the financial year. For example, a potential pressure relating to unaccompanied child asylum seekers has been identified. We do not expect any additional funding from central government to cover the full cost that may be incurred by the Council, as outlined in 14.1 above. In this event, we will need to consider using this contingency to manage this cost pressure. In addition, as noted in 14.4 above, there are likely to be additional costs arising from Devolution, and again funding for this may be required from the Corporate Contingency.

Extract 4

31. The following table sets out the forecast of spend by Directorate. Additional detail is provided at Appendix B. Proposed changes to the capital programme, presented to the Capital Board on 25 October are detailed in table 6. These will be reflected in the capital programme when reported for Period 7.

Table 5: Capital Programme Forecast Expenditure & Financing

	Period 5 2016/17 Budget £m	Capital Review Re-profile of budget to 2017/18 £m	2016/17 Combined Budget £m	2016/17 Forecast Outturn £m	Forecast Outturn Variance £m
People	39.2		39.2	41.4	2.2
Place	88.3	(1.0)	87.3	88.0	0.7
Neighbourhoods	9.8		9.8	9.1	(0.7)
Resources	18.7		18.7	18.7	0.0
Housing Revenue Account	56.0		56.0	57.3	1.3
Corporate	10.3	(0.1)	10.2	10.3	0.1
Totals	**222.3**	**(1.1)**	**221.2**	**224.8**	**3.6**
Finance By:					
Prudential Borrowing			78.6	80.6	2.0
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	57.3	1.3
TOTAL CAPITAL FINANCING			**221.2**	**224.8**	**3.6**

Extract 5

Corporate ERP Project

36. 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.

37. 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 6

45. 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 7, if no further action is taken, the required bad debt provision is estimated to be £15.6m. 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 7 – Outstanding Debt Analysis by Directorate

Directorate	Outstanding Value £000's	Average Value £
People	16,679	1,515
Resources & City Director	748	9,141
Neighbourhoods	4,545	394
Place	4,988	1,509
Corporate & Other	4,140	398
TOTALS	**31,100**	**2,591**

Extract 7

F - Treasury Management

46. No borrowing has been undertaken to date during 2016/17. Net debt (borrowing less investment) has decreased by £7m between the 31st August and 30th September from £286m to £279m, due to expected changes.

47. The average level of funds available for investment purposes during the first six months of the year was £168m. The return for period was 0.60% compared to the recognised benchmark of 0.28% (7 day Libid).

48. In addition the Council's agreed policy is to defer borrowing while it has significant levels of cash balances (£135m at 30 September 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 8

Overall Risk Assessment

50. 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;
- 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.