

**Manchester City Council
Report for Resolution**

Report to: Executive – 22nd December 2010
Subject: Global Budget Monitoring Report to end of October 2010
Report of: City Treasurer

Summary

Summary of the Council's revenue budget position based on an assessment of expenditure to the end of October 2010.

Recommendations

The Executive is requested to:

- (i) Note the contents of the report
 - (ii) Approve the requests for Contingency funding set out in paragraph 10
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Wards Affected: All

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	This report looks at the overall projected out-turn position against the budgets which underpin all of the council's activities
Reaching full potential in education and employment	
Individual and collective self esteem – mutual respect	
Neighbourhoods of Choice	

Implications for:

- Equal Opportunities Policy – there are no specific Equal Opportunities implications contained within this report
- Risk Management – Appendix 2 to this report contains an assessment of the major budget risks faced by the Council.
- Legal Considerations – there are no specific legal considerations contained within the report

Financial Consequences – Revenue

Heads of Service in consultation with Strategic Directors are required to comply with and adhere to stringent cash limits. Failure to do so represents unauthorised expenditure which will have consequences for the City Council's level of balances and hence its ability to determine its own spending priorities. Services that report a potential over spend against the revenue budget are required to show how the over spend will be eliminated within their own resources. The report sets out the projected net under or overspend on the revenue budget for 2010/11, based on expenditure up to the end of October 2010.

With the likely scale of funding pressures and future reductions, it is important that the Council maintains 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 monies to meet the capital financing costs of the Council. Changes in the capital programme can affect the budget to meet these 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 2010/11
- Chief Officers' Monthly Revenue Budget and Trading Organisation Monitoring Briefing Notes in the present reporting cycle

1 INTRODUCTION

The purpose of this report is to provide the Executive with a summary of the revenue budget position of the Council for 2010/11 based on an assessment of expenditure to the end of October 2010.

2 BACKGROUND

Reporting budget monitoring information is part of 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 does not necessarily reflect the expected final position at the year end. The figures are based on the projected position as at the end of October 2010. Given the likely scale of funding reductions, it is important that a robust position on reserves, along with flexibility to manage the in year funding reductions and pressures, is maintained.

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

The table below summarises the current projected cash limit budget position for 2010/11 as at the end of October and the impact on the General Fund Reserve:

Business Plan Area	Original Budget 2010/11 £'000	Revised Budget 2010/11 £'000	Projected Outturn 20108/11 £'000	Variance 2010/11 £'000
<u>Planned Resources Available</u>				
Settlement (RSG Revenue Support Grant/ NDR National Non Domestic Rate)	342,438	342,438	342,438	0
Council Tax	140,871	140,871	140,871	0
Additional Resources:				
Area Based Grant	58,749	52,144	52,144	0
Dividends and contributions	5,540	5,540	5,540	0
Use of parking reserve	1,853	1,853	1,853	0
Use of Planning Delivery Grant Reserve	120	120	120	0
TOTAL AVAILABLE	549,571	542,966	542,966	0
<u>Planned use of Resources</u>				
Corporate Requirements:				
Contingency	7,479	7,045	6,045	(1,000)
Levies (including Waste Disposal)	52,772	52,772	52,772	0
Capital financing Costs	45,293	45,293	43,293	(2,000)
Corporate Requirements	105,544	105,110	102,110	(3,000)
Service Requirements:				
Business Plan requirements	416,287	412,928	415,068	2,140
Area Based Grant - Thematic Partnerships Expenditure	31,713	28,716	28,716	0
Service Requirements	448,000	441,644	443,784	2,140
Less:				
Efficiency Savings	(1,355)	(246)	(246)	0
AIM (Analysing & Improving Manchester)	(2,000)	(2,000)	(2,000)	0

Savings				
NET ESTIMATED REQUIREMENTS	550,189	544,508	543,648	(860)
NET CALL FROM /(TO) RESERVES	618	1,542	682	(860)

Note: The above table shows an increase in the net call on reserves between the original and the revised estimate. This is due to the agreement to carry forward £0.924 of underspends from 2009/10 into 2010/11 as agreed by Executive in 2009/10 Outturn report dated 28th July 2010.

4 Summary of Business Plan Cash Limit Variances

As at the end of October, services covered by business plans were projecting to overspend by £2.140m. The table below shows how this is split over the main business areas.

Description	Budget October £'000	Projected Outturn Oct £'000	Variance £'000
Directorate for Adults	131,759	131,722	(37)
Children's Services	139,964	142,774	2,810
Chief Executive's, including Transformation	51,234	51,123	(111)
Corporate Services	12,473	12,131	(342)
Neighbourhood Services	77,498	77,318	(180)
Total Departmental Cash Limits	412,928	415,068	2,140

Appendix 1 gives a breakdown of this sum across the individual business planning areas. The current overspend projection against budgets will require continuing effort from Heads of Service to bring spend back into line with budgets.

Below is a brief summary of the main Service issues.

Directorate for Adults:

The projection indicates a potential annual underspend of £37k, which reflects the ongoing work of budget managers within the directorate to reduce expenditure and achieve efficiency targets, despite ongoing demand pressures. Proactive management of the budget and the continued use of early intervention and prevention strategies (which will promote improved outcomes for Manchester's service users) are helping to keep the directorate in an underspend position.

Children's Services:

The budget outturn forecast for Period 7 is an overspend on the Directorate cashlimit budget of £2.810m. The true position is an overspend of £5.9m mainly as a result of overspend in Children, Young People and Families (CYP&F). This is predominately due to the increase in placements for looked after children

As reported in previous months there is available one-off resources of £3.1m of Children's Services earmarked reserves, which have been used to offset this.

After taking account of all of the above the reported position is £2.810m overspend on the Directorate cashlimit budget and breakeven on the Dedicated Schools Grant.

Corporate Services

Corporate Services are currently projecting an underspend of £0.342m. Overspends in relation to non achievement of efficiency savings and unachieved income are more than offset by underspends due to staff vacancies and a housing benefit subsidy surplus of £1m.

Chief Executive's including Directorate of Transformation:

Currently Chief Execs is showing a forecast underspend of £0.111m.

Overspends in Performance due to savings which will be achieved in 2011/12 are more then offset by underspends due to staffing vacancies.

Neighbourhood Services

The projection at the end of October indicates a full year underspend of £180k which is an improvement on the previously reported position. Whilst there is an overspend forecast within leisure services due to expenditure on planned property maintenance this is offset by savings in trading services, libraries and street management and enforcement.

5 HOUSING REVENUE ACCOUNT

HRA are projecting a net overspending of £2.718m and the major variations are as follows:-

There is an anticipated reduction in income of around £1.216m, and this is made up of reduced VAT shelter credits, reduced rental income and reduced subsidy.

There are increased costs in relation to Northwards management, interest payable and an increase in debt management expenses.

6 AREA BASED GRANT - THEMATIC PARTNERSHIPS

Area Based Grants breakdown of Partnership expenditure is as follows:

Government Department	Grant Type	Budget & Outturn November 2010/11 £'000
DWP (Department for Work & Pensions)	School Gates Employment	65
HO (Home Office)	Stronger, Safer Communities	722
DCSF (Department for Children, Schools & Families)	Teenage Pregnancy	471
CLG (Communities & Local Government)	Economic Assessment Duty	65
	Working Neighbourhood Fund	27,693
	Stronger, Safer Communities Fund	0
	Preventing Violent Extremism	269
	Subtotal CLG	28,027
Total		29,285

Following the Government announcement in June 2010 to cut ABG allocations, the revised annual 2010/11 budget of £29,285 is forecast to spend to budget, ongoing monitoring is being undertaken to identify any grant that remains uncommitted and to identify any potential under spends. Consideration will then be given on how this can best be used to help mitigate likely resource constraints going forward.

7 CAPITAL FINANCING REQUIREMENTS

As the result of a revised cashflow projection and the timing of the new capital borrowing requirements, an underspend of £2 m is currently being projected.

8 PRUDENTIAL BORROWING INDICATORS

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. Some of the Prudential Indicators are reported through the Capital Monitoring Process but those indicators that affect the Revenue budget are reported in **Appendix 3**.

9 COUNCIL TAX COLLECTION

The overall position of the Council in relation to the target for 2010/11 is summarised in the table below:

Collection Fund 2010/11	Target 2010/11 £'000	Current projected over / (under) achievement of Target £'000
Council Tax	161,500	2,000

The Council is currently on course to exceed the target to collect around £161.5m of the current year Council Tax net debit, of which it is anticipated around £48.5m will be paid into the collection fund via Council Tax Benefit, and £115m will be collected from Tax payers. However the situation is quite volatile. In addition the Council is on target to collect £7.5m worth of arrears and court costs.

10 CONTINGENCY

There is a forecast £1m underspend in contingency due to contingency set aside for the Southwark judgment no longer required. The ruling for the Southwark judgment looked as though it would have a significant effect on costs but because of falling numbers of Unaccompanied Asylum Seeking Children these costs have not materialised.

Contingency requests

The following request for contingency funding is recommended for approval:

Democratic Services / Governance & Scrutiny £53,000

This relates to the statutory review of polling districts (£18k) and the enhanced electoral canvas (£35k) which are corporate priorities.






11 CONCLUSION




This is the second Global Revenue Budget Monitoring report for the year 2010/11 and presents information based on projections as at the end of October 2010. The predicted departmental overspend of £2.140m is a concern and Heads of Service must continue to take action where possible to bring projected expenditure in the year back into line with budgets.



APPENDIX 1
Summary of Business Plan Projected Variances October 2010






	Original Budget	Revised Budget	Projected Outturn as at end of October	Projected Year End Over/ (Under) Spend
	2010/11 £'000	2010/11 £'000	2010/11 £'000	2010/11 £'000
Directorate for Adults	132,595	131,759	131,722	(37)
Children's Services				
Business Support & Commissioning	23,306	21,886	21,735	(151)
Education Services	17,275	20,292	19,857	(435)
Children & Young People	104,083	97,786	103,476	5,690
Subtotal Children's Services	144,664	139,964	145,068	5,104
ABG Funding cuts for Children's Services			800	800
Uncommitted Reserves/Surpluses cfwd from 2009/10			(3,094)	(3,094)
Total Children's Services	144,664	139,964	142,774	2,810
Chief Executive's Dept				
Culture	8,246	8,423	8,401	(22)
Planning & Building Control	2,066	2,266	2,266	0
Transport Policy	122	152	72	(80)
Communications	7,013	6,726	6,726	0
Executive Office	4,014	4,014	4,014	0
Performance	5,406	4,424	4,621	197
Legal Services	2,563	2,479	2,479	0
Democratic & Statutory Services	3,354	3,483	3,496	13
Crime & Disorder	1,926	1,900	1,900	0
Joint Health Unit	(32)	(32)	(32)	0
HR/OD integration		4,279	4,128	(151)
Chief Executive's Corporate Items	3,219	3,481	3,462	(19)
Regeneration & Economic & Urban Policy	2,640	3,342	3,342	0
Strategic Housing	1,327	1,327	1,327	0
Manchester Adult Education Service	392	414	414	0
Chief Executive's Dept	42,256	46,678	46,616	(62)
Directorate of Transformation				
Transformation Team	3,951	5,388	5,339	(49)
Corporate Technology Unit	(832)	(832)	(832)	0
Directorate of Transformation	3,119	4,556	4,507	(49)
Chief Executive's Dept including Transformation	45,375	51,234	51,123	(111)

Business Plan Area	Original Budget	Revised Budget	Projected Outturn as at end of October	Projected Year End Over/ (Under) Spend
	2010/11 £'000	2010/11 £'000	2010/11 £'000	2010/11 £'000
Corporate Services				
Corporate Procurement	947	1,097	820	(277)
Council Tax & Benefits	3,575	3,189	2,784	(405)
Financial Management	11,310	9,595	9,263	(332)
Shared Service Centre		3,232	3,960	728
Audit and Risk Management		1,686	1,872	186
Capital Programmes	741	740	710	(30)
Human Resources	4,117	0	0	0
Valuation & Property	8,183	(10,014)	(10,267)	(253)
Town Hall Extension		587	587	0
Corporate Services Corporate Items	(14,446)	2,361	2,402	41
Corporate Services	14,427	12,473	12,131	(342)
Neighbourhood Services:				
Environmental Services	31,930	22,241	22,012	(229)
Private Sector Housing	2,256	2,046	2,046	0
MEDC (Manchester Engineering Design Consultancy)	(375)	(891)	(891)	0
Highways	16,415	16,207	16,207	0
Sports & Leisure	15,546	15,591	15,891	300
Libraries & Information	13,021	12,762	12,688	(74)
Library Theatre	1,059	955	955	0
Trading Services	(626)	8,587	8,410	(177)
Total Neighbourhood Services	79,226	77,498	77,318	(180)
Total Business Plan Requirement Cash Limits	416,287	412,928	415,068	2,140
ABG Partnership Funding	31,713	28,716	28,716	0
Waste Levy	21,080	21,080	21,080	0
Total Business Plan Requirement Cash Limits inc Waste Levy - Memo	469,080	462,724	464,864	2,140

REF	Risk	Consequence	Likelihood	Risk Score (CxL)	Capacity to Control	Capacity to Improve	Comments/ Recommendations
Corporate / Cross Cutting Risks							
C3	Previously significant amounts of salary and other costs have been capitalised – this may no longer be possible putting additional pressure on revenue budgets.	2	2	4 low	Moderate		This was a problem for 2009/10, with the reduction of Capital Grants, revenue pressure could arise in 2010/11
C4	The required level of efficiency savings included in the budget are not achieved.	3	4	12 HIGH	Moderate		+
C5	Interest / Counter Party Risks (Treasury management).	2	2	4 low	Substantial		The Council's borrowing and investment strategy has been agreed by Council and is monitored by the Treasurer on a daily basis. Current projections show that spend in 2010/11 could be below budget.
C6	There may be an impact on council tax receipts of the current economic downturn. (This is not a potential problem for the current year as the full amount required to support the budget can be taken from the Collection Fund however any shortfall in collection will impact on future years)	1	2	2 low	Limited		Collection performance in the first quarter and including July is positive and is currently 0.84% ahead of 2009/10. It is not yet possible to predict accurately the final collection rate as there are a number of variables that cannot be predicted including the impact of a large scale review of single person
C8	Corporate Property – lack of development activity is impacting on the level of fee income achievable from property transactions - shortfall £320k	3	4	12	Limited		Pursuing legal to complete cases as early as possible to ensure fees are received
C10	Corporate Property – Costs of implementing the property review such as marketing costs. Also stranded services charges left with Corporate Property as services move out of buildings.	2	3	6	Moderate		Unfulfilled service costs could be recharged to the services but unlikely they would have the budget.

REF	Risk	Consequence	Likelihood	Risk Score (CxL)	Capacity to Control	Capacity to Improve	Comments/ Recommendations
Adult Services Care							
AS1	Increase in demand for services increases budget pressures resulting in an overspend at year end.	4	4	16 HIGH	Limited		Continued monitoring of the continuing demand for services and growth in customers in receipt of care. Continued development of preventative strategies , reablement services and stringent assessment processes to control expenditure and ongoing demand.
AS3	Inaccurate data and insufficient internal controls in respect of Individual Budget customers results in financial loss.	3	5	15 HIGH	Moderate		Review of systems and processes to improve controls and quantify risks.
AS 4	Another Local Authority is requesting payment for a service user placed in Manchester with Mental Health Needs, including backdated costs over many years. If the claim is successful the financial risk is significant.	4	3	12 HIGH	Limited		The other Local Authority has recently instructed a firm of solicitors to pursue this further - and is awaiting a response from MCC (which is currently being considered). Legal advice has previously been that there is a strong case to resist any claim pre-September 2006 mainly because only at this stage did the council notify MCC of the residence and circumstances of the individual. Legal advice has been that there is a good chance of success in challenging the Secretary of State's ordinary residence determination and a case against the council for placing the service user in Manchester without any consultation with MCC. Updated legal advice is currently

REF	Risk	Consequence	Likelihood	Risk Score (CxL)	Capacity to Control	Capacity to Improve	Comments/ Recommendations
Children's Services.							
CS1	Pressures on looked after children (LAC) budgets	5	5	Extreme			LAC number in August have increased by 28 (2%). Whilst this is a marginal increase it is compounded by an increased proportion of overall LAC being placed with independent foster care agencies and residential care, which is the most expensive provision. Urgent work is underway to both improve commissioning of external placements and working across the council to identify ways in which we can prevent the need for children and young people to become looked after children.
CS2	Growth in demand for reception places in Primary Schools	4	4	16 HIGH	Moderate		There has been a significant and partly unexpected demand for reception places for September 2011. Whilst 600 additional places had been created and a source of funding identified from with the Dedicated Schools Grant in 2010/11, additional demand is creating more pressure on the a fully committed budget which may result in a need to carry forward an overspend on the Dedicated Schools Grant into 2011/12.

REF	Risk	Consequence	Likelihood	Risk Score (CxL)	Capacity to Control	Capacity to Improve	Comments/ Recommendations
Chief Executives							
CEX1	Income from planning and building control fees continues to reduce due to the impact of the economic downturn and the income target is not achieved. Also a projected employee overspend within the department.	2	4	8 Medium	Substantial		Additional PDG was approved in November 2009, and the current year's shortfall in income will be met from these resources with a bid through revenue gateway as in previous years. The capacity to control reflects this.
CEX5	Pressures on the Coroners budget (Additional Jury inquests plus backdated rent) mean that the budget may overspend.	4	4	16 HIGH	Limited		Outcome of Coroner's Report likely to impact in next financial year and assumptions are included in the Business Planning Process.
Strategic Housing							
SH1	The planned CLG offer of HRA self financing could have budgetary impacts in future years.	5	3	15 HIGH	Moderate		The inclusion of PFI credits in the opening debt means that MCC will be some £300m worse off over the period of the contracts when compared to the original calculations.
SH11	Grove Village Heating PFI agreement provides that in the event of 50 RTB's occurring then part of the contract relating to the Unitary Charge will need to be renegotiated	3	4	12 HIGH	Moderate		Renegotiation by Housing officers and the City Solicitor
SH16	Negotiations with Cofely Energy Services with a view to terminating the district heating contract in Longsight/Ardwick may result in a one-off charge to reserves	5	5	Extreme	Limited		Report submitted to Executive proposing an appropriate course of action

REF	Risk	Consequence	Likelihood	Risk Score (CxL)	Capacity to Control	Capacity to Improve	Comments/ Recommendations
Neighbourhood Services							
NS1	Waste Levy	2	2	4 low	Moderate		Increased investment in recycling and waste reduction should ensure that the anticipated tonnage levels can be achieved. The amount of waste delivered for disposal is monitored monthly. However, there should be a further update on the risk rating in the p8 accounts.
NS3	The cost of spend to save tripping claims means that the invest to save target will not be achieved.	2	2	4 low	Limited		There may have implications in current & future years due to the time taken to settle claims. Future analysis work being undertaken to identify trends and understand legal position.

APPENDIX 3
PRUDENTIAL BORROWING INDICATORS AS AT END OF OCTOBER 2010

No.	Prudential Indicator		Target		Actual as at end of October 2010	Target Breached Y/N
1	Financing Costs to Net Revenue Stream	Non – HRA	8%		8%	N
		HRA	18%		16%	N
2	Capital Financing Requirements (as at 31 March)	Non – HRA	£865,000,000		£780,000,000	N
		HRA	<u>£475,000,000</u>		<u>£400,000,000</u>	N
		Total	£1,340,000,000		£1,180,000,000	N
3	Authorised Limits for External Debt	Borrowing	£1,187,000,000		£708,700,868	N
		Other Long Term Liabilities	<u>£206,000,000</u>		<u>£157,013,210</u>	N
		Total	£1,393,000,000		£865,714,078	N
4	Operational Boundaries for External Debt	Borrowing	£1,040,000,000		£708,700,868	N
		Other Long Term Liabilities	<u>£206,000,000</u>		<u>£157,013,210</u>	N
		Total	£1,246,000,000		£865,714,078	N
5	Upper Limits on Fixed Interest Rate Exposures	Net Borrowing at Fixed Rates as a percentage of Total Net Borrowing	83%		72%	N
6	Upper Limits on Variable Interest Rate Exposures	Net Borrowing at Variable Rates as a percentage of Total Net Borrowing	56%		28%	N
			Lower Limit	Upper Limit		
7	Maturity Structure of Borrowing	under 12 months	0%	50%	0%	N
		12 months and within 24 months	0%	60%	18%	N
		24 months and within 5 years	30%	80%	35%	N
		5 years and within 10 years	0%	60%	10%	N
		10 years and above	10%	60%	37%	N
8	Upper Limits for Principle Sums Invested for over 364 days		(£)0	(£)0	£0	N