Finance and Resources Committee

10.00am, Thursday 16 August 2018

Revenue Monitoring 2018/19 – month three position

Item number	7.2
Report number	
Executive/routine	
Wards	n/a
Council Commitments	n/a

Executive Summary

The report sets out the projected revenue budget position for the year based on analysis of period two data. Service areas have identified a number of significant pressures, particularly in demand-led areas, together totalling £15.2m and prompt and effective implementation of planned and additional mitigating actions will therefore be required to maintain expenditure within approved levels.

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Report

Revenue Monitoring 2018/19 – month three position

1. Recommendations

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

1.1.1 note that a number of significant pressures have been highlighted by Executive Directors, such that an overall year-end overspend of £7.720m, after taking account of current mitigating actions and assuming no further mitigating actions were taken, is forecast as of month three;

1.1.2 note that in light of this projected position, all Executive Directors and the Chief Officer of the Edinburgh Health and Social Care Partnership have been required to identify, as a matter of urgency, further proposed actions to bring their respective budgets into balance by the year-end;

1.1.3 note the balanced projected position on the Housing Revenue Account (HRA) after making a £9.25m planned 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 three-month position for the Council's 2018/19 revenue expenditure budget based on analysis of actual expenditure and income to the end of May 2018.

3. Main report

3.1 This report represents the first quarterly revenue monitoring report for 2018/19. 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.

3.2 A complementary schedule of meetings, aligned to the Council's revised Committee structure, has also been developed at which more detailed, service-specific commentaries will be considered.

Overall position

3.3 As of period three, an overall overspend of £7.720m is forecast as shown in the table below. This variance reflects £15.175m of projected service expenditure in excess of approved levels, partially offset by £7.455m of savings, or additional income, across a number of corporate budgets.

Table 1 – 2018/19 Revenue Budget – Projected Expenditure

	Revised Budget (£000)	Period Budget (£000)	Period Actual (£000)	Period Variance (£000)	Projected Outturn (£000)	Outturn Variance (£000)
Service areas	814,102	210,151	218,174	8,023	829,277	15,175
Non-service specific areas	174,244	n/a	n/a	n/a	170,244	(4,000)
Movements in reserves	(9,211)	(8,901)	(8,901)	0	(11,666)	(2,455)
Sources of funding	(979,135)	(291,974)	(291,974)	0	(980,135)	(1,000)
In-year (surplus) / deficit					**7,720**	**7,720**

3.4 In light of this overall position, all Executive Directors have been required to identify, as a matter of urgency, further proposed actions to bring their respective budgets into balance by the year-end. An update on these proposed actions and wider management of risks and pressures will be reported to the Finance and Resources Committee's meeting on 11 October 2018.

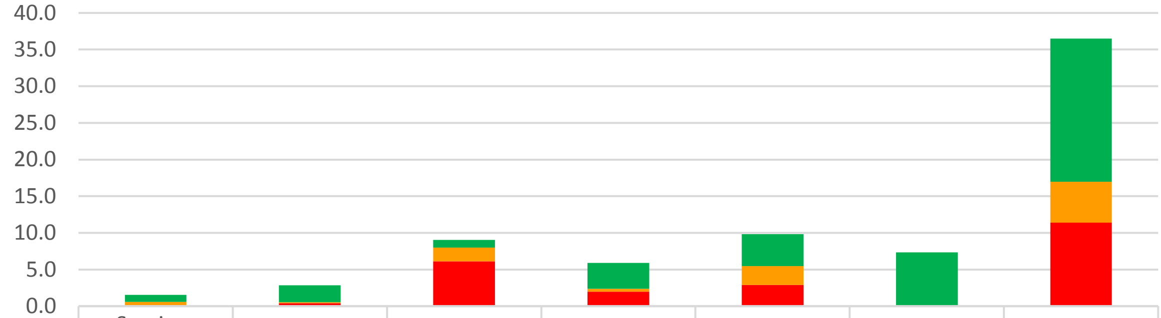
3.5 In view of significant savings requirements in future years, Executive Directors should aim to address in full the in-year variances set out within this report. Should sufficient measures not be forthcoming, however, they should nonetheless identify savings, the full-year effect of which will be consistent with the 2019/20 service expenditure baseline included in the budget framework report considered by the Committee on 12 June 2018. This is particularly important given that savings in corporate areas in 2018/19 are either one-off in nature i.e. transfers from reserves or are assumed to underpin subsequent years' savings requirements.

3.6 The emphasis should, in the first instance, be on balancing the overall budget in 2018/19 through the identification of mitigating measures within service areas. As part of re-establishing the stability of the budget framework going forward, however, members may wish to earmark, should this be necessary, the residual 2017/18 underspend of £1.836m that has been transferred to the Council Priorities Fund. Availability of this sum is subject to the outcome of the external audit process.

Delivery of approved savings

3.7 The approved budget for 2018/19 was predicated on the delivery of £36.5m of service-specific and corporate savings. As of the end of June, the overall RAG assessment of these savings indicates that, on the basis of actions planned or already undertaken, some 69% are on target to be delivered as shown in the chart below.

Chart 1 - RAG assessment of approved budget savings (£m), 2018/19 – June 2018



	Services reporting to Chief Executive	Communities and Families	Health and Social Care	Place	Resources	Corporate savings	All savings
Green	0.925	2.290	1.050	3.525	4.384	7.335	19.509
Amber	0.600	0.150	1.900	0.378	2.569	0.000	5.597
Red	0.000	0.400	6.100	2.000	2.877	0.000	11.377

3.8 Those savings assessed as red, by the Finance Division, at this stage are as follows:

3.8.1 **Communities and Families**

Home to School Transport – while a number of relevant workstreams are progressing, due to increases in underlying service demand, the budgeted saving of £0.4m will not be delivered and alternative mitigating measures are being sought.

3.8.2 **Health and Social Care**

Asset-based approach to demand management – "capacity-releasing" savings of £3m. As of the end of June, only around 100 of the planned 1,600 reviews to facilitate delivery of this saving had been undertaken;

Service transformation - Self-Directed Support (SDS) - £1m of approved savings predicated on offsetting disinvestment of in-house services as a result of expansion of SDS. As yet, there is no tangible progress towards delivery of this saving;

Workforce management savings – while a number of proposed actions totalling £1.1m have been identified by the Partnership Management Team, none of these has been implemented to date; and

Homecare re-ablement – no substantive progress has been made thus far in developing specific plans to deliver the £1m of assumed savings in this area.

3.8.3 **Place**

Roundabouts and verge advertising – delivery of this £0.35m saving is dependent upon further negotiation of contractual advertising arrangements. Subject to this outcome, an accompanying implementation plan will then be developed;

Align Economic Development to new strategy – while a project team has been developing a delivery plan, realisation of the associated £0.6m saving is dependent upon approval and implementation of the plan. On this basis, the saving is assessed as red at this time;

Garden waste charging – following the end of the initial registration period, overall scheme sign-up is slightly above the levels assumed in the associated business case. While this level of participation, if sustained, will by extension result in delivery of the corresponding approved full-year saving, apportionment of relevant income in line with the revised implementation date results in a £0.6m in-year pressure;

Public transport initiatives – while relevant project work is underway, a specific implementation plan to deliver the approved saving of £0.35m requires to be developed; and

Fleet financing model - delivery of £0.2m of the approved total saving of £0.5m is assessed as red pending development of the second phase of the fleet re-procurement programme.

3.8.4 **Resources**

Asset Management Strategy and review of Property and Facilities Management – corresponding plans require to be developed to deliver the combined approved savings of £2.877m on a sustainable basis.

3.9 The above savings assessments have been reflected in the wider outturn commentaries included in the following sections.

Service-specific budgets - Communities and Families

3.10 In accordance with Council's recent decision to transfer leadership of the Safer and Stronger Communities function to the Executive Director of Communities and Families, the corresponding income and expenditure projections set out below reflect this change.

3.11 Across the Directorate's functions, at this stage £9.8m of net budget pressures are being projected as a result of increasing costs in several demand-led areas of service. The main service areas affected include temporary accommodation, home-to-school transport, rising school rolls, community access to schools and the increased use of out-of-Council area placements linked to accommodating a number of Unaccompanied Asylum-Seeking Children (UASC) within the city.

3.12 The Executive Director of Communities and Families is fully committed to making all efforts to identify mitigations to reduce the emerging pressures and a strategy has been developed to identify and implement management actions required to address these. This will include additional vacancy control measures, a review of reserves, identification of income generation opportunities, an examination of the scope to stop or reduce planned levels of expenditure and the identification of any spend-to-save opportunities. Given the magnitude of these as-yet unmitigated pressures, however, there is the potential for a significant level of overspend, estimated at £5m at this stage.

Health and Social Care

3.13 As of Period 3, an overall overspend of £6.1m is projected. This financial forecast takes account of anticipated delivery of £2.950m of the £9.050m savings plans underpinning the approved budget but reflects slippage of £6.1m across the projects noted at 3.8.2 above. The forecast outturn is also reliant on the management and mitigation of further risks noted in the following sections.

3.14 Of the £9.050m of approved savings, £5.050m are "cash-releasing" with a further £4m targeting the release of additional capacity to meet demand through the review of existing packages of care and delivery of productivity/efficiency improvements in the internal Homecare/Reablement service. The delivery of these savings is overseen by the Savings Governance Board. Given the extent of approved savings assigned a red status, however, urgent action is required to accelerate implementation or to agree alternative mitigating actions.

3.15 Service volumes purchased through Care at Home increased by c. 7% during 2017/18 and expenditure incurred through Direct Payments and Individual Service Funds by c. £5m. The provisional budget for 2018/19 does not reflect any assumption of increases in service volumes/financial commitments beyond those made in 2017/18. There are furthermore no additional financial resources available to increase existing packages or take on new packages unless offset by reductions or ending of other packages. Given the significant growth in overall service volumes apparent in recent years, the on-going appropriateness of these assumptions is being kept under regular review and will be considered as part of the October update to the Committee.

3.16 The approved budget also assumes an additional contribution of £4m from NHS Lothian (NHSL) to foster additional capacity. The findings of a study on sustainable community support give significant weight to the additional contribution request and NHSL will present a paper to its Finance and Resources Committee on 25 July outlining the potential benefits. Confirmation of the funding from EIJB is also dependent on the outcome of this meeting. There is furthermore a shortfall of £0.5m in the funding contribution assumed by CEC from the IJB to offset the costs of additional community capacity for which slippage on projects will require to be identified.

Place

3.17 As of period 3, the Executive Director of Place continues to report significant gross pressures within, in particular, the Environment and Roads functions. Given that these pressures were addressed in large part through one-off mitigations in 2017/18, over the medium term, concerted action is clearly required to address these underlying structural deficits on a sustainable basis and this forms parts of the respective Improvement Plans.

3.18 Of the £11.4m of gross pressures, mitigating actions have been identified to address £4.6m of these and a number of further proposals are currently being verified. At this stage, however, based on the best assessment of these proposals, their likely deliverability and associated savings, a residual shortfall of £3m exists.

Resources

3.19 Based on analysis of period two data and an assessment of the in-year deliverability of the savings proposals approved as part of the 2018/19 revenue budget, overall expenditure is anticipated to exceed budgeted levels by £1.075m. This sum represents the residual pressure, net of recurring and non-recurring mitigating actions, for the Asset Management Strategy. At this stage, no firm additional proposals have been developed to address this residual pressure on a sustainable basis and, as such, an overspend of this level is currently being forecast.

3.20 The Executive Director of Resources is committed to identifying sustainable measures to maintain overall expenditure within approved levels and the Directorate's Senior Management Team is continuing to examine opportunities to realise savings, whether through reductions in expenditure or increases in income, such that a balanced position is achieved by the year-end.

Services reporting to the Chief Executive

3.21 While work is continuing to identify means to deliver the full saving associated with the Strategy and Insight Division's Organisational Review, at this stage a balanced position is forecast.

Non service-specific budgets

3.22 In view of the significant projected overspends within frontline service areas, non service-specific budgets continue to be examined on a regular basis to identify any potential savings in expenditure or additional income.

3.23 Updated analysis of the size and profile of the Council Tax base, taking account of property numbers, discounts and exemptions (the last-mentioned in the context of increased but proportionate scrutiny of Single Person Discount entitlement) indicates that in-year income is forecast to exceed budgetary assumptions by £1m.

3.24 A report elsewhere on today's agenda sets out the realigned 2018/23 Capital Investment Programme (CIP). In view of the combined effect of the 2017/18 outturn, revised CIP and the on-going strategy of using available cash balances in lieu of external borrowing, in-year savings of £3m relative to the level of budgetary provision are now anticipated.

3.25 A separate report on the meeting agenda provides a detailed commentary on the revenue outturn for 2017/18. The report notes that, in view of the in-year underspend in sums paid out as part of the Council Tax Reduction Scheme, £2.455m was set aside within an allocated reserve to address potential welfare reform-related pressures in subsequent years. Given the on-going financial pressures being experienced with regard to temporary accommodation-related expenditure highlighted earlier in this report, it is proposed that this sum be drawn down in full in 2018/19 to mitigate these.

3.26 In accordance with the principles of prudent financial management, the Council's budget includes a degree of inflationary contingency consistent with the nature and profile of its contracts and other purchasing arrangements. Analysis of projected spend and relevant applicable inflation rates indicates that £1m of the total level of provision is available to offset, on a one-off basis, pressures within frontline service areas. The non-recurring nature of this and the corporate contributions outlined in the preceding paragraphs re-emphasises, however, the importance of identifying sustainable measures going forward.

Housing Revenue Account (HRA)

3.27 At month 3, the HRA is forecasting a balanced position. As set out in the approved HRA Budget, it is expected that a £9.250m contribution to housing improvement will be able to be made from in-year rentals received. This contribution is, however, dependent on the mitigation of key risks.

3.28 In addition, there remain significant budget pressures relating to housing repairs and maintenance. Furthermore, with the roll-out of Universal Credit starting in 2018/19, there is a risk that the income assumptions made in the HRA budget do not come to fruition. These key risk areas will continue to be monitored closely and reported to the Housing and Economy Committee as appropriate.

4. Measures of success

4.1 Achieving a balanced overall budget outturn position for 2018/19 and successful delivery of approved savings and key service performance indicators.

5. Financial impact

5.1 The report's contents point to a potential in-year overspend, highlighting the importance of prompt action to bring expenditure back in line with approved levels.

5.2 The Council's Financial Regulations set out Executive Directors' responsibilities in respect of financial management, including regular consideration of their service budgets.

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 to identify at an early stage where corrective action is required.

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 In view of the overall projected position set out within this report, the Chief Executive has tasked Executive Directors with identifying mitigating actions to address in-year pressures and to review opportunities for additional savings proposals.

9.2 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 regular consultation and engagement.

10. Background reading/external references

10.1 Capital Coalition Budget Motion, City of Edinburgh Council, 22 February 2018

10.2 Service monitoring statements for period three

Stephen S. Moir
Executive Director of Resources

Contact: Hugh Dunn, Head of Finance

E-mail: hugh.dunn@edinburgh.gov.uk | Tel: 0131 469 3150

11. Appendices

One – 2018/19 Revenue Budget – projected expenditure analysis

2018/19 Revenue Budget - Projected Expenditure Analysis **Appendix 1**

	Revised Budget	Period Budget	Period Actual	Period Variance	Projected Outturn	Outturn Variance
Service areas	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Services reporting to Chief Executive	9,243	2,372	2,307	(65)	9,243	0
Communities and Families	383,466	95,712	98,209	2,497	388,466	5,000
Health and Social Care	198,359	54,902	56,791	1,889	204,459	6,100
Place	58,498	16,031	16,882	851	61,498	3,000
Resources	160,961	40,240	43,091	2,851	162,036	1,075
Lothian Valuation Joint Board	3,575	894	894	0	3,575	0
Service areas total	**814,102**	**210,151**	**218,174**	**8,023**	**829,277**	**15,175**
Non-service specific areas						
Loan Charges	112,473				109,473	(3,000)
Other non-service specific costs less sums to be disaggregated:	28,980	n/a	n/a	n/a	27,980	(1,000)
- Pay award contingency (including Living Wage)	6,432				6,432	0
- Apprenticeship Levy	1,857	446	443	(3)	1,857	0
- Early Learning and Childcare	1,176				1,176	0
- Carbon Tax	1,159				1,159	0
- Non-Domestic Rates (poundage uplift)	500				500	0
- Energy	500				500	0
- Discretionary Rates	350				350	0
Council Tax Reduction Scheme	26,672	n/a	n/a	n/a	26,672	0
Staff early release costs	3,200	n/a	n/a	n/a	3,200	0
Net Cost of Benefits	(62)	n/a	n/a	n/a	(62)	0
Interest and investment income	(8,993)	0	0	0	(8,993)	0
Non-service specific areas total	**174,244**	**n/a**	**n/a**	**n/a**	**170,244**	**(4,000)**
Movements in reserves						
Net contribution to / (from) earmarked funds	(9,211)	(8,901)	(8,901)	0	(11,666)	(2,455)
Movements in reserves total	**(9,211)**	**(8,901)**	**(8,901)**	**0**	**(11,666)**	**(2,455)**
Sources of funding						
General Revenue Grant	(355,601)	(136,090)	(136,090)	0	(355,601)	0
Non-Domestic Rates	(340,474)	(85,119)	(85,119)	0	(340,474)	0
Council Tax	(283,060)	(70,765)	(70,765)	0	(284,060)	(1,000)
Sources of funding total	**(979,135)**	**(291,974)**	**(291,974)**	**0**	**(980,135)**	**(1,000)**
In-year (surplus) / deficit	**0**	**(90,500)**	**(82,479)**	**8,021**	**7,720**	**7,720**