

**Manchester City Council
Report for Resolution**

Report to: Executive – 28 June 2017
Audit Committee – 27 June 2017

Subject: Revenue Outturn report 2016/17

Report of: City Treasurer

Summary

The report outlines for the Executive the final outturn position for 2016/17. It includes details of service budget variances and requests for carry forward of under-spends.

Recommendations

The Executive is recommended to:

1. Note the outturn position for 2016/17 as shown in the table at paragraph 2.
2. Approve the use of non-pay inflation as set out in paragraph 4.3.
3. Note the final Highways virement in paragraph 7.5 which was approved in principle by Executive in Dec 16 and delegated to the City Treasurer and the Executive Member for Finance to approve the final amount.
4. Approve the requests for carry forward of underspends as identified in Section 10 and Appendix 1.
5. Note the overall General Fund position for 2016/17 as outlined in section 11.
6. Note the Housing Revenue Account position for 2016/17 as outlined in section 12.

Wards Affected: None directly

| 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 | Not applicable |
| A highly skilled city: world class and home grown talent sustaining the city's economic success | Not applicable |

| | |
|--|----------------|
| A progressive and equitable city: making a positive contribution by unlocking the potential of our communities | Not applicable |
| A liveable and low carbon city: a destination of choice to live, visit, work | Not applicable |
| A connected city: world class infrastructure and connectivity to drive growth | Not applicable |

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

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

Provision has been made for known liabilities, whilst maintaining reserves to meet significant future costs at a reasonable level. The level of General Fund balances will, be affected by any decision to carry forward underspends. If all recommendations are accepted the City Treasurer can confirm that this will still leave the Council in a robust financial position going forward.

Financial Consequences – Capital

There are no consequences for the capital budget.

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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 Revenue Budget 2016/17 as approved by Executive 17th Feb 2016

1 Introduction

- 1.1 This report presents the General Fund and Housing Revenue Account outturn for the financial year 2016/17. Members should note that the figures may be subject to change until the audit opinion is issued following 31 August Audit Committee, however, it is not expected that any major amendments having an impact on the Council's overall revenue financial position for 2016/17 will emerge.

2 Summary Budget Information

- 2.1 This table shows the outturn position and highlights any under or overspends as at the end of March. The reported position is an underspend of £0.689m.
- 2.2 The table below summarises the position.

| | Revised Budget | Outturn | Variance |
|-------------------------------------|------------------|------------------|----------------|
| | £,000 | £,000 | £,000 |
| Total Available Resources | (530,445) | (532,874) | (2,429) |
| Planned Use of Resources: | | | |
| Total Corporate Budgets | 105,390 | 98,620 | (6,770) |
| Directorate Budgets | | | |
| Children's Services | 103,227 | 108,290 | 5,063 |
| Adults & Public Health | 159,763 | 167,264 | 7,501 |
| <i>CEX</i> | 40,092 | 38,944 | (1,148) |
| <i>Corporate Services</i> | 24,721 | 22,282 | (2,439) |
| <i>Highways</i> | 15,774 | 15,774 | 0 |
| Corporate Core | 80,587 | 77,000 | (3,587) |
| Growth and Neighbourhood | 74,979 | 73,977 | (1,002) |
| Strategic Development | 6,499 | 7,034 | 535 |
| Total Directorate Budgets | 425,055 | 433,565 | 8,510 |
| Total Use of Resources | 530,445 | 532,185 | 1,740 |
| Total forecast over / (under) spend | 0 | (689) | (689) |

3 Available Resources

- 3.1 Available resources are £2.429m higher than budgeted for, due to:
- Additional grants of £0.848m of which £134k relates to Educational Services Grant and £0.714m relates to grants received for New Burdens funding;
 - Other dividends income of £381k made up of £200k more income than anticipated from the NCP Dividend, £165k income for Piccadilly Triangle

dividend and £16k for Mast Lift Co; and

- Fortuitous income of £1.2m is made up of £185k saving in ICT in relation to BT costs, £108k release from the bad debt provision, £170k windfall income for the dissolution of The Consortium of Local Authorities Special Programme (CLASP), £270k from installing PV panels on council house roofs, £171k due to receipt of a wireless concession fee and £297k for Manchester Central Income.

4 Corporate Budgets

4.1 Spend against Corporate budgets is £6.77m less than budgeted for, the unallocated elements are listed below and have been fully taken into account when setting the 2017/18 budget.

4.2 The reasons for the variance are:

- Contingency budget is £1.4m underspent. The budget includes £1.5m for Waste Levy, of which £0.900m was agreed for allocation in P9 leaving an underspend of £0.600m. The remaining underspends relate to £200k to Support Enhanced access to ICT and £0.6m unallocated contingency which were not required in 2016/17;
- Budget pressures / Growth included in the budget totalled £13.6m. £10.9m was allocated in line with the procedures set out in the budget report leaving £2.652m which is not required this financial year. This relates to £2m to fund the delivery of the Information and ICT, £220k for HR/OD , £132k Environmental initiatives balance, £100k markets income pressure, £100k for LAC Remand and £100k for Microsoft licenses;
- There is an expected underachievement of £85k in relation to the historic property rationalisation saving;
- Additional allowances are £338k below budget and historical pension costs £312k under due to the number of people receiving pensions reducing; and
- Budgets to be allocated of £16.5m were set aside in 2016/17. £2.117m of this is not required this year of which £1.575m relates to contract cost for minimum wage, £407k relates to non-pay inflation and £135k to an underspend on carbon reduction tax.

4.3 The reported position assumes approval of the following virement:

- Requests for funding from the non-pay inflation funding have been considered by the Treasurer and are recommended for approval. A virement of £759k to Adult Services is recommended relating to 12 new clients for Learning Disability residential cases (£474k), increased residential and nursing clients (£119k) and additional Delayed Transfer of Care cases (£166k).

5 Children and Families

5.1 The overall position is an overspend of £5.063m.

5.2 The **Children's Safeguarding** budget at the end of the year is overspent by £5.534m which mainly relates to the following:

- External Fostering and external residential placement spend is £3.5m higher than budget, as a result of the number of placements and unit costs of placements being higher than the budget available. Internal Fostering is £0.690m overspent due to the average cost of placements being higher than budget and Leaving Care placements costs being £1m higher than budget, mainly due to higher number of placements compared to the budget available; and
- Other overspends within Children's Safeguarding are Special Guardianship Orders (£113k), and Children's Adolescent Mental Health Service (£158k) relating to an unachieved saving on a health commission and other small variances of £73k.

5.3 The overall Looked After Children numbers including Unaccompanied Asylum Seeking Children have decreased from 1,237 at the end of March 2016 to 1,170 at the end of March 2017 (5.4%). The Looked After Children (LAC) position is supported by a contribution of £2.9m from Dedicated Schools Grant.

5.4 Education and skills is underspent by £567k. This is largely due to underspends in school improvement activity and in the Read Manchester scheme, where part of the activity is scheduled to be delivered in the new financial year.

6 **Adult Social Care**

6.1 The overall position is an overspend of £7.501m. The key variations are as follows:

- Care budgets are overspent by £1.799m. This includes a £1.481m overspend on homecare reflecting a 10% increase in commissioned homecare hours, significant use of non-framework supply at higher spot rates and non delivery of £400k of the homecare savings program;
- Mental Health is overspent by £1.804m, which has been addressed in the 2017/18 assumptions. This is due to package numbers and costs; work is ongoing with the new provider and it is expected that this will deliver reductions in packages costs;
- Learning Disabilities (£3.314m overspend) 228 additional clients have entered service during 2016/17 and provision has ceased for 40 clients, the net additional cost being £3.7m, with £1.2m of demographics funding allocated to the budget in 2016/17;
- Business Units (£0.820m overspend) The expectation of a reduced call on agency staff has not progressed as expected;
- Homelessness (£0.637m overspend) due to bed and breakfast accommodation usage being higher than forecast, and additional costs from rough sleeper provision and associated costs with hostel provision; and
- Underspends in Commissioning, Public Health and Back Office totalling £873k

7. Corporate Core

- 7.1 The Corporate Core has an underspend of £3.587m. £2.439m relates to Corporate Services and £1.148m to Chief Executives.
- 7.2 The Corporate Services underspend of £2.439m mainly relates to staff savings from vacant posts and higher than anticipated income. Specific service issues include:
- Revenue & Benefits - £0.671m underspend due to underspends on administration costs of £1.073m, net of budget shortfall of £402k on subsidy income;
 - Financial Management - £0.677m underspend due reduced staffing costs and lower running costs;
 - Shared Service Centre - £360k underspend due to a combination of underspends against staffing budgets and increased income, offset by costs for the e Recruitment project; and
 - The remaining underspend of £0.731m is made up of smaller amounts in Procurement, Customer Services, Audit, Risk and Resilience, Capital Programmes and Corporate Items.
- 7.3 Chief Executive's are reporting a £1.148m underspend which is predominantly due to staff savings arising from vacant posts and higher than anticipated income. The position by service area is as follows:
- People, Policy and Reform - £1.150m underspend due to staff savings from vacant posts and higher than forecast income in relation to Agency Client Group.
 - Legal, Democratic and Statutory Services - £57k underspend, this is due to a combination of reduced staffing costs and increased income, partly offset by the higher than forecast Coroners costs of £319k.
 - ICT – a minor overspend of £4k.
 - Corporate Items - £55k overspend this is due to a historic debt write off.
- 7.4 Highways are reporting a breakeven position made up of overspends in Manchester Contracts, highways services and On Street Advertising offset by underspends in accidents and trips and Highways Capital Programmes team.
- 7.5 The overall breakeven position is on the basis that a virement of £1.668m is made from the Transport levy budget, with a corresponding increase in the amount of the Levy funded through the bus lane income. This treatment was agreed in principle at December 2016 Executive subject to final approval of the amount by the City Treasurer and the Executive Member for Finance.

8. Growth and Neighbourhood's

- 8.1 The reported outturn position is an underspend of £1.002m. This is made up of the following:
- **Neighbourhood Services** has an underspend of £388k mainly due to lower employee costs in Libraries and Neighbourhood teams (£247k), additional income in business units (£633k), Community Compliance and Safety employee costs and fly tipping (£441k), Parks and Open Spaces

(£178k) and other smaller underspends of £78k. These are offset by overspends in Waste and Street Cleansing (£0.950m), Leisure and Sport Development (£125k), Grounds Maintenance (£119k); and

- **Planning, Building Control and Licensing** is has an underspend of £627k due to additional income within the year for large scale planning applications.

9. Strategic Development

9.1 The Strategic Development outturn position is an overspend of £535k which is mainly due to the following:

- Investment estate is overspent by £896k mainly due to a reduction in income from the Arndale and costs relating to 1 Piccadily Gardens and Belle Vue, offset mainly by additional income from Manchester Airport, Wythenshawe Town Centre and Manchester Central.
- Facilities Management is underspent by £340k as a result in staffing costs and Planned Preventative Maintenance expenditure being lower than planned; and

10. Carry Forward Requests

10.1 Requests received total £0.700m are recommend for consideration by Executive, these are detailed in Appendix 1.

10.2 Approval to carry forward underspends will be a call on the General Fund Reserve balance in 2017/18.

11. General Fund Reserve position

11.1 When the 2017/18 budget was set in February, based on the Period 9 forecast position which anticipated an underspend of £1.644m and taking account of the budgeted drawdown of £1.940 there was an assumed net withdrawal from General Fund Reserve of £296k. This left a forecast balance on the reserve as at 31 March 2017 of £27.182m which would reduce to £25.538m if carry forwards were agreed up to the level of underspend.

11.2 The actual outturn position, an underspend £0.689m, will mean a net withdrawal of £1.251m. This will leave a balance on the General Fund Reserve at 31 March 2017 of £26.227m. If the carry forward requests are approved up to a limit of £0.700m this would be a first call on the reserve reducing it to £25.527m which is in line with the previous estimate and the level of risk the Treasurer considers to be reasonable (c£25m).

12 Housing Revenue Account

12.1 The Housing Revenue Account (HRA) is showing a favourable variance of £12.62m at year end. There was a budgeted transfer from reserves of £7.639m which became an actual transfer to reserves of £4.981m. The variance relates to the following:

- PFI Contractor payments - £1.643m underspend –Ongoing delay in capital works at Brunswick is resulting in a reduced monthly unitary charge and delayed capital payments. Payment of the capital payments (£1.072m) will be carried forward into 2017/18.
- Rental Income - £312k underspend – Due to the ongoing low void levels.
- Bad Debt Provision - £748k underspend – The required level of bad debt provision suggests that the anticipated impact of welfare reform has not yet materialised.
- Communal Heating (Income & Expenditure) - £433k underspend. This has arisen largely as a result of another mild winter. Future years' forecasts will be revised to take account of this trend.
- RCCO - £10.8m underspend – The reduction in the forecast need for revenue to support the capital programme is due to large amounts of underspend in the current year's capital programme where expenditure is now expected to occur in 2017/18.
- This is offset however by a £1.4m overspend on depreciation, which is due to the increased values of the stock. Depreciation is also used to fund capital expenditure.
- There are overspends on staffing costs of £114k

13 Prudential Indicators

- 13.1 Prudential Indicators were introduced as part of the prudential `borrowing regime which replaced the former controls on borrowing through credit approvals. Each year the Council sets various indicators as part of the budget process and then monitors throughout the year that these indicators are not breached. The table at Appendix 2 indicates the final performance against the indicators.

14 Conclusion

- 14.1 The overall underspend is £0.7m.
- 14.2 This contribution would result in a General Fund Reserve balance of £26.227m as at 31 March 2017. Should the carry forward requests totaling £0.700m be approved this balance will reduce to £25.527m, which is in line with the forecast at budget setting in February 2017.

15 Recommendations

- 15.1 The recommendations appear at the front of this report.

APPENDIX 1 2016/17 Cash Limit Carry forward requests

| Spend Area | Carry Forward Request £,000 | Detail |
|-----------------------------------|--------------------------------|--|
| Children's: | | |
| Readmanchester | 66 | Readmanchester growth funding was approved for the Academic Year Sep 2016 to Aug 2017, crossing financial years 2016/17 and 2017/18. The underspend represents funding for the Summer Term 2017 & programme extension costs for the Autumn Term 2017 |
| Pike Fold Demolition | 111 | The full Closed Schools Site Budget has been given up as savings in 2017/18. It is therefore requested to limit the 2017/18 budget pressure of the Pike Fold School Site demolition that approval is given to carry forward £111k of this year's underspend |
| Growth and Neighbourhoods: | | |
| Community Compliance and Safety | 164 | The service is looking to carry forward the underspend which came about due to the lead times to appoint suitably experienced and qualified staff to undertake this function. The systems are now fully operational and making good progress in identifying offenders and tackling the issues. |
| Strategic Development: | | |
| Operational Property | 200 | The carry forward is requested to mitigate against identified pressures in 2017/18 including a delay in the demolition of Fujitsu, a delay in the Heron House refurbishment, a loss of income from the arndale centre and ongoing costs at Belle Vue Stadium. |
| MCDA | 159 | The Sharp Project, Space Project and One Central Park operate as businesses. The underspend (or surpluses) have arisen on each project as a result of increased income from tenant lettings and reduced operating costs. |
| Total | 700 | |

APPENDIX 2 Prudential Borrowing Indicators as at the end of March 2017

| No. | Prudential Indicator | Target | Actual as at end of March 2015 | Target Breached Y/N | | |
|-----|--|--|--------------------------------|---------------------|-----|---|
| 1 | Ratio of Financing Costs to Net Revenue Stream | Non – HRA | 10% | 9.76% | N | |
| | | HRA | 4% | 3.89% | N | |
| 2 | Capital Expenditure | | £m | £m | | |
| | | Non – HRA | 399.6 | 191.9 | N | |
| | | HRA | 31.3 | <u>20.3</u> | N | |
| | | Total | 428.9 | 212.2 | | |
| 3 | Capital Financing Requirements | | £m | £m | | |
| | | Non – HRA | 1,106 | 925.2 | N | |
| | | HRA | 249 | <u>243.7</u> | N | |
| | | Total | 1,348 | 1,168.9 | | |
| 4 | Authorised Limits for External Debt | | £m | £m | | |
| | | Borrowing | 1,272.5 | 524.2 | N | |
| | | Other Long Term Liabilities | 216 | 141.7 | N | |
| | | Total | 1,488.5 | 665.9 | | |
| 5 | Operational Boundaries for External Debt | Borrowing | 1,018.5 | 524.2 | N | |
| | | Other Long Term Liabilities | 216 | 141.7 | N | |
| | | Total | 1,234.5 | 665.9 | | |
| 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 | |
| | | | Lower Limit | Upper Limit | | |
| 8 | Maturity Structure of Borrowing | under 12 months | 0% | 70% | 0% | N |
| | | 12 months and within 24 months | 0% | 100% | 49% | N |
| | | 24 months and within 5 years | 0% | 90% | 47% | 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 | |