

Finance and Resources Committee

2pm, Thursday, 18 August 2016

Revenue Monitoring 2016/17 – month three position

Item number	7.8
Report number	
Executive/routine	
Wards	

Executive summary

The report sets out the projected month three revenue monitoring position for the Council, based on period two data. The current full-year forecast points to a balanced overall position, albeit this is contingent upon undertaking further actions required to deliver a number of approved savings and active management of significant risks and pressures.

Links

Coalition pledges [P30](#)

Council outcomes [CO25](#)

Single Outcome Agreement [SO1](#), [SO2](#), [SO3](#), [SO4](#)

Revenue Monitoring 2016/17 – month three position

Recommendations

- 1.1 Members of the Finance and Resources Committee are asked to:
 - 1.1.1 note the projected balanced position at month three;
 - 1.1.2 note the on-going risks and challenges in maintaining this position which will require further management actions and active and regular scrutiny for the remainder of the year;
 - 1.1.3 note the balanced position projected on the Housing Revenue Account (HRA) after making a £14m budgeted contribution towards housing investment;
 - 1.1.4 approve the acceleration into 2016/17 of payment of an element of the Communities and Families approved grant to the West Granton Community Trust and refer this to Council for ratification; and
 - 1.1.5 refer this report to the Governance, Risk and Best Value Committee as part of its work programme.

Background

- 2.1 This report sets out the projected overall position for the Council's revenue expenditure budget for 2016/17 as at month three, based on analysis of period two data.

Main report

- 3.1 This report represents the first of the quarterly revenue monitoring reports for 2016/17. On-going analysis of the revenue position is undertaken in line with agreed, risk-based principles, with any material changes reported in the intervening periods as required. The introduction of monthly budget review and challenge meetings has also enhanced the focus on the prompt identification of, and development of appropriate mitigating action to address, service risks and pressures.

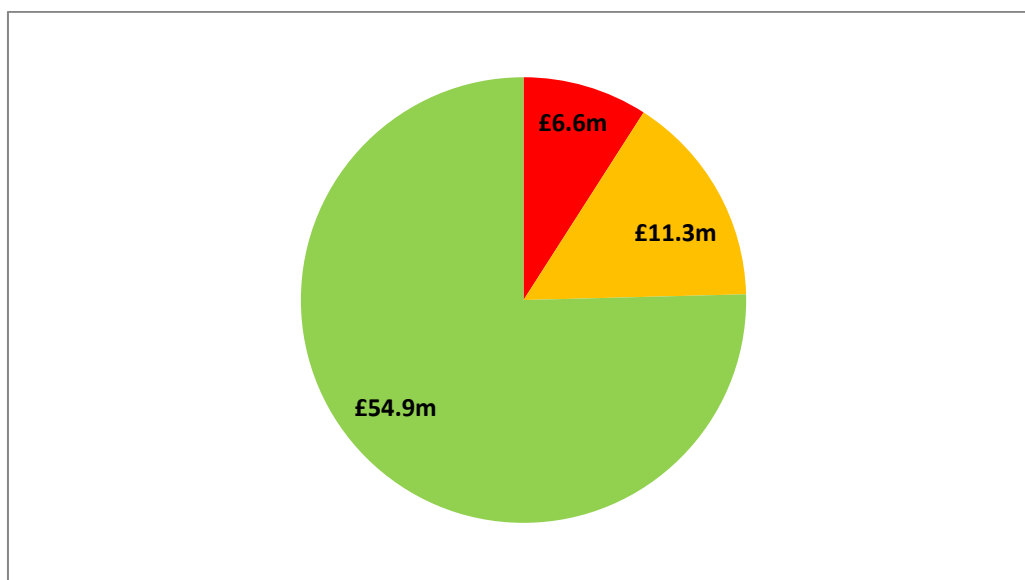
Overall position

- 3.2 As of period three, the Council is projecting a balanced position after taking account of available funding, projected delivery of approved savings and management of service risks and pressures. Services have, however, identified a number of challenges to attainment of this position and, as in previous years, delivery of a balanced outturn will require proactive management throughout the remainder of the year.

Savings delivery

- 3.3 As highlighted in a number of recent reports considered by the Committee, regular progress updates on the development and delivery of savings implementation plans for 2016/17 and subsequent years are considered and discussed by both the Council Leadership Team and Capital Coalition elected members at Budget Challenge meetings. This process began well in advance of budget approval in January and has proven effective in highlighting at an early stage potential barriers to full delivery and, where necessary, informing the subsequent development and assessment of alternative required measures.
- 3.4 Members will recall that approval of a balanced budget for 2016/17 was predicated on the delivery of around £70m of service-specific and corporate savings. As of July, the overall RAG assessment of these savings indicates that, on the basis of actions planned or already undertaken, some 91% are on target to be delivered in full as shown in the chart below.

RAG assessment of approved budget savings, 2016/17 – July 2016



- 3.5 The remaining “red” savings, covering a number of approved proposals across Communities and Families and Health and Social Care, are listed in Appendix 1. These comprise a combination of those where there are not, as yet, robust delivery plans or, in a small number of cases, where the level of approved saving is not now deliverable in the current year and a substitute consequently required.

Progress against these savings will continue to be closely monitored and regular updates shared with elected members. The net effect of any risk of shortfall is reflected in the overall position as assessed by service areas in the following sections. An analysis of the most material risks and pressures, alongside any identified mitigating actions, is also included as Appendix 2. These risks include a potential claim in respect of land contamination linked to previous tram-related construction at the Ingliston Park and Ride site.

- 3.6 Given the extent of change affecting the Council through the Transformation Programme, Finance staff have co-ordinated a comprehensive project to allow, once the transition is complete, full reporting of budgeted and actual expenditure based on these new structures. While the complexity and unprecedented scale of the changes means that some of the detail is still being refined, Phase 1, involving full re-alignment of budgets and associated procurement authorisation hierarchies to reflect the Council's new operating structure, has now been completed. Although the commentaries below are presented from the perspective of this new structure, it is anticipated that full details of the respective service budgets, and actual expenditure to date, will be provided in the half-year report considered by the Committee in October. Arrangements for onward, more detailed financial reporting to Executive Committees, aligned to the new structure, will also be considered at that time.

Service-specific budgets - Communities and Families

- 3.7 At month two, Communities and Families is experiencing significant levels of budget pressure in many areas of the service, including a number of challenges relating to the delivery of approved savings. Areas of significant budget pressure include secure care, out-of-council residential care and fostering.
- 3.8 At this stage in the year, the gross unfunded service pressures are approximately £8m, with around £3m of further mitigation action remaining to be identified. Many of the management actions which have already been identified are one-off in nature, meaning that, although they assist greatly in addressing the immediate challenge in 2016/17, a permanent sustainable solution still needs to be identified.
- 3.9 Communities and Families is, however, projecting a balanced budget position for 2016/17 and is committed to identifying further mitigating management actions to address the residual forecast net pressures. Actions taken forward include application of controls on vacancies and discretionary spend, application of Scottish Government monies, including additional funding to maintain pupil:teacher ratios, and utilisation of service reserves.

Health and Social Care

- 3.10 The Health and Social Care net budget of £184.4m requires the achievement of savings of £15.0m, with further incremental savings of £6.9m to be achieved in

2017/18. The budget also includes £7.0m of additional funding in 2016/17 approved by Council to address underlying budget pressures.

- 3.11 At its meeting on 13 May 2016, the Edinburgh Integration Joint Board (EIJB) agreed a co-ordinated programme of action across the Council and NHS Lothian to deliver the combined required level of savings in 2016/17. Of the £15.018m total, the largest single element of £5.8m is planned for delivery through a service-wide organisational review, with a further £5.4m to be delivered in 2017/18. The management phase of this organisational review commenced on 31st May. The detailed plan for subsequent phases of the review remains in development and, as such, there is a significant risk that the planned phasing of savings in 2016/17 will not be achieved.
- 3.12 A further £4.1m of the overall savings requirement in 2016/17 is planned to be addressed through the service's transformation programme, including more targeted use of re-ablement, telecare and demand management, with a further £4.9m to be delivered through the programme in 2017/18. Work is progressing on developing detailed business cases and implementation plans for these savings. There is a significant risk, however, that the assumed phasing will not be achieved.
- 3.13 A £3.5m non-recurring funding contribution from the Social Care Fund has been agreed by the EIJB to mitigate, in part, the delay to delivery of savings in 2016/17. This re-emphasises the need for additional robust plans to be developed going forward to maintain the service on a sustainable footing. Some aspects of the conditions of use of the Social Care Fund also remain to be resolved.

Place

- 3.14 At period two, subject to the subsequent identification of agreed mitigating actions, a balanced overall position is forecast. The directorate is delivering over £7m of staff savings through the transformation programme, whilst also mitigating pressures associated with the waste service and with required maintenance of North Bridge through the use of service reserves.
- 3.15 The service has not, however, as yet identified mitigations to cover a potential loss of income during the refurbishment of the crematorium. Going forward, there may also be a knock-on impact of current economic uncertainty on aspects of the service's fee income. The Executive Director is currently reviewing all budgets with a view to containing these pressures.

Resources

- 3.16 The Resources Directorate comprises the areas of Finance, Human Resources, Legal and Risk, Customer and Property and Facilities Management. As of period two, while further actions are required to deliver the approved level of savings associated with some elements of the Transformation Programme, a balanced overall position is forecast.

City Strategy and Economy

- 3.17 As of period two, a balanced overall position is forecast for the service.

Chief Executive

- 3.18 The Executive function comprises the areas of ICT, Strategy and Insight and Communications. As of period two, a balanced overall position is forecast.

Safer and Stronger Communities

- 3.19 Pressures have been identified with regard to full delivery of approved savings associated with CCTV rationalisation and homelessness and housing support services. Vacancy management and acceleration of approved savings in other areas of the service should, however, allow a balanced overall position to be achieved in 2016/17, albeit with a need to identify sustainable solutions in some areas over the longer term.

Corporate budgets

- 3.20 Building on the significant level of savings delivered to support frontline services in recent years, the approved budget assumes a continuing increase in Council Tax collection rates, as well as growth in the overall number of properties. Proactive treasury management and use of available cash balances in lieu of undertaking external borrowing also continues to generate savings to increase investment in priority service areas. As was the case in 2015/16, additional analysis will therefore be undertaken in advance of the mid-year report to determine whether potential exists in this area to fund further staff release costs or manage other known or emerging pressures.

PPP1 School Emergency

- 3.21 Following the temporary closure of Oxfangs Primary School in February 2016, further inspection of all schools delivered through the PPP1 schools programme revealed wider concerns over the standard of construction applied.
- 3.22 Significant costs have been incurred whilst pupils from the affected schools have been decanted to alternative locations, as well as in ensuring that all inspections, modifications and repairs carried out prior to re-occupancy by pupils and staff are completed to an appropriate standard. It is anticipated that there will be no overall cost to the Council arising from this incident.

Housing Revenue Account

- 3.23 The Housing Revenue Account is forecasting a break-even position after making a budgeted £14m contribution towards housing investment.

Education Grant Programme, 2016/17 to 2018/19

- 3.24 On 11 February 2016, the Education, Children and Families Committee approved grant funding awards for the three years from 2016/17 to 2018/19 totalling some £8.75m. Included amongst these awards was an annual grant of £44,000 (i.e. £132,000 over the three years) to the West Granton Community Trust to support the Prentice Centre's playgroup and Supporting Young People at Risk project. Following the ending of the Centre's youth work contract on 31 March 2016, the grant award going forward represents around 50% of the previous annual contract amount.
- 3.25 Representatives of the Centre approached the Council in April asking that phasing of this funding be reconsidered, thereby smoothing the transition to the reduced level of funding with a view to allowing the Centre to remain open. Following discussion, the balance of the Centre's 2016/17 funding award (£22,000) was paid, along with the second quarter's payment, in July.
- 3.26 The Centre has further requested that an element of the approved awards for 2017/18 and 2018/19 be accelerated, with £28,000 of the £88,000 paid in October 2016. The balance of £60,000 would then be paid, by means of quarterly instalments, in 2017/18 and 2018/19. In overall terms, the proposed changes will therefore affect the timing, but not the overall level, of payment over this period.
- 3.27 The Acting Director of Communities and Families will endeavour to manage the resulting pressure within the context of the service's overall budget. Subject to the Committee's approval, the decision to accelerate payment (and, as such, a change to the approved budget) will then be referred to Council for ratification on 25 August.

Measures of success

- 4.1 Achieving a balanced overall budget outturn position for 2016/17 and successful delivery of approved savings and key service performance indicators.

Financial impact

- 5.1 The report's contents point to the delivery of a balanced budget for the year, albeit this is subject to active monitoring and management of a range of risks and pressures.

Risk, policy, compliance and governance impact

- 6.1 The delivery of a balanced budget outturn for the year is the key target. The risks associated with cost pressures, increased demand and savings delivery targets are regularly monitored and reviewed and management action is taken as appropriate.
- 6.2 Ongoing communications by the Council's section 95 Officer have reinforced the respective responsibilities of Executive Directors and Heads of Service to maintain expenditure within approved budgets in accordance with the Financial Regulations. Directors also have a requirement to ensure that savings identified are both achievable and delivered to maintain a sustainable budget across the Council. With this in mind, structured plans are in place for review and feedback on current and future years' savings proposals.

Equalities impact

- 7.1 While there is no direct additional impact of the report's contents, all budget proposals are now subject to an initial relevance and proportionality assessment and, where appropriate, a formal Equalities and Rights Impact Assessment is then undertaken. The equalities and rights impacts of any substitute measures identified to address savings shortfalls are similarly assessed.

Sustainability impact

- 8.1 While there is no direct additional impact of the report's contents, the Council's revenue budget includes expenditure impacting upon carbon, adaptation to climate change and contributing to sustainable development. In addition, all budget proposals are now subject to an upfront assessment across these areas.

Consultation and engagement

- 9.1 There is no external consultation and engagement arising directly from this report, although the Council's budget continues to be subject to a process of annual consultation and engagement.

Background reading/external references

Service monitoring statements for period two

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Links

Coalition pledges	P30 – Continue to maintain a sound financial position including long term financial planning
Council outcomes	CO25 – The Council has efficient and effective services that deliver on objectives
Single Outcome Agreement	SO1 – Edinburgh’s economy delivers increased investment, jobs and opportunities for all SO2 – Edinburgh’s citizens experience improved health and wellbeing, with reduced inequalities in health SO3 – Edinburgh’s children and young people enjoy their childhood and fulfil their potential SO4 – Edinburgh’s communities are safer and have improved physical and social fabric
Appendices	Appendix 1 – 2016/17 budget savings RAG assessment – savings assessed as red in part or in full Appendix 2 – Service risks and pressures

Savings description	Service area	Approved level of saving, 2016/17 (£000)	RAG Status			Approved further level of saving, 2017/18 to 2019/20 (£000)	RAG Status			Categorisation	Basis of current status	Planned actions and associated timescales for delivery of savings
			Red	Amber	Green		Red	Amber	Green			
Inc1 – Integrate Sports Services	Communities and Families	500	500	0	0	0	0	0	0	Schools and Lifelong Learning	Due diligence arrangements are being considered for the business case submitted by Edinburgh Leisure (EL). However, the business model submitted indicates that the saving will not be delivered in full in 2016/17.	The due diligence process will assess any further costs and savings emerging from this proposal. A full assessment will not be possible until this is complete. However, alternative savings proposals to be identified in 2016/17.
Schools & Lifelong Learning Organisational Review	Communities and Families	2,826	1,883	0	943	209	0	209	0	Schools and Lifelong Learning	The organisational review, which is currently in planning stage, will address management savings targets and a range of approved community services savings. Savings assessed as deliverable to date total £0.943m, with further savings anticipated, largely through staff release prior to consultation. Pending the development and consideration of firm proposals to address the remaining requirement, the balance is assessed as "red" at present.	The design and consultation development process is active. The redesign of library services will also integrate with this new operational model as community and library services are brought together. The integrated structure will be designed to meet savings targets in full by 2017/18.
8.3 Early Years Partner Provider Funding	Communities and Families	382	382	0	0	191	191	0	0	Schools and Lifelong Learning	There is an increasing risk that all neighbouring authorities do not sign up to this new strategy which puts at risk the delivery of the associated saving.	The position will be closely monitored and appropriate management action taken to identify potential alternative savings.
Total, Communities and Families		3,708	2,765	0	943	400	191	209	0			
Transformation: Organisational Review	Health and Social Care	5,818	428	3,851	1,539	5,437	0	5,437	0	Health and Social Care	The Organisational Review consultation process for the first tranche of staff, 15 in number, started on 31st May. The timetable for the review has slipped by six weeks and these factors have led to a review of the deliverability of the savings attached to the programme. A prudent assessment is that 10% of the amber savings still requiring to be identified are therefore now red. The savings identified as green have been achieved through the release of staff from the organisation under VERA and VR.	The structure which has been developed for consultation with CEC and NHSL management teams, EIJB and Leadership Group delivers the targeted financial savings. The detailed phased plan, covering the majority of staff in-scope is currently being drawn up.

Savings description	Service area	Approved level of saving, 2016/17 (£000)	Red	Amber	Green	Approved further level of saving, 2017/18 to 2019/20 (£000)	Red	Amber	Green	Categorisation	Basis of current status	Planned actions and associated timescales for delivery of savings
Transformation: Re-ablement; Demand Management; Telecare	Health and Social Care	4,137	3,376	761	0	4,969	0	4,969	0	Health and Social Care	These savings proposals are being revisited through the H&SC Transformation Programme. Business cases have been submitted for approval and enabling work has begun to implement the required changes. A prudent approach has been taken when assessing in-year delivery and this is reflected in only £0.761m being assessed at amber at this time. A significant (c£4m) step-up in 2017/18 is forecast. In 2016/17 any unachieved saving will be offset against additional funding from the Social Care Fund of £3.5m as agreed by the IJB 13th May 2016.	The next stage is to agree the business cases and develop implementation plans which take account of the preliminary work undertaken.
Total Health and Social Care		9,955	3,804	4,612	1,539	10,406	0	10,406	0			
Total all areas			6,569	4,612								

NB While the analysis above captures, by value, all savings assigned a red status in 2016/17, there are a number of other savings where an element is assessed as amber, hence the total shown is lower than in the equivalent figure in Paragraph 3.4.

SERVICE RISKS AND PRESSURES

Appendix 2

Risk or pressure description	Service area	Estimated financial impact, 2016/17 (£000)	Residual risk after taking account of mitigating actions, 2016/17	Residual risk status, 2016/17	Explanatory notes, including description of any recurring pressures and mitigating measures implemented or proposed to date. This analysis should include consideration of the Council's key risks as they affect the service area's activities.
Waste Service Pressure	Place	1,500	1,500	Red	Following analysis of 2015/16 position and the roll-out of recent service changes (recycling redesign, ceasing commercial waste at CRC sites, etc.) it is estimated that the pressure in waste services for 2016/17 will be around £1.5m, without any further savings measures. The market for recyclate continues to be volatile and there is a risk that the cost of disposing recyclable waste could increase this overspend.
Mortonhall - loss of income due to closure of facility for refurbishment	Place	450	450	Red	The crematorium will be closed for a prolonged period and while some income is anticipated from use of the Chapel, no cremations will take place until the works are complete. It may be possible to offset some of this pressure from savings elsewhere in the Environment budget, particularly the fleet service and work is ongoing to determine the potential for savings in this area.
North Bridge Maintenance	Place	950	0	Green	Significant structural work is required for improvements to North Bridge. Prior to capital funding being made available (c£6m is required), we will incur revenue expenditure of around £0.95m. A funding source has now been identified for the revenue element, however, and, given its anticipated non-recurring nature, the pressure is considered to have been addressed.
Winter Weather	Place	Risk	Risk remains, but level reduced	Yellow	The roads budget for gritting and snow-clearing is based on an average winter. A harsh winter (such as those experienced in 2010 and 2011) could create a substantial pressure. The reserve created to mitigate this pressure was initially used in 2015/16 to address the overspend in Health and Social Care but was able to be reinstated as part of year-end accounts closure and, as such, provides an element of contingency against a severe winter.

SERVICE RISKS AND PRESSURES

Appendix 2

Risk or pressure description	Service area	Estimated financial impact, 2016/17 (£000)	Residual risk after taking account of mitigating actions, 2016/17	Residual risk status, 2016/17	Explanatory notes, including description of any recurring pressures and mitigating measures implemented or proposed to date. This analysis should include consideration of the Council's key risks as they affect the service area's activities.
Uncertainty over current economic conditions and impact on income, in particular from planning applications and building warrants	Place	Risk	Risk remains		More work is required to understand any potential implications of the UK's departure from the European Union and an initial report will be brought to the Corporate Policy and Strategy Committee in the autumn.
Place total		2,900	1,950		
Out of Council Residential Care (Pressure)	Communities and Families	1,170	1,170		As at 31 March there were 40 Out-of-Council placements (32 in residential schools and 8 in day schools). Senior managers are conducting face-to-face case reviews with allocated social workers and team leaders in an attempt to devise alternative care plans for some of the high-cost young people. This work is ongoing, there are identified exit plans for some young people but these will need the agreement of Children's Hearings to change the young person's place of residence.
Fostering (Pressure)	Communities and Families	600	600		Work is ongoing to improve the position and also identifying one-off savings to cover shortfall. 19 carers currently working for independent providers are being transferred to City of Edinburgh.
Secure Care (Risk)	Communities and Families	1,375	1,375		The budget for secure places is 8. Average usage for 2015/16 was 13 and in March 2016 this number was 16. If the average usage of 13 continues then the pressure will be £1.375m. Changing this pattern of secure risk requires culture change and practice changes across a range of children's services. Further to the recent transformation process for children's services, front line manager engagement on this issue is in place starting 8 June. In the meantime, all cases escalating to secure are scrutinised by Service Managers in order to consider alternative approaches.
Other Pressures	Communities and Families	425	425		Management action is being developed for a number of smaller pressures relating to kinship care services, translation services, support for families with no access to benefits.
Communities and Families total		3,570	3,570		

SERVICE RISKS AND PRESSURES

Appendix 2

Risk or pressure description	Service area	Estimated financial impact, 2016/17 (£000)	Residual risk after taking account of mitigating actions, 2016/17	Residual risk status, 2016/17	Explanatory notes, including description of any recurring pressures and mitigating measures implemented or proposed to date. This analysis should include consideration of the Council's key risks as they affect the service area's activities.
Total all areas		6,470	5,520		