Finance and Resources Committee

10.00am, Thursday 16 August 2018

Revenue Monitoring 2017/18 – outturn report

Item number	7.1
Report number	
Executive/routine	
Wards	n/a
Council Commitments	n/a

Executive Summary

The report sets out the provisional 2017/18 revenue outturn position for the Council based on the unaudited financial statements. This position shows an overall underspend of £2.416m, representing the eleventh successive year in which net expenditure has been maintained within approved levels.

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Report

Revenue Monitoring 2017/18 – outturn report

1. Recommendations

1.1 Members of the Finance and Resources Committee are asked to:

1.1.1 note the contents of this report and the provisional revenue underspend of £2.416m for the year ended 31 March 2018;

1.1.2 note that, after taking account of Council's previous approval to earmark £0.480m for additional roads investment and £0.100m for the City Vision, the remaining £1.836m has been set aside within the Council Priorities Fund;

1.1.3 note the contributions in 2017/18 to and from the General Fund as detailed in the report;

1.1.4 note that the Housing Revenue Account was balanced after making planned contributions of £10m towards in-year capital investment and £0.438m to the Renewal and Repairs Fund;

1.1.5 note that the Common Good Annual Performance Report will be considered at the Committee's meeting on 27 September; and

1.1.6 refer this report to the Governance, Risk and Best Value Committee as part of its workplan.

2. Background

2.1 The Council's statement of accounts for 2017/18 was passed to the external auditor by the statutory deadline of 30 June. This report sets out the provisional outturn position for the revenue budget as detailed within the unaudited statement.

2.2 The unaudited financial statements were published on the Council website by 30 June 2018 and made available for public inspection from 2 July 2018 for 15 working days, in accordance with relevant regulations. A number of enquiries were received during this period and officers provided responses accordingly. It is, however, possible that objections to the accounts will be raised with the external auditor as part of the audit process.

2.3 As in previous years, the audited annual accounts and the auditor's report will be submitted initially to the Governance, Risk and Best Value Committee on 25 September 2018 and be presented for approval thereafter by the Finance and

Resources Committee on 27 September, thereby meeting the statutory requirement for the audited statements to be approved by members by 30 September.

3. Main report

Overall position

3.1 The unaudited outturn position for 2017/18 shows an overall underspend of £2.416m, equating to 0.26% of the Council's total net expenditure. Table 1 below summarises the outturn, with further details provided in Appendix 1. Achievement of a balanced outturn in 2017/18 represents the eleventh successive year in which expenditure has been maintained within budgeted levels.

Table 1 – Summarised Unaudited Outturn Statement, 2017/18

	Revised Budget	Outturn	Outturn Variance
	£000	**£000**	**£000**
Service areas	822,581	822,082	(499)
Non-service specific budgets	150,158	146,194	(3,964)
Movement in reserves	1,137	3,591	2,455
Sources of funding	(973,876)	(974,285)	(409)
In-year (surplus) / deficit		**(2,416)**	**(2,416)**

3.2 As reported to the Finance and Resources Committee on 7 November 2017, in view of significant demand-led pressures apparent within both Health and Social Care and Safer and Stronger Communities during the year, £10.6m of additional funding was made available to these areas. In order to maintain overall expenditure within approved levels, however, offsetting savings, comprising a combination of assumed underspends in other service areas (£2.828m), reductions in loans charge expenditure (£1m), additional Council Tax income (£2.714m) and a number of one-off contributions from reserves (£4.058m) were identified and it is against these revised budgets that the variances shown above have therefore been presented.

Service area variances

3.3 Taking into account the provision of the net additional funding outlined above, the Council's main service areas showed an overall underspend of £0.499m during the year. Commentaries on the main factors comprising these variances, as well as material risks and pressures managed during the year, are included as Appendix 2.

Other areas

3.4 In addition to the slight underspend across service areas noted above, a net underspend of £1.917m was also achieved across non-service and other corporately-managed budgets. The main elements comprising this outturn position were:

(i) **Loans charge expenditure (£1.217m underspend)**

The favourable variance was largely attributable to the Council's ongoing strategy of using available cash balances in lieu of undertaking external borrowing.

(ii) **Council Tax (£0.408m additional income)**

Increased property numbers and lower-than-budgeted levels of exemptions and discounts, linked to a focused review of Single Person Discount entitlement, contributed to a small favourable overall variance relative to the position assumed at the mid-year point. The in-year collection rate of 96.8% was also the highest achieved since the Council's formation in 1996.

(iii) **Council Tax Reduction Scheme (£2.455m underspend)**

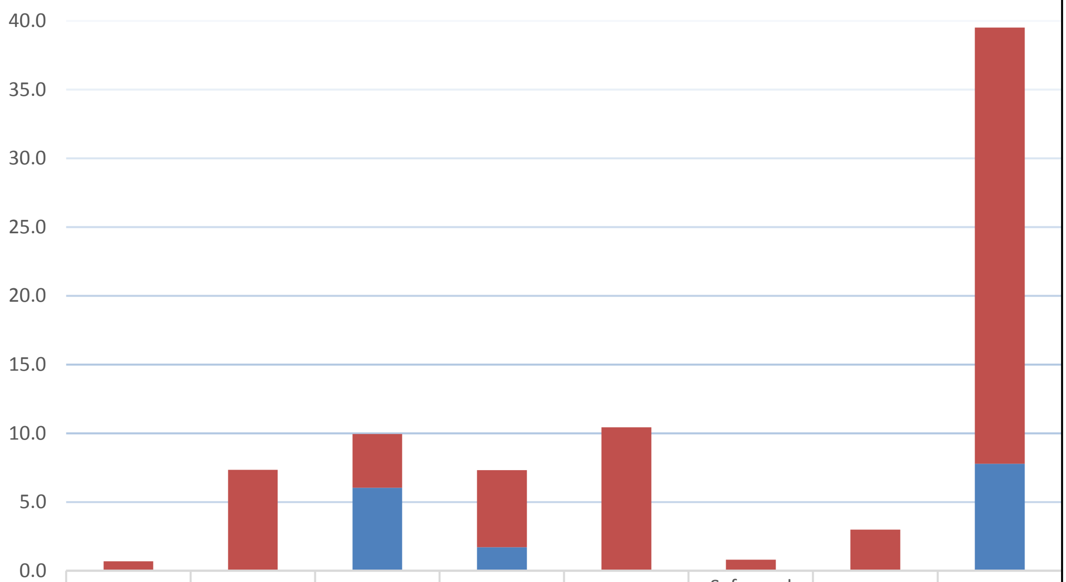
While the entirely demand-led nature of the scheme exposes the Council to risks, sums paid out in 2017/18 were lower than the equivalent level of budgetary provision. As in 2016/17, this underspend has been set aside within the Council's allocated reserves to address potential welfare reform-related pressures in future years, particularly given the full roll-out of Universal Credit with effect from October 2018.

3.5 As noted in the report to Council on 28 June 2018, the provisional Council-wide outturn also reflects impairment costs of £3.116m in respect of the EDI Group's transition strategy. As reiterated at that time, however, the wider strategy remains on schedule, with an estimated dividend to be paid to the Council, after repayment of all outstanding loan stock and share capital, of £8.5m and further sums receivable in respect of profit share for the Brunstane and Market Street projects.

Approved budget savings delivery

3.6 As shown in Table 2 below, the final outturn position for 2017/18 indicates that 80% of approved savings by value were delivered, with those not achieved primarily attributable to slippage in transformation- and demand management-linked savings within Health and Social Care. A number of savings within the Environment Division of the Place Directorate were, as anticipated, not delivered during the year pending implementation of medium-terms plans geared towards securing financial sustainability in these areas.

Table 2 – Delivery of approved budget savings, 2017/18



	Chief Executive	Communities and Families	Health and Social Care	Place	Resources	Safer and Stronger Communities	Corporate savings	All services
Delivered (£m)	0.687	7.318	3.926	5.598	10.426	0.799	2.979	31.733
Not delivered (£m)	0.000	0.030	6.030	1.720	0.000	0.000	0.000	7.780

3.7 The shortfall in delivery of savings in the areas concerned was offset by a variety of one-off mitigating management actions throughout the year, including further tightening of workforce and financial controls and prioritisation of discretionary expenditure.

Transfer to Council Priorities Fund

3.8 At the meeting of Council on 28 June 2018, members approved the earmarking of an element of the provisional 2017/18 in-year underspend to support additional investment in the city's roads network (£0.480m) and enhanced engagement on the City Vision (£0.100m). The remaining £1.836m has been set aside within the Council Priorities Fund pending completion of the external audit process.

3.9 Members additionally approved, subject to the outcome of the audit process, an increase of £7.463m in the level of the Council’s 2017/18 offer to the Edinburgh Integration Joint Board (EIJB). Approval of a revised offer at this level is implicit in the set-aside noted above.

Staff release costs

3.10 Given the stage of the Council’s Transformation Programme, the level of expenditure associated with staff early release was, at £2.727m, considerably lower than in 2016/17.

3.11 Expressed on a cumulative basis, as of 24 May 2018, staff equivalent to 983FTE had left, or had confirmed leaving dates, through Voluntary Early Release or Voluntary Redundancy Arrangements as part of the wider Transformation Programme. The total release cost of these arrangements is £41.5m, with the associated payback period of 13.4 months consistent with the original planning assumptions.

Housing Revenue Account (HRA)

3.12 In line with the HRA Business Plan, at the end of 2017/18 the HRA was balanced after making a contribution of £0.438m to the Renewal and Repairs Fund and £10m towards in-year capital investment, with sums also drawn down from the Fund during the year to meet the cost of approved projects. The funds held in the Renewal and Repairs Fund are earmarked for investment in existing housing stock and future capital investment in new homes through the Council's own housing development programme.

Reserves

3.13 As at 31 March 2018, the General Fund reserves had risen to £151.285m, an increase of £8.674m relative to the preceding year. Details of the opening and closing amounts in the General Fund, including earmarked balances, are shown in Appendix 3. The adequacy and appropriateness of the level of reserves continues to be reviewed annually by Council as part of the revenue budget-setting process.

3.14 The overall increase in reserves mainly reflects differences between the timing of receipt of external funding and the related expenditure. The overall increase also reflects, however, the in-year surplus transferred to the Council Priorities Fund noted at 3.8 above.

3.15 The unallocated General Fund balance remained unchanged at £13.025m, in line with the Council’s medium-term strategy, and alongside a net increase in reserves held for specific purposes of £8.674m, is considered by officers to be consistent with the range and nature of risks to which it is exposed. The main elements of this movement in the level of earmarked reserves were:

<u>Net contributions to reserves</u>

i. **Council Tax Discount Fund -** £3.198m - monies set aside as a result of reducing Council Tax second home and long-term empty property discounts from 50% to 10% as permitted in statute. While the Council has subsequently approved the removal of the remaining 10% second home discount, the additional income concerned accrues to the General Fund. Use of the fund is prescribed by the Scottish Government and is restricted to supporting the development of affordable housing. These funds are allocated in the Council's approved house-building plan to seek to deliver 20,000 new affordable homes by the Council and its not-for-profit housing association partners over the next ten years;

ii. **Council Priorities Fund –** the increase of £2.805m comprised a combination of (i) approved funding of £1.70m to support future priorities, (ii) the additional in-year revenue surplus of £2.416m and (iii) the application of net funding totalling £1.311m, primarily the drawdown of the audited surplus for 2016/17. As noted above, in approving the report on the Unaudited Accounts considered by Council on 28 June 2018, members subsequently earmarked £0.580m of this sum and there are a number of further commitments on the restated balance of £7.111m going forward;

iii. **Balances set aside for specific investment –** the increase of £14.990m includes various additional contributions for specific projects received prior to and during 2017/18 that were set aside in the year, including for welfare reform and planned future service transformation. The sum also includes the £2.682m of General Revenue Funding paid by the Scottish Government in 2017/18 but received in respect of 2018/19; and

iv. **Devolved School Management** – in accordance with relevant Scottish Government guidance, £3.578m of the Council's Pupil Equity Fund (PEF) allocation for the 2017/18 financial year has been carried forward, with the aim that these funds be used by the end of the 2017/18 academic year. Given the acknowledged need to put in place appropriate supporting arrangements in the Fund's first year of operation, however, guidance makes provision, in exceptional circumstances, for a further carry-forward into the 2018/19 academic year should this be required.

<u>Net contributions from reserves</u>

i. **Dilapidations** - net reduction of £7.267m – contractual sums due were paid during the year in respect of the Council's waste disposal arrangements and renunciation of the Council's lease for 1A Parliament Square;

ii. **Lothian Buses** – net reduction of £3.407m – in accordance with the earlier decision of Council, costs associated with necessary Stage 2 land acquisition and other preparatory and scoping works were incurred during the year prior to the taking of a final decision on the proposed tram extension to Newhaven in Autumn 2018; and

iii. **Spend to Save/similar projects –** net reduction of £4.110m – sums were drawn down in the year to support upfront investment in a number of eligible projects, including the Re:fit energy efficiency programme and Routesmart vehicle management system for the Waste Service. £2.047m of funding relating to the former BT Efficiency Fund has now also been reclassified within "balances set aside for specific investment" above.

Common Good

3.16 During 2017/18, the Common Good Fund incurred an overall deficit of £0.015m, primarily due to essentially-fixed levels of associated governance costs and limited investment income. A more detailed commentary on the outturn and related current financial and other issues will be included within the Common Good Annual Performance Report to be considered at the Committee's following meeting on 27 September 2018.

4. Measures of success

4.1 The Council has a statutory duty to set a balanced budget each year and the Financial Regulations further set out Executive Directors' responsibilities in maintaining expenditure within approved levels. A balanced overall outturn position has been achieved for the eleventh successive year and has allowed the level of unallocated reserves to be maintained in accordance with the Council's reserves strategy whilst also forming a solid basis from which to deliver subsequent years' savings requirements.

5. Financial impact

5.1 There is no additional financial impact arising from the report's contents but a range of pressures and the corresponding ways in which they were managed during the year is set out.

6. Risk, policy, compliance and governance impact

6.1 Risk-based monitoring, including regular tracking of the delivery of approved savings and active management of risks and pressures, forms a key element of effective financial management. This, in turn, serves as a vital aspect of the Council's wider governance framework.

7. Equalities impact

7.1 There are no direct equalities impact implications arising from this report.

8. Sustainability impact

8.1 There is no direct relevance of the report's contents to impacts on carbon, adaptation to climate change and sustainable development.

9. Consultation and engagement

9.1 There is no direct relevance to the report's contents.

10. Background reading/external references

10.1 Unaudited Annual Accounts 2017/18, City of Edinburgh Council, 28 June 2018

10.2 Revenue Monitoring 2017/18 – Month Five Position, Finance and Resources Committee, 7 November 2017

10.3 Revenue Monitoring 2017/18 – Month Eight Position, Finance and Resources Committee, 23 January 2018

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11. Appendices

One - Unaudited Revenue Budget Outturn Statement, 2017/18

Two – Service Outturn Commentaries, 2017/18

Three – Transfers to and from usable reserves, 2017/18

Appendix 1

Unaudited Revenue Budget Outturn Statement, 2017/18

	Approved Budget	Monitoring Adjustment	Revised Budget	Outturn	Outturn Variance
Service areas	**£000**	**£000**	**£000**	**£000**	**£000**
Services reporting to Chief Executive	11,388	(368)	11,020	11,019	(1)
Communities and Families	342,953	(1,000)	341,953	342,940	987
Health and Social Care	185,810	7,100	192,910	193,273	363
Place	70,449	-	70,449	70,447	(2)
Resources	172,662	(1,460)	171,202	170,304	(898)
Safer and Stronger Communities	27,806	3,500	31,306	30,470	(836)
Lothian Valuation Joint Board	3,741	-	3,741	3,629	(112)
Service areas total	**814,809**	**7,772**	**822,581**	**822,082**	**(499)**
Non-service specific areas					
Loan Charges	112,762	(1,000)	111,762	110,545	(1,217)
Other non-service specific costs	18,516	-	18,516	19,604	1,088
Council Tax Reduction Scheme (Note 1)	26,672	-	26,672	24,217	(2,455)
Early Release Costs	2,815	-	2,815	2,727	(88)
Net Cost of Benefits	(62)	-	(62)	(625)	(563)
Interest and investment income	(9,545)	-	(9,545)	(10,274)	(729)
Non-service specific areas total	**151,158**	**(1,000)**	**150,158**	**146,194**	**(3,964)**
Movements in reserves					
Net contribution to / (from) earmarked funds (Note 1)	7,001	(4,058)	2,943	5,397	2,455
Contribution to / (from) Repair and Renewals Fund	93	-	93	93	-
Contribution to / (from) Capital Fund	(1,899)	-	(1,899)	(1,899)	-
Movements in reserves total	**5,195**	**(4,058)**	**1,137**	**3,591**	**2,455**
Sources of funding					
General Revenue Grant	(345,757)	-	(345,757)	(345,757)	-
Non-Domestic Rates	(355,063)	-	(355,063)	(355,063)	-
Council Tax	(270,342)	(2,714)	(273,056)	(273,465)	(409)
Sources of funding total	**(971,162)**	**(2,714)**	**(973,876)**	**(974,285)**	**(409)**
In-year (surplus) / deficit	**-**	**-**	**-**	**-**	**(2,416)**

Note 1 – uncommitted funds linked to the in-year underspend in respect of the Council Tax Reduction Scheme of £2.455m were transferred to an earmarked reserve.

Appendix 2

Service outturn commentaries

Services reporting to the Chief Executive – after taking account of the agreed contribution to offset overspends in other areas, the services reporting to the Chief Executive showed a balanced position for the year.

Communities and Families (£0.987m overspend, representing 0.3% of net service budget) – as set out within the Revenue Monitoring report considered by the Finance and Resources Committee on 7 November 2017, those Executive Directors projecting a balanced or underspend position were requested to identify additional savings opportunities to offset pressures in Health and Social Care and Safer and Stronger Communities, with Communities and Families' share of these additional savings being £1m. While the Executive Director was committed to identifying these further savings, increasing underlying pressures across a number of areas of activity during the remainder of the financial year meant that a small underspend was achieved against the core service budget but with the additional savings requirement not met. As such, the overall year-end position showed a £0.987m overspend against the revised budget.

The main pressures apparent within the service during the year included greater use of out-of-Council area placements linked to accommodating a number of Unaccompanied Asylum-Seeking Children (UASC) within the city, increased demand for other residential care placements and costs of Home to School transport. Mitigating measures identified included savings within the Early Years, fostering and day care service areas and application of Home Office funding for UASC.

Health and Social Care (£0.363m overspend, representing 0.2% of net service budget) – in light of significant demand-led pressures and non-delivery of £6.03m of planned transformational-related purchased savings, £7.1m of additional funding was made available to support the service during the year and the outturn is expressed after provision of these sums. The movement between the Period 8 forecast and year-end outturn primarily reflected an under-recovery of Intensive Housing Benefit income from providers of £0.5m.

Subject to the outcome of the audit process, the Council approved in June an increase in the level of its offer to the EIJB for 2017/18 by £7.463m in line with actual expenditure incurred.

Place (£0.002m underspend) – the Environment Division of the Directorate continued to be subject to significant pressures during the year, with additional employee costs and higher-than-anticipated Landfill Tax expenditure both apparent pending the phased introduction of the actions underpinning the Service Improvement Plan. Roads Services similarly continued to experience pressures with regard to the underlying reduction in the volume of rechargeable works.

Over the medium term, concerted action is clearly required to address these underlying structural deficits. In 2017/18, however, combination of additional parking income, Directorate-wide vacancy control, use of service reserves and savings against the additional investment approved as part of the budget allowed expenditure to be maintained within approved levels.

Resources (£0.898m underspend, representing 0.5% of net service budget) – following the emergence of significant demand-led pressures elsewhere within the Council, the Executive Director of Resources was requested to deliver a minimum of £1.46m of additional savings, with these subsequently primarily delivered through a combination of employee cost savings, accelerated telecoms and ICT-related procurement savings and application of the Customer Transformation Programme contingency.

The confirmed service outturn reflected further one-off savings within Property and Facilities Management, HR Learning and Development and staff vacancy control across the service.

Safer and Stronger Communities (£0.836m underspend, representing 2.7% of net service budget) - significant service pressures resulted from the removal with effect from April 2017 of temporary accommodation management fees from Housing Benefit eligibility, combined with changes to the benefits cap, which also impact on Housing Benefit income.

Demand for Bed and Breakfast (B&B) and Short Term Let (STL) accommodation continued to rise during the year, due to increasing average length of stay and a shortage of available move-on accommodation. B&B usage in 2017/18 was 217,188 bed-nights, compared with 173,337 in 2016/17 (25% increase). STL usage in 2017/18 was 71,510 bed-nights, compared with 60,219 in 2016/17 (19% increase).

As a consequence of these pressures, the service consistently presented a projected net overspend of £3.5m and was provided with corresponding corporate support. At the end of the financial year, however, Housing Benefit income levels exceeded forecasts, resulting in an overall £2.7m overspend. For presentational purposes, however, after taking account of the £3.5m of in-year corporate support provided, a year-end underspend of £0.8m was reported.

Lothian Valuation Joint Board (LVJB) Requisition (£0.112m underspend, representing 3% of net requisition) – in line with the Board's approved revenue budget strategy for 2017/18, a one-off refund of £0.112m was paid to the Council from the Board's unallocated reserve during the year.

Net cost of benefits (£0.563m underspend) – improved processes for Housing Benefit overpayment recovery resulted in an underspend during the year. Going forward, however, there remains some uncertainty as to how the current arrangements may be affected when Housing Benefit falls fully within the scope of Universal Credit.

TRANSFERS TO AND FROM USABLE RESERVES

	Balance at 31-Mar-17 £000	Transfers Out 2017/18 £000	Transfers In 2017/18 £000	Balance at 31-Mar-18 £000
Balances Set Aside to Manage Financial Risks and for Specific Investment				
Balances set aside for specific inv.	25,659	(8,813)	23,803	40,649
Contingency funding, incl workforce	18,094	0	49	18,143
Council Priorities Fund	4,886	(1,312)	4,117	7,691
Dilapidations fund	12,344	(9,267)	2,000	5,077
Insurance funds	14,667	(17)	1,225	15,875
	75,650	(19,409)	31,194	87,435
Balances Set Aside from Income Received in Advance				
Licensing and Registration income	3,093	(272)	259	3,080
Lothian Buses	3,795	(3,587)	180	388
Other minor funds	236	(18)	0	218
Pre-paid PPP monies	2,155	0	412	2,567
Recycling monies	1,161	(464)	0	697
Council Tax Discount Fund	24,234	0	3,198	27,432
Unspent grants	2,934	(2,722)	1,662	1,874
City Strategic Investment Fund	6,180	(768)	49	5,461
	43,788	(7,831)	5,760	41,717
Balances Set Aside for Investment in Specific Projects which will Generate Future Savings				
Savings set aside for IT projects	2,046	(2,068)	22	0
Energy efficiency	98	0	80	178
Salix / CEEF	1,324	(1,324)	197	197
Spend to save	3,992	(1,026)	9	2,975
	7,460	(4,418)	308	3,350
Balances Set Aside under Devolved School Management Scheme and Pupil Equity Fund				
Devolved School Management	2,688	(2,688)	5,758	5,758
Unallocated General Reserve	13,025	0	0	13,025
Total General Reserve	**142,611**	**(34,346)**	**43,020**	**151,285**