

# Finance and Resources Committee

10.00 am, Thursday, 19 January 2017

## Council's Budget 2017/21 – Risks and Reserves

Item number	7.7
Report number	
Executive/routine	
Wards	

### Executive Summary

---

The report advises members of the risks inherent in the revenue and capital budget framework and the range of measures and provisions established to mitigate these.

### Links

---

Coalition Pledges	<a href="#">P30</a>
Council Priorities	<a href="#">CP13</a>
Single Outcome Agreement	<a href="#">SO1</a> , <a href="#">SO2</a> , <a href="#">SO3</a> , <a href="#">SO4</a>

## Council's Budget 2017/21 – Risk and Reserves

### 1. Recommendations

---

- 1.1 Members of the Finance and Resources Committee are asked to:
  - 1.1.1 Note the content of this report; and
  - 1.1.2 remit the report to Council for decision on 9 February 2017 as part of the budget-setting process.

### 2. Background

---

- 2.1 This report advises members of significant risks identified in the budget process, quantifying these wherever possible, and sets out the range of measures and provisions in place to mitigate these.
- 2.2 Unallocated reserves are held against the risk of unanticipated expenditure or reduced income arising in any particular year. In addition, there are specific earmarked reserves set aside to manage timing differences between the receipt of income and the expenditure being incurred, in accordance with accounting rules.
- 2.3 The reserves held by the Council are reviewed annually as part of the revenue budget process. The review considers the level of balances, the risks inherent in the budget process and the adequacy of arrangements in place to manage these known risks.

### 3. Main report

---

#### **Risks**

- 3.1 There are always risks inherent in the budget process. What is important, however, is that these are identified and mitigated/managed effectively. Appendix 1 shows a risk matrix, setting out how the known risks identified in this report are managed. This list should not, however, be seen as exhaustive due to the complexity of the Council's activities and the changing environment within which it operates.

#### **Funding settlements**

- 3.2 Financial settlements and wider fiscal policy changes, or more specifically their impact on the level of savings required to set a balanced budget, pose a significant risk to the financial stability of the Council. The 2017/18 Local Government Financial Settlement was announced on 15 December 2016 and confirmed a slight

overall reduction relative to the level of external funding assumed within the budget framework. An update on the implications of this change is included elsewhere on today's agenda.

- 3.3 The level of funding for future years could vary for a number of reasons, including the use of updated population data and the complexities of the funding distribution formula, as well as wider Scottish Government and UK Government fiscal policy. Current expectations are, however, for subsequent years' local government settlements to be increasingly challenging, reinforcing the need for further transformation and more fundamental service prioritisation.

#### **Delivery of approved savings**

- 3.4 The budget process makes assumptions on the level of savings that can be delivered for individual proposals and those linked to wider projects. There are risks around the ability to deliver both the savings already approved by Council for 2017/18 and the additional proposals brought forward in the revenue budget framework for decision on 9 February 2017 within the timescales stated and on a sustainable basis.
- 3.5 The increased scrutiny from both senior management and elected members during the development and subsequent implementation of approved savings has contributed to a marked increase in the proportion subsequently delivered. There remains a risk, however, that the full level of approved savings may not be delivered, particularly in areas affecting frontline service provision, hastening pressures for which sustainable mitigating actions are not then identified. This risk applies equally to the monitoring of investment where expenditure in excess of budgeted levels may result in pressures affecting other areas if mitigating actions cannot be identified.

#### **Demographic changes**

- 3.6 Demographic changes could impact on the overall level of demand for services and the ability to provide for this within the available level of resources. While the budget framework contains over £10m of additional demographic-related investment in 2017/18 and further sums in subsequent years, this does not represent the full requirement identified by services and will thus require to be prioritised and, where possible, invested in preventative approaches.

#### **Legislative change, including welfare reform**

- 3.7 There may be impacts on both Council income streams and demand for services as further elements of welfare reform changes are rolled out across Scotland, with initial pilot schemes reporting significant rent arrears amongst Universal Credit claimants. Those in receipt of such support may suffer some financial hardship, which could impact on demand for housing, health and general welfare, resulting in greater need for Council intervention.

### **Infrastructural investment**

- 3.8 There is a significant likelihood that the Council will require to support additional borrowing and running costs associated with the new infrastructure emerging from the Local Development Plan, City Deal and other major projects.

### **Income**

- 3.9 Assumptions are made in the budget process on the level of income that will be generated for services. There are risks related to these assumptions around (i) demand for chargeable services, and (ii) the ability to collect all income due. The Council has a range of measures to mitigate the risk, such as service level agreements with external users, application of the Council's corporate debt policy and regular monitoring of income levels as a prompt to remedial action.

### **Other risks**

- 3.10 There is a risk that there will be insufficient funding to deliver the planned outcomes of the Edinburgh Integration Joint Board (IJB). The volatility of demand and expenditure in areas of the National Health Service may expose the IJB to further financial risks.
- 3.11 It remains too early to determine with any accuracy the potential impacts, in the medium- to longer-term, of the United Kingdom's departure from the European Union. Alongside any wider constitutional changes, however, this may also impact on demand for, and/or the resources available to provide, the Council's services.
- 3.12 There is furthermore the potential for increased legal costs and / or compensation claims arising as a result of specific events and emerging issues.

### **Reserves**

- 3.13 Members are aware that the Council holds a number of earmarked balances within the General Fund. At 31 March 2016, the General Fund balance stood at £128.396m, of which £115.371m was earmarked for specific purposes. The unallocated General Fund balance remained at £13.025m, in line with the medium-term strategy. There are significant planned applications of earmarked reserves during 2016/17, consistent with the assessment of risks and commitments underpinning the Council's wider financial strategy, with a projected balance at 31 March 2017 of circa £96m.
- 3.14 The current budget does not provide for any further contributions to the unallocated General Fund. The level of unallocated reserves at 31 March 2016, together with the forward strategy, while comparatively low relative to other councils in Scotland, was assessed as appropriate by the council's external auditor, in light of the financial risks likely to face the Council in the short to medium term.
- 3.15 The Council also holds a Capital Fund which has been built up over a number of years. Members are reminded of the approval to draw down £2m as part of the January 2016 Budget Motion and, once realised, a further £7.9m of additional capital receipts, to be split equally between (i) supplementing planned repairs and maintenance spend, and (ii) providing funding towards future LDP infrastructure

requirements, as reported to this Committee on 18 August 2016. A report elsewhere on today's agenda recommends the use of up to £20m from within the Fund to support, along with currently-unallocated funds within the wider capital programme, investment in a number of key Council priorities. Going forward, it is anticipated that the Local Development Plan and City Deal will also place further significant commitments on the Fund.

- 3.16 There will be a call on a number of earmarked reserves, including the Capital Fund, to support the funding of staff release costs as part of the Transformation Programme. The timing and value of this call on reserves will continue to be reported to Committee as the programme progresses.
- 3.17 Taking into account these medium-term funding requirements, with the exception of unallocated general reserves held in accordance with the principles of sound financial management and revolving funds which, by their nature, support investment in subsequent, savings-generating initiatives, the Council's reserves are at this stage assessed to be fully committed over the period covered by the budget framework.

#### **4. Measures of success**

---

- 4.1 The Council identifies and quantifies, where possible, risks that are inherent in the revenue budget in advance of these materialising and puts mitigating actions in place.
- 4.2 The Council maintains an adequate level of unallocated General Fund reserves.

#### **5. Financial impact**

---

- 5.1 The report identifies where funding has been made available for the risks set out. Council holds unallocated General Fund reserves against the likelihood of unfunded risks occurring.

#### **6. Risk, policy, compliance and governance impact**

---

- 6.1 The aim of this report is to identify the key risks to the Council and outline actions to manage those risks through planning, mitigating actions and use of reserves, as outlined in the attached appendices.

#### **7. Equalities impact**

---

- 7.1 While there is no direct impact of the report's contents, all budget proposals are now subject to an assessment of their potential equalities and rights impacts. The equalities and rights impacts of any substitute measures identified to address savings shortfall 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 [Capital Coalition Budget Motion 2016-17](#), City of Edinburgh Council, 21 January 2016
- 10.2 [Capital Monitoring 2015-16 Outturn and Receipts](#), Finance and Resources Committee, 18 August 2016

### Hugh Dunn

Acting Executive Director of Resources

Contact: Catrina Montgomery, Senior Accountant

E-mail: [catrina.montgomery@edinburgh.gov.uk](mailto:catrina.montgomery@edinburgh.gov.uk) | Tel: 0131 469 3497

### Links

---

<b>Coalition Pledges</b>	P30 – Continue to maintain a sound financial position including long term financial planning
<b>Council Priorities</b>	CP13 – Deliver lean and agile Council services
<b>Single Outcome Agreement</b>	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
<b>Appendices</b>	Appendix 1 – Risk Matrix Appendix 2 – Projected Movement in General Fund

## Risk Matrix

The table below summarises how the risks identified in the report are managed.

<b>Risk</b>	<b>Provision to Manage</b>
Transformation programme	From monies set aside in an earmarked reserve or other provision to meet the estimated costs  Regular monitoring of savings delivery
Financial settlements	Provisions made in the Long-Term Financial Plan (LTFP)  Regular monitoring of public expenditure projections and recognise potential or actual grant variations in LTFP
Demographic changes leading to rising service demands	Provisions made in the Long-Term Financial Plan
Legal Claims	Unallocated reserves could be drawn down from the unallocated General Fund balance to meet costs
Service area-specific risks	Mitigating action undertaken by Directors to identify alternative measures to manage risks, within available resources
Universal Credit/Welfare Reform	Provisions made in the Long-Term Financial Plan Ongoing monitoring of impacts
Health and Social Care Integration	Ongoing development of Strategic Plan with NHS

## Projected Movement in General Fund

## Appendix 2

	Balance at 1.04.17 £000	Planned Uses £000	Projected Balance at 31.03.18 £000	
<b>General Fund</b>				
<u>Statutory and / or restricted use</u>				
Balances held by schools under DSM	1,500	0	1,500	Balances set aside for Devolved School Management Scheme. Allocated back to schools at the start of each financial year.
Council Tax Discount Fund	23,638	(6,954)	16,683	Monies set aside as a result of reducing Council Tax second home discounts. Use of the fund is prescribed by the Scottish Government and is restricted to supporting the development of affordable housing. It forms part of the Strategic Housing Investment Fund (SHIF), alongside income from the Repairs and Renewals fund. The SHIF is fully committed to the delivery of 16,000 new affordable homes by the Council and its not- for-profit housing association partners over the next ten years and investment in services to reduce tenants living costs.
Licensing Income	3,131	(97)	3,034	Monies derived from surplus licensing income related to cabs, houses in multiple occupation, liquor and landlord registration. Council is not permitted to use this surplus on other services, with the balance available to cushion changes in fee income levels.
Unspent revenue grants	1,974	0	1,974	Monies set aside at the year end, in accordance with proper accounting practice, where income has been received prior to the relevant expenditure being incurred. Funds will be drawn down in accordance with the grant conditions to match planned expenditure. The majority of funds will be drawn down in year and the new grant funding will be carried forward.



Balances set aside to  
manage financial risk

Balances set aside for specific investment	7,354	(1,407)	5,947	Funding set aside for specific projects. Including monies for Weather Emergency, imProveit and statutory notice legacy costs.
Contingency funding, workforce management	10,136	(7,000)	3,136	Monies held to cover costs of workforce management changes including staff severance costs.
Council Priorities Fund	2,050	1,300	3,350	Monies set aside which will be utilised to fund emerging Council priorities or expenditure pressures.
Dilapidations Fund	5,410	0	5,410	Monies set aside to meet costs arising from the termination of property leases and other related contractual commitments. .
Insurance Fund	12,608	24	12,632	Insurance Funds are held to defray any loss where the Council could have insured against a loss but has not done so, and for paying premiums on an insurance policy. This includes the power to meet excesses on insurance policies.

Balances set aside  
from income received  
in advance

Recycling balances	1,160	(211)	949	Monies received through Zero Waste funding, which are fully committed to manage current pressures in Waste Services.
Lothian Buses	4,704	(704)	4,000	Holds dividend income previously received from Lothian Buses. Funds are fully earmarked to support transport-related projects.
Pre-paid PPP monies and lifecycle costs	1,859	130	1,989	Monies set aside in recognition of the phasing issues related to grant monies, for lifecycle costs of projects.
Other Minor Funds	226	(52)	174	Minor funds for other specific projects.

Balances set aside for  
investment in specific  
projects

Strategic Investment Fund	5,855	(275)	5,580	Funds set aside to sit alongside private sector finance to create new city development opportunities. Drawdown for industrial units at Sighthill and monies to support financial modelling for Meadowbank development.
Spend to Save Fund	1,436	(167)	1,269	Funds set aside to assist service areas deliver revenue savings in future years through longer-term financial planning; used as a revolving fund.
Energy efficiency Fund	99	(99)	0	Monies received from the Scottish Government's Energy Efficiency Initiative. These funds have been re-invested as part of the RE:fit project following the removal of the ring-fence.
Unallocated General Fund	13,025	0	13,025	Unallocated funds held against the risk of unanticipated expenditure and / or reduced income arising in any particular year, in line with Council reserves policy.
<b>Total General Fund</b>	<b>96,165</b>	<b>(15,513)</b>	<b>80,652</b>	