

**Manchester City Council
Report for Information**

Report to: Audit Committee – 26 January 2017

Subject: Global Revenue Budget Monitoring Report to end of October 2016

Report of: City Treasurer

Summary

This report contains a summary of the Council’s revenue budget position based on an assessment of income and expenditure to the end of October 2016.

Recommendations

Audit Committee is requested to note the contents of the report.

Wards Affected: All

| Manchester Strategy outcomes | Summary of the contribution to the strategy |
|---|--|
| A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities | The effective use of resources underpins the Council’s activities in support of its strategic priorities |
| A highly skilled city: world class and home grown talent sustaining the city’s economic success | |
| A progressive and equitable city: making a positive contribution by unlocking the potential of our communities | |
| A liveable and low carbon city: a destination of choice to live, visit, work | |
| A connected city: world class infrastructure and connectivity to drive growth | |

Full details are in the body of the report, along with any implications for

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The report identifies a projected net revenue underspend of £0.995m for 2016/17, based on income and expenditure up to the end of October 2016.

With the likely scale of funding pressures and future resource reductions, it is important that the Council holds a robust position on reserves and maintains the ability to deal with issues that arise during the financial year.

Financial Consequences – Capital

The revenue budget includes funding to meet the capital financing costs of the Council. Changes in the capital programme can affect the budget to meet such costs.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

- The approved revenue budget for 2016/17

1. Introduction

- 1.1 The purpose of this report is to provide the Executive with a summary of the revenue budget position of the Council for 2016/17 based on an assessment of income and expenditure to the end of October 2016.

2. Background

- 2.1 Budget monitoring information is integral to supporting robust management arrangements across the Council; and is part of a programme of continuous improvement. Its purpose is to raise issues which need to be controlled through further management action and, as such, the position may change as work is done by Strategic Directors to bring spend back in line with budgets.
- 2.2 Budgets are being monitored on a monthly basis by senior management and monthly reports are also made to individual Executive Members through Strategic Directors.

3. Summary Budget Position

- 3.1 The table below summarises the current projected cash limit budget position for 2016/17 as at the end of October. An underspend of £0.995m is projected, made up of an overspend on Directorate budgets of £5.119m offset by an underspend on resources and corporate budgets of £6.114m.

| | Revised Budget £,000 | Forecast Outturn £,000 | Forecast variance P7 £,000 |
|--|---------------------------------|-----------------------------------|---------------------------------------|
| Total Available Resources | (530,445) | (532,107) | (1,662) |
| Total Corporate Budgets | 111,388 | 106,936 | (4,452) |
| Directorate Budgets | | | |
| Children's Services | 102,644 | 105,730 | 3,086 |
| Adults & Public Health | 157,701 | 162,367 | 4,666 |
| Corporate Core | 77,615 | 75,228 | (2,387) |
| Growth and Neighbourhood | 74,483 | 73,520 | (963) |
| Strategic Development | 6,614 | 7,331 | 717 |
| Total Directorate Budgets | 419,057 | 424,176 | 5,119 |
| Total Use of Resources | 530,445 | 531,112 | 667 |
| Total forecast over / (under) spend | 0 | (995) | (995) |

Resources Available

4. Total Available Resources

- 4.1 The overall forecast against resources is an overachievement of £1.662m, consisting of:

- Additional grants of £0.773m include £117k Education Services Grant, £439k New Burdens funding, and £217k in relation to the Fraud and Error Reduction Incentive Scheme;
- Business rates grants are expected to be £324k higher than budget mainly relating to Small Business Rates Relief and Long Term Empty Property Relief. These offset reduced business rates income as a result of higher than budgeted reliefs awarded;
- Fortuitous income of £0.565m made up of £185k saving in ICT in relation to British Telecom costs, a £10k release from the bad debt provision, £170k windfall income due to the dissolution of The Consortium of Local Authorities Special Programme (CLASP) and £200k from installing PV panels on house roofs;
- There may be variances on dividend receipts which will become clearer later in the year.

5. Business Rates and Council Tax

- 5.1 The council is responsible for the collection of local taxes (Council Tax and Business Rates). At the end of October, 57.34% of 2016/17 Council Tax had been collected compared to 57.26% at the same time last year. £3.9m of arrears has been collected compared to £4.1m at the end of October last year.
- 5.2 Business Rates collection is 62.1%, 0.8% behind last year, but 0.2% ahead of 2014/15. Whilst collection rates are slightly behind last year the continued volatility in the position for appeals means that it is very difficult to predict what the position for the year will be with any accuracy.
- 5.3 Income to be included in 2016/17 is fixed; any variances in collection will impact in 2017/18.

6. Grants

- 6.1 Notification has been received in relation to two specific external grants, the use of which was not confirmed as part of the 2016/17 budget setting process and therefore has been considered through the Revenue Gateway process in year.
- Synchronicity - The City Council was asked by the Future Cities Catapult and Digital Catapult to be the UK city partner in Synchronicity, an application to the European Commission's Horizon 2020 programme. Synchronicity is part of "Reference Zones in Cities", which primarily looks at how existing Internet of Things infrastructures could be used to leverage the "smart city" market through encouraging take up standards and integrated services, new and innovative pilot services within reference zone cities, and through a large scale innovation programme funding made available to small medium enterprises to accelerate the market for Smart City technologies and take up. With Manchester already committed to implementing a new infrastructure through CityVerve, this project looked at developing added value to enhance the impact and the profile of the CityVerve project. A grant of £180k over three years has been bid for, to fund a Project Manager and

travel costs to coordinate activity with the other Manchester partner, Manchester Metropolitan University and align with the CityVerve project.

Planned Use of Resources

7. Corporate Budgets

7.1 An underspend of £4.452m is forecast, this is due to:

- Budgets to be allocated - an underspend of £1.6m due to costs arising from the changes to the minimum wage being lower than budgeted in this financial year;
- Budget Pressures/Growth - an underspend of £2.320m. This is predominately due to the fact the £2m to fund the delivery of the Information and ICT strategy will now be spent in the next financial year.
- There is an expected underachievement of £85k against the historic property rationalisation saving; and
- Additional allowances and historic pension costs - £0.617m below budget due to the number of people receiving pensions reducing.

Directorate Requirements

8. Children's Services

8.1 Children's Services are projecting an overspend of £3.086m. The overspend is predominately due to a slower than budgeted for reduction in the number of Looked After Children (LAC) placements and an increase in individuals requiring support upon Leaving Care.

8.2 The total forecast overspend for children looked after is £4.169m. The key variances include: external fostering and external residential placements, currently 41 placements and 8 placements respectively above the assumed position at this point, resulting in a forecast £2.157m overspend. Leaving care supported accommodation placements are 12 above assumptions, a forecast £0.646m overspend. Internal Fostering placements are 10 above assumptions, with a forecast overspend of £0.580m. There is an LAC investment model base budget pressure of £0.873m and £87k of miscellaneous underspends.

8.3 In order to mitigate the above the Director of Children Services is currently reviewing placement plans, particularly for support for children and young people to leave the care system and carrying out a deep dive review of the leaving care arrangements that the council has in place. External foster care contract arrangements and the use of agency staff are also being reviewed.

8.4 Placement cost pressures are off-set by £0.870m underspend in Children's safeguarding relating to staffing costs, legal charges and commissioning budgets.

- 8.5 Education and Skills is projecting an overall underspend of £50k, this is as a result of vacancies.
- 8.6 Core and Back Office Services is projecting a £163k underspend. This is mainly as a result of Business Support staffing vacancies
- 8.7 Additional ring-fenced investment in social work capacity was approved in the summer. Recruitment is progressing with 71% of Team Managers now in post (with 10% agency staff covering vacancies) and 75% of Social Workers are in post or due to start (with 15% agency staff covering vacancies). The slippage in recruitment equates to a £2.4m underspend against the investment funding.

9. Adults Social Care and Public Health

- 9.1 Continued pressures are being felt on budgets for adult social care and the projected overspend is now £3.966m. The main reasons are as follows:

9.2 **Residential, nursing and homecare** – £1.125m overspend.

Of the projected overspend, £0.940m relates to homecare. In April, 21,208 homecare hours were commissioned and this has increased to 23,674 by the end of October. Although this is assisting people out of residential placements, an increase in the number of clients, 15 in the past month alone, is having a significant impact on the homecare budget. A recent analysis of homecare packages at both the low and high end of cost has confirmed that the packages commissioned were value for money and appropriate for the clients concerned.

Residential and nursing budgets are now projected to have an overspend of £0.600m by the end of the year. This is due to the delay in the new extracare provision which is now expected to open in the next financial year.

There is a further net overspend of £97k across a number of budgets. These pressures above are being partly offset by underspends on the carers budgets £340k and external supported accommodation £172k.

9.3 **Learning Disability** £2.048m overspend

This projected overspend is due to unachieved savings of £0.859m in year, pressures brought forward from 2015/16 (£1.036m), and ordinary residence settlements in year (£0.153m). Although the number of new packages of care is within budget assumptions set, the average complexity of need and resulting cost, is significantly higher than that budgeted by £1.2m.

The position reported is based on the assumption there will be c£1m received from concluding successful contract negotiations with providers, Continuing Health Care income is received and investment funding is applied. There is a concern that the number of new clients presenting with significant needs is going to increase between now and the end of the year.

9.4 **Mental Health** - £0.939m overspend

The projection is based on the current number of placements which includes an increase in clients aged over 65 years from 156 in April to 171 in October. There has been a further increase in October of 12 clients, 10 of whom are aged over 65 years and have presented with dementia needs,. The service are working on proposals to reduce the number of placements and provide appropriate levels of support including 'stepdown options' and ensure clients are moved into community provision when they are ready.

9.5 **Homelessness** - £0.433m overspend

The main pressure remains in bed and breakfast accommodation with an average number of 40 families and 110 single people for October. The movement over the last few months shows a decrease in the number of families but an increase in single people. A recovery plan has been drawn up by the service which includes plans for most clients to be able to move on; and additional provision to be made available.

9.6 **Commissioning** – is projecting an underspend of £0.228m predominantly due to staff savings

9.7 **Public Health and Adults Safeguarding** budgets are projected to breakeven.

9.8 **Core and Back Office** - £0.343m underspend. This is in the main due to staff vacancies in business support and in the learning and development budget.

9.9 **Mental Health Trust** - As reported in October there are additional non-recurring costs of £700k associated with the transfer of services provided by Manchester Mental Health and Social Care Trust to a specialist Mental Health Foundation Trust.

10. Corporate Core

10.1 The Corporate Core is forecasting an underspend of £2.387m. This is made up of underspends in Corporate Services of £1.814m and Chief Executives of £0.938m and an overspend of £365k for Highways.

10.2 **Corporate Services** underspend of £1.814m is made up of the following variances:

- Revenues and Benefits underspend of £0.520m due to underspends on administration costs and additional subsidy income.
- Shared Service Centre underspend of £380k due to workforce vacancies and overachievement in external income from sales of services.
- Financial Management underspend £0.660m due to a combination of workforce vacancies and running costs underspends.
- Workforce vacancies in areas such as Procurement, Customer Services, Audit Risk and Resilience resulting in an underspend of £405k.

- Capital Programmes Team overspend of £151k due to under recovery of costs from capital projects based on the current fee structure. Work is to conclude shortly on a revised fee structure.

10.3 **Chief Executives** underspend of £0.938m is made up of the following variances:

- Human Resources and Organisational Development (HR/OD) - £0.555m underspend from workforce vacancies and internal fee income.
- Legal - £165k underspend from workforce vacancies and increased internal and external income.
- Democratic and Statutory Services - £64k underspend arising from increased Coroners costs of £100k due to a high profile case offset by higher than forecast registrars fee income (£100k) and £64k underspend on other running costs.
- Workforce vacancies and other small variances in areas such as Policy, Partnerships and Research, Reform and Innovation, Communications, Executive Office and Corporate Items resulting in underspend of £154k.

10.4 **Highways** overspend of £365k made up of the following variances:

- Highways maintenance overspend of £1.463m.
- Shortfall on expected income for Manchester Contracts, the Capital Programme Team, on-street advertising and CCTV totalling £0.981m.
- Compensation claims underspend of £431k
- Surplus income from penalty charge notices for Bus Lanes of £1.648m. The overall Highways position is on the basis that a virement will be approved from the Transport Levy budget, with a corresponding increase in the amount of the levy funded from penalty charge notices income from Bus Lanes of £1.648m.

11. Growth and Neighbourhoods

11.1 The overall budget for Growth and Neighbourhoods is forecast to be underspent by £0.963m. The major variances are:

11.2 **Neighbourhoods Service**

- Waste Collection and Levy - £150k overspend due to increased initial costs of communication and logistics in relation to implementing the new waste collection arrangements. The position reported includes use of both corporate resources held in respect of the waste collection and disposal costs and the reserve for DCLG Grant. The position reported is on the basis that a drawdown of resources of £1.377m and virement of £1.5m from the Corporate budget will be approved.
- Leisure and Sports Development - £70k overspend due to lower than forecast sponsorship income for events.
- Grounds Maintenance - £150k overspend due to a combination of increased machinery costs and shortfall on workforce savings caused by the timescales for implementation of service redesign during 2016/17.

- Business Units - £283k underspend due to surpluses on fleet (£125k), Bereavements (£110k), Pest Control (£15k) and Manchester Fayre (£103k) with a deficit on Markets of £70k.
- Workforce budget underspends totalling £88k in Area Teams and Community Safety and Compliance.

11.3 **Planning, Building Control and Licensing** underspend of £1m due to a surplus in planning income from large projects. There are fewer new large projects in the pipeline and it is not expected that this underspend will increase significantly. However the forecast is on the basis that approval will be given for any further increase in the surplus, above the £1m already projected, to be transferred to a reserve for managing peaks and troughs in planning income in future years.

12. Strategic Development

12.1 The forecast is an overspend of £0.717m due to a reduction of £0.623m in income to the Council's investment estate and £176k overspend on Operational Property offset by an underspend of £82k on Facilities Management.

13. Housing Revenue Account (HRA)

13.1 The HRA is forecasting a £1.682m favourable variance as at the end of October. The main variations are as follows:-

- Bad Debt Provision - £498k underspend –
- Communal Heating (Income and Expenditure) - £323k underspend – due to a review of heating charges implemented from 2016/17.
- PFI Contractor payments - £0.922m underspend – The main issue is the ongoing delay in capital works at Brunswick which is resulting in a reduced monthly unitary charge and delayed capital payments.
- Rental income - £179k overachievement – Based on latest estimates of right to buys and void levels
- Revenue Contribution to Capital - £292k overspend – The additional contributions to capital expenditure relate to the Women's Direct Access Centre and to the new Housing Management System that is being installed.

13.2 The HRA ringfence arrangements require that any surplus/deficit in year must be transferred to/taken from the HRA reserve. At as end of October there is a forecast requirement for £6.221m of funding to be used from reserves. This would leave a balance of £45.838m in the HRA General Reserve at year end.

14. Environmental Initiatives

14.1 The 2016/17 Revenue budget included £2.1m for Environmental initiatives to be funded from the 1.99% increase to council tax. The allocation of £468k was reported in the October report and the following is a further call against this funding.

- The release of £1.5m to support the delivery of the Highways Reactive Maintenance Programme. The funding will be used to carry out small scale repairs to the Highway and Support the cleaning and repair of highway drainage.

15. Budget Virements

- 15.1 The revised budget for 2016/17 takes into account the following proposed virements, which require approval from Council as they are over £0.5m:
- As a result of the number of developments across the city planning income is forecast at £1m surplus at year end. It has been proposed that any future increase in the surplus in the current financial year is transferred to a reserve to support the position in future years.
 - Adults investment funding of £7.3m was agreed in the 2015/16 budget setting process. The investment priorities are intended to drive forward integration and the outcomes from the peer review. The directorate have achieved their ambitions for 2016/17 with £2.6m remaining uncommitted; it is proposed this is used in mitigation against the budget gap.
- 15.2 Executive is requested to approve the following virement which is less than £0.5m:
- As part of the recent Highways redesign it has been agreed that the CCTV service will transfer from Growth and Neighbourhoods to the Highways service, within the Corporate Core. In order to realign the CCTV services budgets a transfer of £285k between Growth and Neighbourhoods to the Corporate Core has been undertaken.

16. Reserves

- 16.1 The proposed use of reserves which have arisen from the carry forward of grants across financial years, in addition to that already planned, are as below:
- Collection and Street Cleaning Costs £1.337m – This relates to an unringfenced grant which was received from Communities and Local Government (CLG) in 2014/15 for street cleansing and recycling collections. It is proposed this is used to support the costs of implementing service change in line with the report to Council in July 2016. This will enable the Council to meet the waste disposal savings (fully year savings of £2.4m) through a reduction in residual waste in conjunction with a programme of education, engagement and enforcement.

17. Prudential Borrowing Indicators

- 17.1 As part of the Prudential Borrowing regime, the Council sets a range of indicators designed to ensure that the borrowing it enters into is sustainable. These indicators are monitored regularly to ensure that they are not breached and are reported in **Appendix 1**.

18 Conclusion

18.1 The Global Revenue Budget Monitoring position presents information based on projections as at the end of October 2016.

18.2 An underspend of £0.995m is forecast. However within that forecast are a number of high risk areas which will be kept under review, and mitigation sought where necessary. All Directorates will continue to work towards greater efficiencies and accelerating savings where possible in order to support the overall financial position of the City Council.

APPENDIX 1

PRUDENTIAL BORROWING INDICATORS AS AT END OF OCTOBER 2016

| No | Prudential Indicator | Target | Actual as at end of October 2016 | Target Breached Y/N | | |
|----|--|--|----------------------------------|---------------------|-----|---|
| 1 | Ratio of Financing Costs to Net Revenue Stream | Non – HRA | 10% | 9.8% | N | |
| | | HRA | 3.9% | 3.9% | N | |
| 2 | Capital Expenditure | | £m | £m | | |
| | | Non – HRA | 399.6 | 279.0 | N | |
| | | HRA | 31.3 | 25.1 | N | |
| | | Total | 428.9 | 304.1 | N | |
| 3 | Capital Financing Requirements | | £m | £m | | |
| | | Non – HRA | 1,106 | 991.8 | N | |
| | | HRA | 249 | 243.7 | N | |
| | | Total | 1,348 | 1235.5 | N | |
| 4 | Authorised Limits for External Debt | | £m | £m | | |
| | | Borrowing | 1,272.5 | 598.3 | N | |
| | | Other Long Term Liabilities | 216 | 148.0 | N | |
| | | Total | 1,488.5 | 746.3 | N | |
| 5 | Operational Boundaries for External Debt | Borrowing | 1,018.5 | 598.3 | N | |
| | | Other Long Term Liabilities | 216 | 148.0 | N | |
| | | Total | 1,234.5 | 746.3 | N | |
| 6 | Upper Limits for Fixed Interest Rate Exposures | Net Borrowing at Fixed Rates as a percentage of Total Net Borrowing | 92% | 57% | N | |
| 7 | Upper Limits for Variable Interest Rate Exposures | Net Borrowing at Variable Rates as a percentage of Total Net Borrowing | 90% | 43% | N | |
| 8 | Maturity Structure of Borrowing | | Lower Limit | Upper Limit | | |
| | | under 12 months | 0% | 70% | 0% | N |
| | | 12 months and within 24 months | 0% | 100% | 31% | N |
| | | 24 months and within 5 years | 0% | 90% | 65% | N |
| | | 5 years and within 10 years | 0% | 70% | 1% | N |
| | | 10 years and above | 0% | 70% | 3% | N |
| 9 | Upper Limits for Principle Sums Invested for over 364 days | | £0 | £0 | N | |