Manchester City Council
Report for Resolution

Report to: Executive – 8 February 2017

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

Recommendations

The Executive is requested to:

1. Note the contents of the report.

2. Approve the proposed use of additional grants as set out in paragraph 6.

3. Approve the use of contingency as set out in paragraph 7.2.

4. Note the allocation of budget pressures as detailed in paragraph 14; in line with the process approved in the budget report to Executive on 17 February 2016.

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 £1.644m for 2016/17, based on income and expenditure up to the end of December 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 December 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 December. An underspend of £1.6m is projected, made up of an overspend on Directorate budgets of £7.5m offset by an underspend on resources and corporate budgets of £9.1m.

	Revised Budget	**Forecast Outturn**	**Forecast variance P9**
	£,000	£,000	£,000
Total Available Resources	**(530,445)**	**(533,115)**	**(2,670)**
Planned Use of Resources			
Corporate Budgets			
Total Corporate Budgets	**110,031**	**103,566**	**(6,465)**
Directorate Budgets			
Children's Services	103,027	107,776	4,749
Adults & Public Health	158,675	164,332	5,657
Corporate Core	77,585	74,326	(3,259)
Growth and Neighbourhood	74,513	74,037	(476)
Strategic Development	6,614	7,434	820
Total Directorate Budgets	**420,414**	**427,905**	**7,491**
Total Use of Resources	**530,445**	**531,471**	**1,026**
Total forecast over / (under) spend	**0**	**(1,644)**	**(1,644)**

Resources Available

4. Total Available Resources

4.1 The overall forecast against resources is an overachievement of £2.670m, consisting of:

- Additional grants of £0.796m are made up of £117k Education Services Grant and £679k New Burdens funding;
- 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;
- Other dividends income of £0.817m is projected made up of £0.600m from the NCP dividend which was recently announced and £217k income for the Piccadilly Triangle dividend. This is £417k over the budgeted figure;
- Fortuitous income of £1.133m is reported which is made up of £185k saving in ICT in relation to BT costs, £60k release from the bad debt provision, £170k windfall income for the dissolution of the Consortium of Local Authorities Special Programme (CLASP), £250k from installing PV panels on council house roofs, £300k from Manchester Central and £171k due to receipt of a wireless concession fee.

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 December, 74.33% of 2016/17 Council Tax had been collected compared to 74.13% at the same time last year. £5.1m of arrears has been collected compared to £5.4m at the end of December last year.

5.2 Business Rates collection is 78.65%, 0.07% behind last year. 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 a specific external grant, 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.

- Northampton Road - removal of road and underground services - £188k
  The removal of the road will result in one large development site; currently the road dissects the site. Using the funds from the HCA to carry out the works before marketing the site means that a greater land value will be achieved, resulting in a larger capital receipt or ground rent.

Planned Use of Resources

7. Corporate Budgets

7.1 An underspend of £6.465m is forecast, this is due to:

- Budgets to be allocated - an underspend of £2.3m due to costs arising from the changes to the minimum wage being lower than budgeted in this financial year (£1.6m) and £200k set aside for Universal Access is not required this year, and £0.5m of non-pay inflation not required this year;
- Budget Pressures/Growth - an underspend of £2.420m as detailed in paragraph 14.4;
- An underspend of £0.601m against the £1.5m set aside for additional costs relating to Waste Disposal (See below), and £600k unallocated contingency is not expected to be released this year;
- Additional allowances and historic pension costs - £0.629m below budget due to the number of people receiving pensions reducing; and
- An expected underachievement of £85k against the historic property rationalisation saving.

7.2 Requests for funding from the £1.5m waste contingency have been considered by the Treasurer and are recommended for approval. A virement of £899k to Growth and Neighbourhoods is recommended to support non levy waste disposal for schools (£480k), additional disposal costs (£219k) and waste levy (£200k) due to organic disposal,

Directorate Requirements

8. Children's Services

8.1 Children's Services are projecting an overspend of £4.748m. The overspend is predominately due to the costs arising from a slower reduction in the number of Looked After Children (LAC) external placements against budget assumptions and an increase in individuals requiring support upon Leaving Care.

8.2 The total forecast overspend for Looked After Children placements is £4.408m. The key variances include: external fostering and external residential placements, currently 61 placements and 7 placements respectively above the budgeted position at this point, resulting in a forecast £3.314m overspend. Internal Fostering placements are now moving into alignment with budget assumptions but the timing to later in the financial year together with a significant increase in unit cost, results in a forecast overspend of £0.617m. The LAC investment model includes a one-off pressure in 2016/17 of £0.873m and there is an underspend on Multi Treatment Foster Care and Temporary Connected and Approved Persons of £225k and £171k of miscellaneous underspends.

8.3 The forecast Permanence and Leaving care overspend is £1.289m. Leaving care supported accommodation placements are 15 above budget assumptions, a forecast £0.965m overspend. The increased numbers of families with children coming into the city and qualifying for support under Section 17 results in an overspend of £129k. There is a further £195k overspend which mainly relates to additional support costs relating to complex, high cost placements.

8.4 The LAC Placement cost pressures are being off-set by a £0.746m underspend in Children's safeguarding relating to staffing costs, legal charges, transport and training and commissioning budgets.

8.5 Education and Skills is projecting an overall underspend of £163k, this is mainly as a result of vacancies.

8.6 Core and Back Office Services is projecting a £41k underspend which mainly relates to staffing.

8.7 Additional ring-fenced investment in social work capacity was approved in the summer. Recruitment is progressing with 72% of Team Managers now in post (with 10% agency staff covering vacancies) and 82% of Social Workers are in post or due to start. The slippage in recruitment equates to a £0.723m underspend against the investment funding, which will be retained in reserves.

9. Adults Social Care and Public Health

9.1 The projected overspend in 2016/17 is £5.657m. The full year cost impact on 2017/18 has been included in the budget proposals. The demographic pressures on Adult Social Care are detailed in the Directorate budget and business plan 2017-20 elsewhere on the agenda. The main reasons for the overspend are as follows:

9.2 **Residential, nursing and homecare** – £1.389m overspend.
The delay in opening new extra care provision, which is lower cost, has impacted on the budget position together with placement numbers reducing at a slower rate than the budget target and accounts for £0.961m of the forecast overspend.

9.3 Homecare is projected to have an overspend of £0.864m. The number of clients particularly those receiving 10 hours or more support per week and overall commissioned hours, have increased steadily throughout 2016/17 and there has been limited savings arising from the review of homecare packages.

9.4 There is a further net overspend of £220k in Service Access. These pressures above are being partly offset by underspends on: the carers budgets £320k; external supported accommodation £191k; day care £67k and £78k on various other underspends.

9.5 **Assessment, Care and Support** is under spent by £89k mainly due to a freeze on recruitment.

9.6 **Learning Disability Services** £2.353m overspend

The projected overspend is due to unachieved savings of £0.859m, budget pressures arising from the cost of new packages of care (£1.2m) above demographic assumptions and demographic and other pressures brought forward from 2015/16 (£1m), offset by Continuing Health Care income and contract reductions in year of £0.7m.

9.7 **Mental Health** - £1.126m overspend
The increase in residential placements is significantly above demographic assumptions. The service are working on proposals to reduce the number of placements and provide appropriate levels of support including 'step down options' and ensure clients are moved into community provision when they are ready.

9.8 **Business Units** were overspent by £349k due to additional staffing costs.

9.9 **Homelessness** - £0.542k overspend
The key cost driver is bed and breakfast accommodation with an average number of 37 families and 130 single people for December. 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 has been made available.

9.10 It was announced in December that eight areas, including GM, will benefit from a share of £10m in locally commissioned Social Impact Bonds to help long-term rough sleepers with the most complex needs. This funding will allow areas to trial a Housing First model, based on successful approaches pioneered in the United States. Housing First is based on the principle that housing is an individual's primary need, providing permanent accommodation for those currently sleeping on the street before addressing wider support needs. Pilots will form part of a wider evaluation of how a similar approach could be implemented in the UK, as part of a fresh approach to tackling homelessness

9.11 **Commissioning** – is projecting an underspend of £272k predominantly due to staff savings.

9.12 **Adults Safeguarding** is projected to breakeven.

9.13 **Public Health Grant** is projecting an underspend of £77k due to reduced costs on Sexual Health contracts out of area and in-patient detox provision for drugs and alcohol services.

9.14 **Core and Back Office** - £364k underspend. This is in the main due to staff vacancies in business support and in the learning and development budget.

9.15 **Mental Health Trust -** 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.

9.16 A detailed recovery plan is in place, to date this has delivered £2.75m which is included in the position in this report. Although the overspend has increased since the last report, senior managers across the Adults Directorate are working tirelessly to try and bring the overspend down. Significant plans are in place to fundamentally reduce the spend levels. It is a question of timing as to which financial year the reductions will come to fruition.

10. Corporate Core

10.1 The Corporate Core is forecasting an underspend of £3.259m. This is made up of underspends in Corporate Services of £2.247m and Chief Executives of £1.012m and Highways is at breakeven.

10.2 **Corporate Services** underspend of £2.247m is made up of the following variances:

- Revenues and Benefits underspend of £0.609m due to additional government grant and underspends on administration costsoffset by of loss of subsidy subsidy income.
- Shared Service Centre underspend of £391k due to workforce vacancies and overachievement in external income from sales of services.
- Financial Management underspend £0.7m due to a combination of workforce vacancies and running costs underspends.
- Workforce vacancies and increased income in areas such as Procurement, Customer Services, Audit Risk and Resilience, Capital Programmes team and corporate items resulting in an underspend of £0.547m.

10.3 **Chief Executives** underspend of £1.012m is made up of the following variances:

- Human Resources and Organisational Development (HR/OD) - £0.567m underspend from workforce vacancies, internal fee income and running costs.
- Legal - £165k underspend from workforce vacancies and increased internal and external income.
- Policy, Partnerships and Research - £361k underspend due to additional project income of £200k and other staffing underspends of £161k.
- Democratic and Statutory Services - £40k underspend arising from increased Coroners costs due to additional resources because of the increased caseload offset by increased Registrars income and an underspend on other running costs.
- Workforce vacancies and other small variances in areas such as People, Policy and Reform Executive, Reform and Innovation, Communications, Executive Office, ICT and Corporate Items result in an overspend of £121k.

10.4 **Highways** is forecast to break even, however within this are the following variances:

- Highways maintenance overspend of £0.965m.
- Shortfall on expected income for Manchester Contracts, on-street advertising and CCTV totalling £0.822m.
- Compensation claims underspend of £431k

- Surplus income from penalty charge notices for Bus Lanes of £1.356m.

11. Growth and Neighbourhoods

11.1 The overall budget for Growth and Neighbourhoods is forecast to be underspent by £0.476m. The major variances are:

11.2 **Neighbourhoods Service**
- Waste Collection and Levy - £651k overspend which reflects a delay in moving to 4/5 working day for collection crews and bank holiday working, increased National Insurance costs, reduced commercial income and changes to recycling rounds and other costs. Other changes to the base contract and in year service change have been funded through DCLG funding of £1.3m. The position reflects the release of corporate funding totalling £1.8m outlined in paragraphs 7.2 and 14.2.
- 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.
- Community Safety and Compliance - £162k underspend due to lower than forecast employee costs, additional income from Licensing, and default works and enforcement
- Business Units - £482k underspend due to surpluses on fleet (£175k), Bereavements (£147k), Pest Control (£57k) and Manchester Fayre (£103k)
- Workforce budget underspends totalling £159k in Area Teams and Libraries.

11.3 **Planning, Building Control and Licensing** underspend of £576k due to a surplus in planning income from large projects. The position reported reflects that planning income of £1.5m will be transferred to a reserve to manage peaks and troughs in planning income in future years.

12. Strategic Development

12.1 The forecast is an overspend of £0.820m due to a reduction of £0.804m in income to the Council's investment estate and an £153k overspend on Operational Property, a £74k overspend on Strategic Development offset by an underspend of £211k on Facilities Management.

13. Housing Revenue Account (HRA)

13.1 The HRA is forecasting a £8.045m favourable variance as at the end of December. The main variations are as follows:-

- Bad Debt Provision - £498k underspend –based on latest assessment of required bad debt provision £498k can be released from the amount planned
- Communal Heating (Income and Expenditure) - £324k underspend – due to a review of heating charges implemented from 2016/17.

- PFI Contractor payments - £1.421m 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 - £5.735m underspend – The reduction in the forecast need for revenue to support the Capital programme is due to large amounts of underspend in the current years capital programme where expenditure is now expected to occur in 2017/18

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 December it is forecast that £142k will be put into reserves at year end. This would leave a balance of £52.2m in the HRA General Reserve at year end.

14. Budget Pressures and Growth

14.1 The approval process for the allocation of budget pressures and growth was set out in the budget report to Executive. Of the £13.565m set aside c£9.813m was allocated and reported to Executive earlier in the year leaving £3.752m unallocated.

14.2 The following allocations totalling £1.1m have been agreed recently.

- LAC Remand £200k – There was £300k set aside in the budget to meet increased costs due to the length of time individuals spent on remand and the need for more secure institutions. £200k is required to meet the pressure this year with the balance expected to be needed in 2017/18.

- Waste Disposal Costs £900k- This was set aside for waste disposal costs, including disposal from schools, student blocks and street cleansing and is required in full.

14.3 The following amounts totalling £232k are still expected to be released before the end of the year:

- Core - ICT Contingency enterprise licenses £100k - an annual exercise takes place to review the numbers of uses against licenses held. The work is in progress and the funding is expected to be required to cover the cost of additional licenses.

- Environmental initiatives funding £132k - 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 £1.5m in the December report leaving £132k.

14.4 There is an expected underspend of £2.420m relating to the amounts below; these are required in 2017/18 :

- LAC Remand balance of £100k

- Delivery of the Information and ICT Strategy £2m
- Markets £100k
- HR/OD £220k

15 Reserves

15.1 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:

- British Muslim Heritage Centre £39k - The funding was awarded by the MoD to the British Muslim Heritage Centre to curate the UK's first long term exhibition to honour Muslim personnel throughout Britain's military history. There was a requirement that the funding is passported through the local authority who will undertake monitoring.
- Asylum Contract Reserves £57k - 8 local authority partners agreed to leave a proportion of revenue income obtained via delivery of the asylum target contract between 2000-12 in 2012. One of these has requested that their share is returned.

16. Prudential Borrowing Indicators

16.1 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.**

17 Conclusion

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

17.2 An underspend of £1.644m 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 DECEMBER 2016

No	Prudential Indicator		Target		Actual as at end of December 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		248.4	N
		HRA	31.3		23.5	N
		Total	428.9		271.9	N
3	Capital Financing Requirements		**£m**		**£m**	
		Non – HRA	1,106		984.8	N
		HRA	249		243.7	N
		Total	1,348		1,288.5	N
4	Authorised Limits for External Debt		**£m**		**£m**	
		Borrowing	1,272.5		596.1	N
		Other Long Term Liabilities	216		148.0	N
		Total	1,488.5		744.1	N
5	Operational Boundaries for External Debt	Borrowing	1,018.5		596.1	N
		Other Long Term Liabilities	216		148.0	N
		Total	1,234.5		744.1	N
6	Upper Limits for Fixed Interest Rate Exposures	Net Borrowing at Fixed Rates as a percentage of Total Net Borrowing	92%		56%	N
7	Upper Limits for Variable Interest Rate Exposures	Net Borrowing at Variable Rates as a percentage of Total Net Borrowing	90%		44%	N
			Lower Limit			
8	Maturity Structure of Borrowing	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