

Finance and Resources Committee

3.00pm, Tuesday 4 December 2018

Revenue Monitoring 2018/19 – month six position

Item number	7.4
Report number	
Executive/routine	
Wards	n/a
Council Commitments	n/a

Executive Summary

The report sets out the projected Council-wide revenue budget position for the year based on analysis of period five data, building on both the earlier period two forecast and the subsequent progress update considered by the Committee on 11 October.

Further expenditure pressures within the Health and Social Care Partnership / Edinburgh Integration Joint Board since the position reported to the Committee on 11 October have been offset by favourable movements in the Communities and Families and Place Directorates such that the overall position as of period six points to a reduced overall year-end overspend of £2.075m without the identification and implementation of further mitigating actions. Failure to mitigate these pressures by the year-end will result in a reduction of the Council's unallocated reserves and, without recurring means of addressing underlying structural pressures within Directorates/Divisions, threaten the integrity of the wider budget framework.

Revenue Monitoring 2018/19 – month six position

1. Recommendations

- 1.1 Members of the Finance and Resources Committee are recommended to:
- 1.1.1 note that a number of significant pressures continue to be highlighted by Executive Directors, such that an overall year-end overspend of £2.075m, without the identification and implementation of further mitigating actions, is forecast as of month six;
 - 1.1.2 note that in light of this projected position, relevant Executive Directors and the Chief Officer of the Health and Social Care Partnership / Edinburgh Integration Joint Board (EIJB) are identifying, as a matter of urgency, further proposed actions both to allow a balanced overall Council in-year position to be achieved and to address all recurring budget pressures on a sustainable basis, thereby enhancing the underlying robustness of the budget framework;
 - 1.1.3 note the balanced projected position on the Housing Revenue Account (HRA) after making a £33.898m gross 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 six-month position for the Council's 2018/19 revenue expenditure budget based on analysis of actual expenditure and income to the end of August 2018 supplemented by subsequent analysis of underlying pressures and progress in realising savings associated with both approved and mitigating budget measures.

3. Main report

- 3.1 This report represents the second 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. In this vein, members received an interim progress update at the Committee's last meeting on 11 October.

3.2 A complementary schedule of meetings, aligned to the Council’s revised Committee structure, has also been developed at which directorate-specific commentaries are considered.

Overall position

3.3 As of period six, an overall overspend of £2.075m is forecast as shown in the table below. This variance reflects £12.216m of projected service expenditure in excess of approved levels, partially offset by £10.141m of savings, or additional income, across a number of corporate budgets and reserves.

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)
Directorates	821,760	342,389	351,338	8,949	833,976	12,216
Non-directorate specific areas	167,156	774	775	1	162,305	(4,850)
Movements in reserves	(4,454)	(4,454)	(4,454)	0	(8,745)	(4,291)
Sources of funding	(984,462)	(410,192)	(410,192)	0	(985,462)	(1,000)
In-year (surplus) / deficit					2,075	2,075

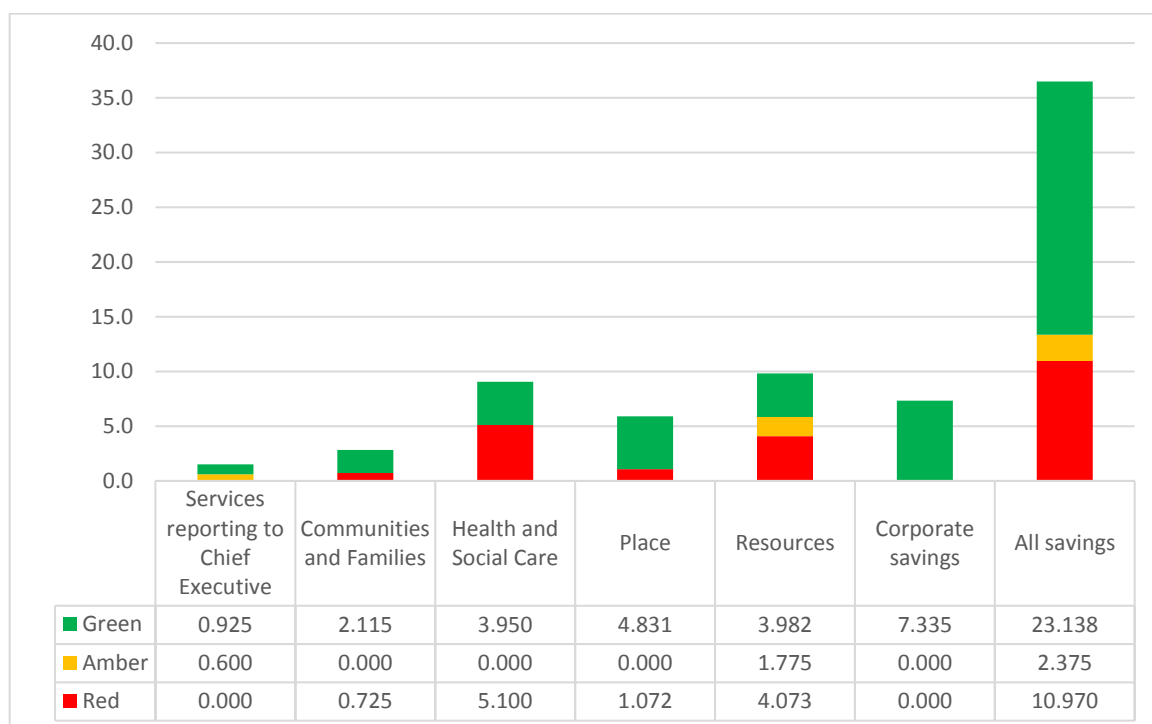
3.4 In light of this projected position, relevant Executive Directors and the Chief Officer of the EIJB are identifying, as a matter of urgency, further proposed actions to bring the Council’s overall revenue budget for 2018/19 into balance by the year-end. In addition, sustainable means of addressing all recurring budget pressures require to be identified to align to the 2019/20 expenditure baseline reflected in the Change Strategy report approved by the Committee on 27 September 2018.

3.5 Failure to address these in-year pressures by the year-end will result in a reduction of the Council’s unallocated reserves and, without recurring means of addressing underlying structural pressures within directorates and the EIJB, threaten the integrity of the wider budget framework, resulting in an increased financial budget gap in future years.

Delivery of approved savings

3.6 The approved budget for 2018/19 was predicated on the delivery of £36.5m of directorate-specific and corporate finance savings. As of the end of August, the overall RAG assessment of these savings indicates that, given actions planned or already undertaken, some 70% are on target to be delivered as shown in the chart below.

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



3.7 Those savings assessed by the Finance Division as red at this stage are set out in the following sections. This list reflects a similar overall anticipated level of delivery as was intimated to the Committee in June, emphasising the need for enhanced robustness in the savings inception, development and implementation process going forward.

3.7.1 Communities and Families

Home to School Transport – due to increases in the underlying volume and complexity of demand for children with special needs, the budgeted saving of £0.4m will not be delivered in the current year and alternative mitigating measures are being sought. A travel demand programme panel has, however, been established to examine means of stabilising this underlying demand through the development of a robust control framework. The panel is also proactively exploring opportunities to promote alternative arrangements, where appropriate, that increase young people’s independence whilst delivering attendant savings through greater use of shared transport.

Advice Services Review – the approved budget saving of £0.175m reflects planned savings in grant payments and staffing efficiencies. It is now intended, however, that relevant grants will be examined as part of the wider Health and Social Care Partnership grant review programme and therefore current agreements have been extended accordingly until 31

March 2019. The staffing review has also been rephased, with a consequent impact on the delivery of approved savings in 2018/19.

Senior Management efficiencies - £0.150m of planned savings in this area will not be achieved in 2018/19. Opportunities for management restructuring will, however, be re-examined in the context of a Council-wide review in this area as part of the 2019/20 budget process.

3.7.2 Health and Social Care Partnership / EIJB

Asset-based approach to demand management – “capacity-releasing” savings of £3m. There remains insufficient progress, at this stage, to attribute any specific savings to this initiative during the current year.

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 in the current year.

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.

Planned savings in discretionary expenditure – while partial delivery is anticipated in this area, a residual in-year pressure of £0.1m is apparent.

3.7.3 Place

Roundabouts and verge advertising – the associated tendering process has now been completed. While the timing of the contract award means that there is an in-year pressure of £0.2m, the full level of saving is expected to be delivered in 2019/20.

Garden waste charging – following the end of the initial registration period and the first post-implementation sign-up “window”, overall scheme take-up is 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 £0.5m in-year pressure.

Parking income – while work is on-going to establish the underlying reasons for the shortfall, at this stage £0.372m of the approved additional income of £0.800m is not anticipated to be received.

3.7.4 Resources

Asset Management Strategy and reviewing Property and Facilities Management (FM) – there is currently a forecast shortfall in Asset Management Strategy savings of £3.534m, comprising (i) lower-than-planned savings from changes to the FM model compared to business case assumptions, (ii) an increase in the overall floor area of the Council estate

relative to the original FM operating model and (iii) estate rationalisation savings being lower than planned. A further £0.539m of assumed staff turnover-related savings will not be delivered during the year.

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

Directorate-specific budgets - Communities and Families

- 3.9 As of period six, the Executive Director of Communities and Families is forecasting an in-year overspend of £4.1m, primarily linked to increasing costs in several demand-led areas of service. This represents a positive movement of £0.9m since the equivalent position reported to the Committee's previous meeting on 11 October.
- 3.10 To date, projected unfunded gross budget pressures of £12.6m have been assessed. The main areas affected include temporary accommodation, home-to-school transport, rising school rolls, community access to schools and increased use of out-of-Council area placements linked to accommodating a number of Unaccompanied Asylum-Seeking Children (UASC) within the city. Savings and management action of £8.5m have been identified, leaving a net residual budget pressure of £4.1m.
- 3.11 The report to the Committee's meeting on 11 October reiterated the Executive Director of Communities and Families' commitment to making all efforts to identify mitigations to reduce these pressures. A strategy has been developed to identify and implement management actions required to address these, comprising 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. All material areas of spend will continue to be actively monitored and potential mitigating actions identified with a view to reducing further the level of overspend by the year-end.

Health and Social Care Partnership / EIJB

- 3.12 The update reported to the Committee's meeting on 11 October continued to reflect an in-year projected overspend of £6.1m, representing net slippage across a number of demand management- and workforce-related initiatives.
- 3.13 Based upon initial analysis of period six data, a further deterioration in the overall service position is now apparent. Additional pressures in transport, supplies and services, third party payments and income have increased the gross in-year pressure to £8.121m.
- 3.14 Subject to formal approval by the EIJB Savings Governance Board, non-recurring EIJB contributions of £1.080m have been identified, reducing the net level of overspend to £7.041m. Analysis of remaining uncommitted funds potentially available to mitigate further the overall level of overspend is continuing, along with

in-depth modelling of anticipated purchasing expenditure based on commitments as recorded within the SWIFT system.

- 3.15 An agreement on funding to support additional service activity, receipt of which is predicated on the achievement of improvements in delayed discharge levels, is in the process of being finalised with NHS Lothian. The Health and Social Care Partnership will need to continue to monitor the position to ensure that the desired improvements targeted by this funding are achieved without impacting on the service's net budget.
- 3.16 As noted in the interim update considered by the Committee on 11 October, short-term actions led by the EIJB Head of Operations and EIJB Chief Finance Officer include:
- (i) further strengthening of controls over recruitment and agency staffing;
 - (ii) implementation of a new agency staffing contract;
 - (iii) reviewing, with the potential to stop, discretionary expenditure;
 - (iv) reviewing savings programme delivery, considering requirements for support through a supportive but robust challenge process;
 - (v) working with Finance colleagues to develop greater accountability within locality teams, including realignment of purchasing budgets, regular engagement, improved management information and training; and
 - (vi) initiating a review of reserves and uncommitted funds.
- 3.17 In view of the scale of the underlying pressures within the service once account is taken of one-off savings measures, a financial recovery plan, geared towards mitigating the in-year shortfalls above as part of re-attaining wider financial sustainability during 2019/20, will be presented to the EIJB's meeting on 14 December. Due consideration will need to be taken of the associated financial implications upon the Council's budget framework.

Place

- 3.18 Within the 2018/19 budget year, the primary focus of the Place Senior Management Team and Finance business partners has been to foster increased stability within the budget management strategy of the Directorate by means of enhanced budget transparency and sustainability. This approach has involved a wholesale realignment of Place budgets and a comprehensive half-year review of budget management performance, with iterations made to the strategy as required.
- 3.19 The Place budget management strategy includes a suite of management actions in order to achieve budget sustainability. In view of the timescales required to deliver this objective fully, these actions include related substitutions, as appropriate, to deliver approved 2018/19 approved savings. The suite of management actions comprising the strategy is at varying stages of delivery; not all have been achieved as of month six. Overall improvement is, however, apparent since the month three position, such that the projected overall service overspend has reduced from £1.5m

to £1.072m. The Senior Management Team will continue to identify potential measures, such that the overall position may be improved further by the year-end.

Resources

- 3.20 As outlined in the directorate-specific report contained elsewhere on today's agenda, the Resources Directorate is projecting a balanced overall position for the year following implementation of a range of financial control and management measures to contain a budget pressure of £4.073m in the Property and Facilities Management Division due to non-achievement of savings previously assumed from the Asset Management Strategy and to contribute towards wider in-year savings requirements across the Council.
- 3.21 The Resources Directorate will continue to progress identification of savings measures to offset any further budget pressures which may emerge, both to achieve outturn expenditure in line with the approved revenue budget for 2018/19 and mitigate underlying budget pressures on a sustainable basis.

Services reporting to the Chief Executive

- 3.22 While work is continuing to identify means of delivering the full income-related saving associated with the Strategy and Communications Division's Organisational Review, in view of existing vacancies within the service, at this stage a balanced position continues to be forecast.

Non directorate-specific budgets

- 3.23 The interim update report considered by the Committee on 11 October outlined a number of mitigating measures offsetting the service area pressures outlined in the preceding sections, together totalling £10.141m, as follows:
- (i) savings in loan charges expenditure of £3m;
 - (ii) additional income, based on an updated assessment of the size and profile of the Council Tax base, of £1m;
 - (iii) application of the 2017/18 underspend of £2.455m in respect of the Council Tax Reduction Scheme against welfare reform-related pressures in the current year;
 - (iv) a £1.6m saving, based on an updated analysis of applicable rates and in-scope contracts, in the required level of inflationary provision for the year relative to the approved budget;
 - (v) a £0.25m in-year anticipated underspend in respect of the Council's participation in the Carbon Reduction Commitment (CRC) energy efficiency scheme; and
 - (vi) following approval by Council on 25 October 2018, application of the remaining £1.836m of the confirmed in-year underspend for 2017/18 against in-year pressures.

Pensions auto-enrolment

- 3.24 In considering the third quarter's revenue monitoring report for 2017/18, members of the Committee were advised that the financial impact of the end of the auto-enrolment transitional period in October 2017 would be subject to on-going review. While staff automatically opted in under these arrangements retained the right to opt out again, analysis of the 500 employees concerned indicates that the vast majority have remained in pension scheme membership.
- 3.25 The Council's budget framework includes provision for a consequent increase in membership following the ending of the transitional period. In view of the extent of the increase observed, this provision has now been released in full and is reflected accordingly in the overall outturn projections detailed above.

Further actions

- 3.26 In view of residual in-year pressures across the Council as a whole, analysis of all non-directorate budgets will continue for the remainder of the year, with any further update included in the third quarter's report in February 2019. Given the extent of in-year corporate finance savings that are either of a one-off nature or assumed in the budget framework going forward, however, these should not be seen to detract from the more fundamental need to address underlying pressures within service areas if longer-term sustainability is to be secured.

Housing Revenue Account (HRA)

- 3.27 As of month five, a balanced position is projected on the Housing Revenue Account (HRA) after making a £33.898m gross contribution towards housing investment, including £26.401m drawn down from the Renewal and Repairs and Council Tax Discount Fund earmarked reserves. Additional details are included in the Place Directorate's month five monitoring report considered by the Housing and Economy Committee on 1 November 2018.

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 directorate 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 statutory section 95 Chief Financial Officer, the Head of Finance, have reinforced the respective accountabilities and responsibilities of Executive Directors, the Chief Officer of the EIJB and Heads of Service to maintain expenditure within approved budgets, in accordance with the Financial Regulations. Executive Directors and the Chief Officer of the EIJB 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. In view of reducing levels of savings delivery in 2018/19, however, this process will be re-examined and strengthened at the proposal inception, development and implementation stages as part of the wider Change Strategy.

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 Integrated 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 and the Chief Officer of the EIJB 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 [Revenue Monitoring 2017/18 – month eight position](#), Finance and Resources Committee, 23 January 2018
- 10.2 [Capital Coalition Budget Motion](#), City of Edinburgh Council, 22 February 2018
- 10.3 [Revenue Monitoring 2018/19 – month three position](#), Finance and Resources Committee, 16 August 2018
- 10.4 [Revenue Monitoring 2018/19 – progress update](#), Finance and Resources Committee, 11 October 2018
- 10.5 [Place Directorate – Financial Monitoring 2018/19 – month five position](#), Housing and Economy Committee, 1 November 2018

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11. Appendices

One – 2018/19 Revenue Budget – projected expenditure analysis

	Revised Budget	Period Budget	Period Actual	Period Variance	Projected Outturn	Outturn Variance	Percentage Variance
	£000	£000	£000	£000	£000	£000	
Service areas							
Services reporting to Chief Executive	9,413	4,338	4,252	(86)	9,413	0	0.0
Communities and Families	383,767	159,667	162,250	2,583	387,869	4,102	1.1
Health and Social Care	198,895	82,873	88,498	5,625	205,936	7,041	3.5
Place	58,964	24,568	25,500	932	60,036	1,072	1.8
Resources	167,147	69,453	69,348	(105)	167,147	0	0.0
Lothian Valuation Joint Board	3,575	1,490	1,490	0	3,575	0	0.0
Service areas total	821,760	342,389	351,338	8,949	833,976	12,216	1.5
Non-service specific areas							
Loan Charges	112,596				109,596	(3,000)	(2.7)
Other non-service specific costs less sums to be disaggregated:	28,305	n/a	n/a	n/a	26,704	(1,600)	(5.7)
- Apprenticeship Levy	1,857	774	775	1	1,857	0	0.0
- Early Learning and Childcare	1,176				1,176	0	0.0
- Carbon Tax	1,159				909	(250)	(21.6)
- Non-Domestic Rates (poundage uplift)	500				500	0	0.0
- Energy	500				500	0	0.0
- Discretionary Rates	500				500	0	0.0
Council Tax Reduction Scheme	26,672	n/a	n/a	n/a	26,672	0	0.0
Staff early release costs	3,200	n/a	n/a	n/a	3,200	0	0.0
Net Cost of Benefits	(127)	n/a	n/a	n/a	(127)	0	0.0
Interest and investment income	(9,183)	0	0	0	(9,183)	0	0.0
Non-service specific areas total	167,156	774	775	1	162,305	(4,850)	(2.9)
Movements in reserves							
Net contribution to / (from) earmarked funds	(4,454)	(4,454)	(4,454)	0	(8,745)	(4,291)	(96.3)
Movements in reserves total	(4,454)	(4,454)	(4,454)	0	(8,745)	(4,291)	(96.3)
Sources of funding							
General Revenue Grant	(360,928)	(150,387)	(150,387)	0	(360,928)	0	0.0
Non-Domestic Rates	(340,474)	(141,864)	(141,864)	0	(340,474)	0	0.0
Council Tax	(283,060)	(117,942)	(117,942)	0	(284,060)	(1,000)	(0.4)
Sources of funding total	(984,462)	(410,192)	(410,192)	0	(985,462)	(1,000)	(0.1)
In-year (surplus) / deficit	0	(71,484)	(62,534)	8,951	2,075	2,075	0.2