

Finance and Resources Committee

10.00am, Thursday, 3 November 2016

Revenue Monitoring 2016/17 – half-year position

Item number	7.4
Report number	
Executive/routine	
Wards	

Executive summary

The report sets out the projected half-year revenue monitoring position for the Council, based on analysis of period five data. The current forecast points to a balanced overall position for the year. Attainment of this position is, however, 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 – half-year position

1. Recommendations

- 1.1 Members of the Finance and Resources Committee are asked to:
 - 1.1.1 note the balanced position forecast for the year;
 - 1.1.2 note the on-going risks and challenges across all service areas 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 £14.2m budgeted contribution towards housing investment; and
 - 1.1.4 refer this report to the Governance, Risk and Best Value Committee as part of its work programme.

2. Background

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

3. Main report

- 3.1 This report represents the second 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. Initial budget review and challenge meetings have been held and further sessions are planned. These have helped to enhance the focus on the prompt identification of, and development of appropriate mitigating action to address, service risks and pressures.

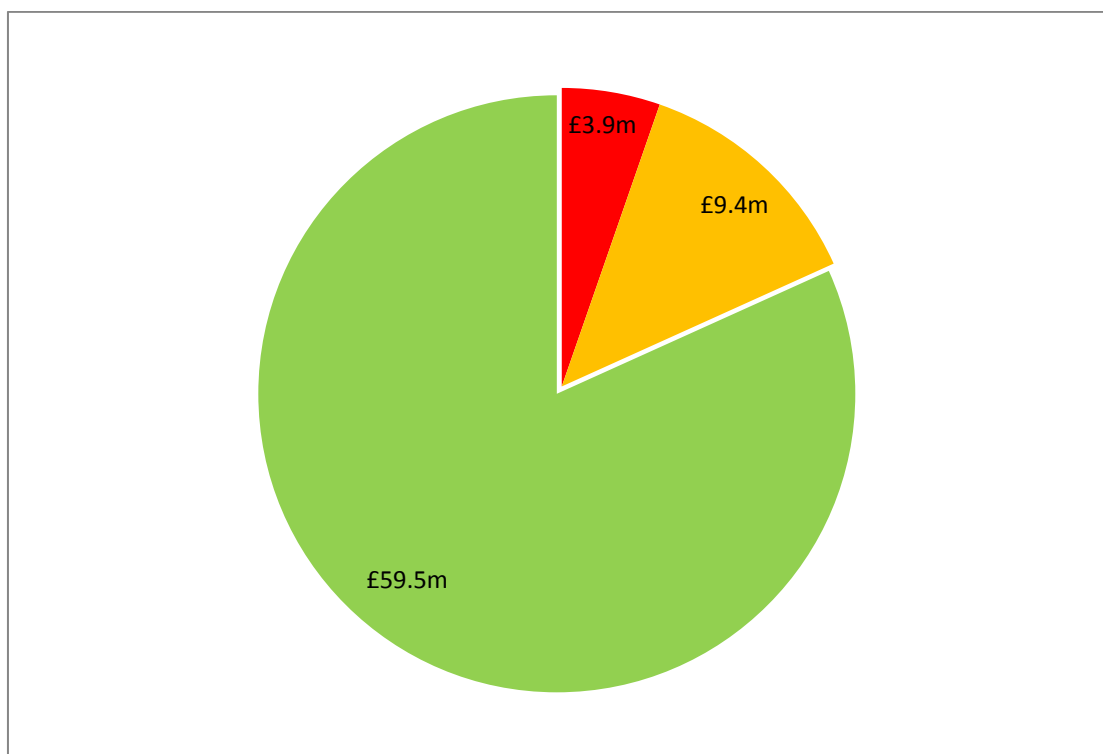
Overall position

- 3.2 As of period six, the Council is projecting a balanced overall position, after taking account of available funding, projected delivery of approved savings, use of reserves and management of service risks and pressures. Services have identified a number of further challenges to attainment of this position, however, and delivery of savings and service pressures will therefore require sustained proactive management throughout the remainder of the year. A high-level service analysis, aligned to the Council's new structure, is included as Appendix 1.

Savings delivery

- 3.3 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 September, the overall RAG assessment of these savings indicates that, on the basis of actions planned or already undertaken, some 95% are on target to be delivered in full as shown in the chart below.

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



- 3.4 The red-assessed savings cover two specific approved proposals within Place and Health and Social Care respectively and these are shown in Appendix 2. Progress in the delivery of these savings, or where necessary alternative measures, will continue to be closely monitored, with regular updates shared with elected members. Where savings are being met other than by means of the approved measures, relevant details will continue to be reported to relevant Executive Committees.

- 3.5 The net effect of any risk of shortfall in delivery is reflected in the overall position as assessed by service areas in the following sections. Executive Directors also continue to manage a range of risks and pressures, the most material of which, alongside any identified mitigating actions, are included as Appendix 3.

Service-specific budgets - Communities and Families

- 3.6 At period five, Communities and Families is experiencing 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. The phasing and delivery of savings associated with the transformational review within Schools and Lifelong Learning will also result in temporary pressures in 2016/17 in advance of full delivery in 2017/18.
- 3.7 Many of the management actions identified are one-off in nature, meaning that while they assist greatly in addressing the immediate challenge in 2016/17, a permanent sustainable solution still needs to be identified.
- 3.8 In projecting a balanced budget position, Communities and Families is committed to identifying further mitigating management action to address the forecast pressures, including application of controls on vacancies and discretionary spend and utilisation of departmental reserves and other income.

Health and Social Care

- 3.9 The period five outturn forecast indicates a projected overspend of £3.4m relating to potential slippage in delivery of approved savings under the Health and Social Care Transformation Programme.
- 3.10 An allocation of £3.5m of non-recurring funding from the Social Care Fund was previously agreed by the Edinburgh Integration Joint Board (EIJB) on 13 May 2016 to mitigate in part the delay in delivery of savings in 2016/17. On 16 September 2016, the EIJB provisionally agreed to allocate up to a further £3.4m of non-recurring funding from the Social Care Fund to offset the unachieved savings, therefore enabling delivery of a balanced position for the year. As with other demand-led services, however, going forward it is essential that the approved level of saving is delivered as an important step towards securing financial sustainability.

Place

- 3.11 At period five, a balanced overall position is being forecast. The directorate is, however, delivering over £12m of savings in 2016/17 and has in addition identified new pressures totalling £7.2m. Pressures associated with waste services (£2.7m) and maintenance of North Bridge (£1.3m) can be partially mitigated through the use of reserves.
- 3.12 The service is still developing plans to contain further residual pressures resulting from loss of income associated with the crematorium refurbishment

(£1.5m), Edinburgh Road Services (£2m) and a shortfall in tram advertising income (£0.5m).

- 3.13 A further emerging risk relates to a historical contractual claim in respect of the Council's waste disposal arrangements. Members will be kept apprised of progress as this develops.
- 3.14 Given the risks outlined above, the Executive Director of Place will continue to work to identify measures with the aim of delivering a balanced position by the year-end.

Resources

- 3.15 As of period five, the Resources Directorate is reporting a balanced overall position, with delivery of transformation programme savings assessed to be on track.

City Strategy and Economy

- 3.16 As of period five, a balanced overall position is forecast for the service. The achievement of increased income targets for museums, galleries and venues remains a risk, however, due to its demand-led nature.

Chief Executive

- 3.17 The Executive function comprises the areas of ICT, Strategy and Insight and Communications. As of period five, a balanced overall position is forecast, although risks exist around the adequacy of current-year budget provision to address all liabilities associated with the transition to the new ICT service provider.

Safer and Stronger Communities

- 3.18 At month five, Safer and Stronger Communities is projecting a balanced position. While forecast pressures have been identified relating to the delivery of approved savings, at this stage it is anticipated that mitigating management action, including vacant posts and accelerated savings in some service areas, will be available to offset these on a one-off basis.

Corporate budgets

- 3.19 In maximising the level of investment available for frontline priority services, significant savings have been generated in recent years' budgets through both increasing Council Tax collection levels (with 2015/16 in-year collection representing the Council's best-ever performance) and realising savings in loans charges through proactive treasury management, particularly using available cash balances in lieu of undertaking external borrowing.
- 3.20 While opportunities to identify further savings are correspondingly more limited, analysis in these and other corporate areas is on-going and may alleviate existing pressures or provide some contingency against potential risks elsewhere within the Council crystallising.

Housing Revenue Account

- 3.21 A balanced position is forecast after making a required £14.2m contribution to the Housing Investment Reserve to fund future delivery of the affordable housing strategy as set out in the HRA business plan. Approved budget savings of £1.664m in relation to reductions in housing management, repairs and maintenance and ICT costs are forecast to be achieved.

4. 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.

5. Financial impact

- 5.1 The report's contents point to a balanced overall position. Attainment is, however, contingent upon undertaking further actions required to deliver a number of approved savings and active management of significant risks and pressures for the remainder of the year.
- 5.2 The Council's Financial Regulations set out Executive Directors' responsibilities in respect of financial management, including regular consideration of their service budgets such that overall expenditure is contained within approved levels.

6. 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. This has contributed positively to a position where the majority of approved 2016/17 savings are also assessed as being on track to be delivered.

7. 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.

8. 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.

9. 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.

10. Background reading/external references

- 10.1 Service monitoring statements for period five.

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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 – Service analysis

Appendix 2 – 2016/17 budget savings RAG assessment – savings assessed as red in part or in full

Appendix 3 – Service risks and pressures

THE CITY OF EDINBURGH COUNCIL

REVENUE MONITORING 2016-17

PERIOD 5 REPORT

SERVICE ANALYSIS

Account	Revised Budget £000	Budget to Date £000	Actual to Date £000	Variance to Date		Projected Outturn £000	Projected Variance	
				£000	%		£000	%
Communities and Families	337,776	139,384	142,602	3,218	2.3%	337,776	0	0.0%
Chief Executive	39,470	18,510	18,912	402	2.2%	39,470	0	0.0%
City Strategy and Economy	19,850	11,229	11,229	0	0.0%	19,850	0	0.0%
Safer and Stronger Communities	25,478	8,962	9,192	230	2.6%	25,478	0	0.0%
Health and Social Care	184,178	101,613	102,963	1,350	1.3%	184,178	0	0.0%
Resources	133,267	43,199	43,199	0	0.0%	133,267	0	0.0%
Place	44,848	21,535	23,887	2,352	10.9%	44,848	0	0.0%
Valuation Joint Board Requisition	3,744	1,560	1,560	0	0.0%	3,744	0	0.0%
Direct Service Expenditure	788,611	345,992	353,544	7,552	2.2%	788,611	0	0.0%
Council-wide - Energy Costs	250	0	0	0	n/a	250	0	0.0%
Council-wide - Living Wage	1,032	0	0	0	n/a	1,032	0	0.0%
Council-wide - Non-Domestic Rates	442	0	0	0	n/a	442	0	0.0%
General Fund Services Subtotal	790,335	345,992	353,544	7,552	2.2%	790,335	0	0.0%
Net Cost of Benefits	(62)	(26)	(6,703)	(6,677)	n/a	(62)	0	0.0%
Pension Auto Enrolment	507	0	0	0	n/a	507	0	0.0%
Pension Fund - Lump Sum Payment	3,064	1,277	1,277	0	0%	3,064	0	0.0%
Non Distributed Costs	5,816	2,423	2,423	0	0%	5,816	0	0.0%
Non-Domestic Rates - Discret. Relief	350	0	0	0	n/a	350	0	0.0%
Carbon Tax	1,200	1,200	1,219	19	1.6%	1,200	0	0.0%
Insurance Premiums	3,513	0	0	0	n/a	3,513	0	0.0%
Loans Charges / Interest on Rev Bals	116,488	0	0	0	n/a	116,488	0	0.0%
Council Transformation	4,050	1,688	1,357	(331)	n/a	4,050	0	0.0%
Prior Year, Other Adjustments and staff release costs	10,592	0	0	0	n/a	10,592	0	0.0%
Dividend and Investment Income	(6,500)	0	0	0	n/a	(6,500)	0	0.0%
Total General Fund	929,353	352,554	353,117	564	n/a	935,853	0	0.0%
Funding								
General Grant Funding	(343,039)	(142,933)	(142,933)	0	0%	(343,039)	0	0.0%
Non Domestic Rates	(374,650)	(156,104)	(156,104)	0	0%	(374,650)	0	0.0%
Council Tax	(238,631)	(99,430)	(99,430)	0	0%	(238,631)	0	0.0%
Less: Council Tax Reduction Scheme	26,252	10,938	10,938	0	0%	26,252	0	0.0%
Operating Deficit / (Surplus)	(715)	(34,975)	(34,411)	564	n/a	5,785	0	0.0%
Contribution to / (from) Reserves								
Earmarked Reserves								
- Capital Fund	(2,000)	0	0	0	n/a	(2,000)	0	0.0%
- Service Transformation	1,700	0	0	0	n/a	1,700	0	0.0%
- Dilapidations Fund	700	0	0	0	n/a	700	0	0.0%
- Various	315	0	0	0	n/a	315	0	0.0%
- Spend to Save				0	n/a		0	#DIV/0!
- Other earmarked Balances				0	n/a		0	#DIV/0!
Total Contribution to / (from) Reserves	715	0	0	0	n/a	715	0	0.0%
In-year Deficit / (Surplus)	0	0	0	0	n/a	0	0	n/a
Housing - HRA	0	(21,623)	(26,621)	(4,998)	n/a	0	0	n/a

Revised budget figures are subject to ongoing update as Transformation workstreams progress.

Net Cost of Benefits variance reflects the profile of sums received from the Department for Work and Pensions and is anticipated to be in line with budgeted levels by the year-end.

Savings description	Service area	Approved level of saving, 2016/17 (£000)	RAG Status (insert relevant element of saving under each heading. These amounts should be shown net of any assumed mitigating action)			Approved further level of saving, 2017/18 to 2019/20	RAG Status (insert relevant element of saving under each heading. These amounts should be shown net of any assumed mitigating action)			Categorisation	Basis of current status	Planned actions and associated timescales for delivery of savings
			Red	Amber	Green		Red	Amber	Green			
Transformation: Re-ablement; Demand Management; Telecare	Health and Social Care	4,137	3,376	761	0	4,943	0	4,943	0	Health and Social Care	These savings proposals are being revisited through the H&SC Transformation Programme. A prudent approach has been taken when assessing in-year delivery and this is reflected in the £0.761m at amber. A significant (c£4m) step-up in 2017/18 is forecast.	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		4,137	3,376	761	0	4,943	0	4,943	0			
Tram Advertising Income	Place	500	500	0	0	0	0	0	0	Planning and Transport	The approved budget saving is predicated on generation of additional income through the Council's existing advertising contract by selling naming rights and "wrapping" Edinburgh Trams. As of the time of writing, however, no specific plans have been agreed to contribute towards the current year's income target.	Ongoing dialogue with contractor.
Total Place		500	500	0	0	0	0	0	0			
Total all areas			3,876	761			0	4,943				

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 Parag

SERVICE RISK AND PRESSURES

Appendix 3

Risk or pressure description	Service area	Estimated financial impact, 2016/17 (£000)	Any estimated further impact, 2017/18 to 2019/20 (£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	2,700	1,800	2,700		Following analysis of the 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 £2.7m, without any further savings measures. The market for recycle continues to be volatile and there is a risk that the cost of disposing recyclable waste could increase this overspend significantly.
North Bridge Maintenance	Place	1,315	1,235	465		Following routine inspection work, significant maintenance expenditure is required on North Bridge. Prior to capital funding being made available (c£9-13m is required), revenue funding is required for these preparatory works and to set up a project team to carry out initial work to develop the scope of the capital project. Some of these costs have been met from within the overall transport budget, but the service is unable to contain the full cost.
Mortonhall - Income shortfall	Place	2,000	0	1,500		The crematorium is currently closed for refurbishment work. This is resulting in a significant loss of income, which is being partially offset by additional income from Scientific Services. The service is developing a mitigation plan to help address the income shortfall, but this is unlikely to address the pressure in full.

Risk or pressure description	Service area	Estimated financial impact, 2016/17 (£000)	Any estimated further impact, 2017/18 to 2019/20 (£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.
Winter Weather	Place	Risk	Risk	Risk remains, but level reduced		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.
ICT Contract - potential cost changes following transition and mobilisation	Chief Executive	TBC	TBC	TBC		Following commencement of the Council's ICT contract with CGI on 1st April 2016, there are a number of change issues, which are currently being negotiated with CGI and which may give rise to a contractual price change.
Out of Council Residential Care (Pressure)	Communities and Families	1,200	1,200	1,200		The service has annual approved savings of £1.8m against Out of council residential placements by 2017/18 compared to the 2012/13 budget. This has proved very challenging to deliver at the same time as reductions of £3.5m have been made to internal residential services. The service has assessed that there will be an ongoing demand for approximately £1.2m of placements in future. This pressure has been reported to CLT and the service is in the process of identifying alternative savings for 17/18 onwards.

SERVICE RISK AND PRESSURES

Risk or pressure description	Service area	Estimated financial impact, 2016/17 (£000)	Any estimated further impact, 2017/18 to 2019/20 (£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.
Secure Care (Risk)	Communities and Families	1,200	1,200	1,200		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, frontline manager engagement on this issue was put in place from 8 June.