Finance and Resources Committee

10.00am, Thursday, 15 August 2019

Revenue Monitoring 2018/19 – outturn report

Executive/routine
Wards
Council Commitments

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 £1.582m for the year ended 31 March 2019;

1.1.2 note that this sum has been set aside within the Council Priorities Fund;

1.1.3 note the contributions in 2018/19 to and from the General Fund as detailed in the report;

1.1.4 note the progress during the year on the initiatives supported through the Spend to Save Fund;

1.1.5 note that the Housing Revenue Account was balanced after making a contribution of £6.757m towards in-year capital investment;

1.1.6 note that the Common Good Annual Performance Report will be considered at the Committee's meeting on 26 September; and

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

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Report

Revenue Monitoring 2018/19 – outturn report

2. Executive Summary

2.1 The report sets out the provisional 2018/19 revenue outturn position for the Council based on the unaudited annual accounts. This position shows an overall underspend of £1.582m, representing the twelfth successive year in which net expenditure has been maintained within approved levels.

3. Background

3.1 The Council's statement of accounts for 2018/19 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.

3.2 The unaudited annual accounts were published on the Council website by 30 June 2019 and made available for public inspection from 1 July 2019 for a period of 15 working days, in accordance with relevant regulations. Correspondence was received from two individuals during this period, the outcome of which will be reported at the conclusion of the audit process in September 2019.

3.3 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 17 September 2019 and be presented for approval thereafter by the Finance and Resources Committee on 26 September, thereby meeting the statutory requirement for the audited statements to be approved by members by 30 September.

4. Main report

Overall position

4.1 The unaudited outturn position for 2018/19 shows an overall underspend of £1.582m, equating to 0.16% 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 2018/19 represents the twelfth successive year in which expenditure has been maintained within budgeted levels.

Table 1 – Summarised Unaudited Outturn Statement, 2018/19

	Revised Budget	Outturn	Outturn Variance (favourable)/ unfavourable
	£000	£000	£000
Directorate-specific	833,321	845,652	12,331
Non-directorate specific budgets	157,852	142,229	(15,624)
Movement in reserves	(3,882)	(1,504)	2,378
Sources of funding	(987,291)	(987,959)	(668)
In-year (surplus) / deficit		**(1,582)**	**(1,582)**

4.2 The third quarter's revenue monitoring report considered by the Finance and Resources Committee on 1 February 2019 set out significant service pressures, particularly in demand-led areas, totalling £12.1m, with partial mitigation achieved through savings in loan charges, additional Council Tax income and assumed application of the unallocated element of the 2017/18 in-year underspend and welfare reform contingency.

4.3 The actual service outturn position is therefore consistent with this in-year forecast, albeit with a combination of additional savings in loan charges (£1.1m), interest and investment income (£1.4m), reductions in the net cost of benefits (£0.5m) and a number of inflation-linked contingencies not ultimately required contributing to an overall favourable movement of £3.55m (and thus an overall underspend of £1.582m) over the final months of the year.

4.4 While the improvement in the year-end outturn position is to be welcomed, as was highlighted in the budget update report to the Committee's previous meeting on 23 May, the approved budget for 2019/20 is predicated on the delivery of significant non-service specific savings totalling £8m including those across the areas of loan charges and Council Tax income. The revenue budget update to the Committee's meeting on 23 May noted that, as a maximum, a further £3m contribution could be made available from these or other non-service specific areas. This reinforces the urgent need to identify recurring savings, or additional income, that can be applied as part of ensuring the underlying stability of the budget framework.

Directorate variances

4.5 As noted in the table above, the Council's main Directorates showed an overall overspend of £12.331m (1.5%) during the year. Commentaries on the main factors comprising these variances are included in Appendix 2. Additional detail will, where appropriate, be reported to relevant Executive Committees.

Other areas

4.6 In view of the significant pressures experienced within Directorates, savings across non-directorate specific areas were crucial in delivering a balanced overall position for the year. The elements comprising this outturn position were:

(i) **Loans charge expenditure (£5.914m underspend)**

The favourable variance was largely attributable to a combination of the Council's ongoing strategy of using available cash balances in lieu of undertaking external borrowing and the impact of in-year loan redemption, actual capital spend profiles (reflecting in-year slippage in 2018/19) and a reduced loans fund pool rate.

(ii) **Council Tax (£0.668m additional income)**

Increased property numbers and lower-than-budgeted levels of exemptions and discounts, linked to an on-going focused programme of Single Person Discount entitlement review, contributed to a small overall favourable variance. The in-year collection rate of 97.0% was also the highest achieved since the Council's formation in 1996.

(iii) **Council Tax Reduction Scheme (£2.378m underspend but offset by a corresponding transfer to the welfare reform earmarked reserve)**

While the entirely demand-led nature of the scheme exposes the Council to risks, sums paid out in 2018/19 were lower than the equivalent level of budgetary provision. As in 2017/18, this underspend has been set aside within the Council's allocated reserves to address potential welfare reform-related pressures in future years, including the impacts of the full roll-out of Universal Credit with effect from November 2018.

(iv) **Other non-directorate specific costs (£5.409m underspend)**

The overall variance reflects a number of elements, including in-year savings in Carbon Tax expenditure payable under the CRC energy efficiency scheme, reductions in past service pension costs and a number of inflation-linked contingencies not ultimately required either in part or in full.

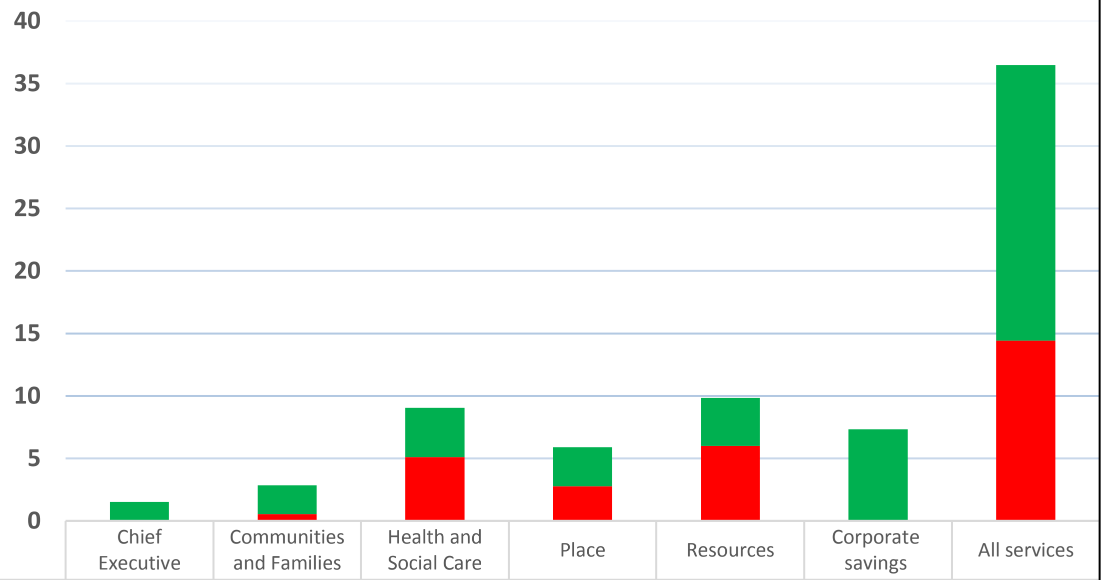
(v) **Interest and investment income** (£1.402m additional income)

The additional income reflected, in part, continuing outperformance against the Treasury comparator cash fund benchmark during the year.

Approved budget savings delivery

4.7 As shown in Table 2 below, the final outturn position for 2018/19 indicates that 60% 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 and savings linked to the Asset Management Strategy. A number of in-year shortfalls affecting both anticipated income streams particularly parking, roundabout and verge advertising and expenditure reductions linked to changes to working patterns occurred within the Place Directorate but with partial or full delivery anticipated in 2019/20.

Table 2 – Delivery of approved budget savings, 2018/19



	Chief Executive	Communities and Families	Health and Social Care	Place	Resources	Corporate savings	All services
Delivered (£m)	1.525	2.290	3.950	3.140	3.826	7.335	22.066
Not delivered (£m)	0.000	0.550	5.100	2.763	6.004	0.000	14.417

4.8 Given the extent of demand-led pressures being experienced across directorates, the ability to contain these shortfalls was markedly lower than in previous years (although, in the case of the Resources Directorate, a slight underspend was still achieved) and, in the majority of cases, these substitute measures were of a non-recurring nature. This reinforces the need for robust savings proposal development and scrutiny at the inception, development and delivery stages.

Transfer to Council Priorities Fund

4.9 At the meeting of Council on 27 June 2019, members noted that the provisional in-year underspend of £1.582m had been set aside within the Council Priorities Fund pending completion of the external audit process. As set out in that report, £1.427m of this sum is available to fund future delivery of services and £0.155m is separately earmarked in accordance with Local Authority (Scotland) Accounts Advisory Committee (LASAAC) guidance, given that it relates to gains arising from the increases in the fair value of a financial asset under newly-adopted International Reporting Standard 9 in 2018/19.

4.10 Members additionally approved, subject to the outcome of the audit process, an increase of £7.483m in the level of the Council's 2018/19 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

4.11 Given the advanced stage of the Council's previous Transformation Programme, the level of expenditure associated with staff early release was, at £2.448m, considerably lower than in prior years.

4.12 Expressed on a cumulative basis, as of 31 May 2019, staff equivalent to 1,035 FTE had left, or had confirmed leaving dates, through Voluntary Early Release or Voluntary Redundancy Arrangements. The total release cost of these arrangements is £44.0m, with the associated payback period of 13.4 months consistent with the original planning assumptions.

Spend to Save Fund

4.13 At the Committee's meeting on 4 December 2018, members considered an update on a number of projects previously supported through the Spend to Save scheme. In noting the extent of progress that had been made on these schemes, members further agreed to introduce a short year-end report as part of consideration of the wider revenue budget outturn. This is included as Appendix 3 to this report.

Housing Revenue Account (HRA)

4.14 In line with the HRA Business Plan, at the end of 2018/19 the HRA was balanced after making a contribution of £6.757m towards in-year capital investment, with sums also drawn down from the Strategic Housing Investment Fund (SHIF) during the year to meet the cost of approved projects. The funds held in the SHIF are earmarked for investment in existing housing stock and future capital investment in new homes through the Council's own housing development programme.

Reserves

4.15 As at 31 March 2019, General Fund reserves stood at £144.845m, a fall of £6.440m relative to the preceding year. Details of the opening and closing amounts in the General Fund, including earmarked balances, are shown in Appendix 4. The adequacy and appropriateness of the level of reserves continues to be reviewed annually by Council as part of the revenue budget-setting process.

4.16 The overall decrease in the level of earmarked reserves during the year mainly represents the net effect of three factors as noted below:

(i) **net reduction in sums held within the Council Tax Discount Fund (£8.801m),** in turn mainly reflecting a drawdown of £12.346m to support planned development of affordable housing in line with the Housing Revenue Account (HRA) Business Plan. This was offset, in part, by an in-year addition to the fund of £3.430m from Council Tax second home discount income earmarked under statute;

(ii) **net reduction in sums held within the City Strategic Investment Fund (£1.909m)**, primarily reflecting the drawdown of funding to support the design of the tram extension up to Royal Institute of British Architects (RIBA) Stage 2 as approved by the Transport and Environment Committee on 4 September 2017; and

(iii) **net increase in sums held within the Insurance Fund (£3.710m)**, reflecting the impact of both the Council's policy of self-insurance and its potential future claims exposure.

4.17 The in-year movement on the Council's Priorities Fund reflects, in the main, the net impact of the drawdown in full of the 2017/18 audited underspend of £2.416m and the transfer to the Fund of the provisional 2018/19 underspend of £1.582m.

4.18 The unallocated General Fund balance remained unchanged at £13.025m, in line with the Council's medium-term strategy, and alongside the level of reserves held for specific purposes, is considered by officers to be consistent with the range and nature of risks to which it is exposed.

Common Good

4.19 During 2018/19, the Common Good Fund incurred an overall deficit of £0.035m, 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 26 September 2019.

5. Next Steps

5.1 The Unaudited Accounts are currently the subject of consideration by the Council's external auditor. The key findings of this review, alongside those related to the wider scope audit, will be scrutinised initially by members of the Governance, Risk and Best Value Committee on 17 September 2019 prior to consideration and approval by the Finance and Resources Committee on 26 September 2019.

6. Financial impact

6.1 The report identifies a provisional surplus for the year ending 31 March 2019 of £1.582m and the requirements to set a number of funds aside for future risks.

7. Stakeholder/Community Impact

7.1 There is no direct relevance of the report's contents, although the Council's wider approach to community engagement and empowerment will be specifically considered as part of the wider scope aspects of this year's external audit process.

8. Background reading/external references

8.1 Revenue Monitoring 2018/19 – month three position, Finance and Resources Committee, 16 August 2018

8.2 Revenue Monitoring 2018/19 – progress update, Finance and Resources Committee, 11 October 2018 (referred to Council on 25 October 2018 for ratification of additional project management support to Change Strategy)

8.3 Revenue Monitoring 2018/19 – month six position, Finance and Resources Committee, 4 December 2018

8.4 Revenue Monitoring 2018/19 – Month Nine Position, Finance and Resources Committee, 1 February 2019

8.5 Unaudited Accounts 2018/19, City of Edinburgh Council, 27 June 2019

9. Appendices

Appendix 1 - Unaudited Revenue Budget Outturn Statement, 2018/19
Appendix 2 - Service Outturn Commentaries, 2018/19
Appendix 3 - Spend to Save Fund Annual Review, 2018/19
Appendix 4 - Transfers to and from usable reserves, 2018/19

Appendix 1

Unaudited Revenue Budget Outturn Statement, 2018/19

	Revised Budget	Outturn	Outturn Variance (favourable)/ unfavourable
Directorates	**£000**	**£000**	**£000**
Chief Executive's	9,853	9,656	(197)
Communities and Families	394,862	397,307	2,445
Health and Social Care	200,754	208,237	7,483
Place	51,559	54,295	2,736
Resources	172,718	172,582	(136)
Lothian Valuation Joint Board	3,575	3,575	-
Directorate totals	**833,321**	**845,652**	**12,331**
Non-directorate specific areas			
Loan Charges	113,280	107,366	(5,914)
Other non-service specific costs	28,809	23,401	(5,409)
Council Tax Reduction Scheme (Note 1)	26,672	24,294	(2,378)
Net Cost of Benefits	(291)	(812)	(521)
Interest and investment income	(10,618)	(12,020)	(1,402)
Non-directorate specific areas total	**157,852**	**142,229**	**(15,624)**
Movements in reserves			
Net contribution to / (from) earmarked funds (Note 1)	(3,075)	(697)	2,378
Contribution to / (from) Repair and Renewals Fund	173	173	-
Contribution to / (from) Capital Fund	(980)	(980)	-
Movements in reserves total	**(3,882)**	**(1,504)**	**2,378**
Sources of funding			
General Revenue Grant	(363,757)	(363,757)	-
Non-Domestic Rates	(340,474)	(340,474)	-
Council Tax	(283,060)	(283,728)	(668)
Sources of funding total	**(987,291)**	**(987,959)**	**(668)**
In-year (surplus) / deficit	**-**	**(1,582)**	**(1,582)**

Note 1 – uncommitted funds linked to the in-year underspend in respect of the Council Tax Reduction Scheme of £2.378m were transferred to an earmarked reserve. This transfer is reflected prior to any transfer to the Council Priorities Fund.

Appendix 2

Directorate outturn commentaries

Chief Executive's Service (£0.197m underspend, representing 2.0% of net budget)

Overall expenditure was maintained within budgeted levels primarily through delivery of approved savings (100% delivery achieved) and management of vacant posts.

Communities and Families (£2.445m overspend, representing 0.6% of net service budget)

As reported throughout the year, the main pressures affecting the Directorate were in the areas of homelessness and housing support, home-to-school transport, rising school rolls and community access to schools.

In view of these pressures, a range of management actions was identified, including savings within Early Years, vacancy control and one-off savings within disability services, the effect of which was to mitigate the overall level of overspend.

Health and Social Care (£7.483m overspend, representing 3.7% of net budget)

The provisional outturn for budgets delegated by the IJB to the Council is an overspend of £7.483m, an increase of £0.442m from that reported to the Finance and Resources Committee at Period 9. The reasons for the overall movement since that time are an improvement in income recovery offset by an increase in purchasing expenditure and the requirement to make a provision pending decision by the Scottish Government on Ordinary Residency.

The provisional outturn reflects significant demand-led pressures. These contributed to additional third-party expenditure relative to budgeted levels of £6.3m, in turn attributable to growth in demand for care at home services and increases in Direct Payments and Individual Service Funds. This level of pressure was consistent with in-year monitoring projections and has been factored in to financial planning assumptions for 2019/20.

The budget set for 2018/2019 included savings plans totalling £9.050m, £1.450m of which were met as per the original plan and £2.5m via one-off mitigation actions, leaving £5.1m of planned savings undelivered.

The Council had previously agreed to an additional one-off contribution to the EIJB of £7.041m in 2018/19 which, based on the provisional outturn position, has now been revised to £7.483m.

Place (£2.736m overspend, representing 5.3% of net budget)

The Directorate's activities continued to be subject to significant pressures during the year. These were addressed, in part, by a budget management strategy including a material realignment of budgets across the Directorate in line with operational requirements. Whilst this increased accountability and transparency in developing and implementing remedial actions, the Directorate was unable to deliver fully the approved net level of 2018/19 savings and mitigate fully other service pressures.

Full-year savings of £1.863m were not realised due, in part, to the timing of implementation in relation to roundabout and verge advertising and garden waste collection. A further £0.400m was not realised due to changed parking behaviours. A subsequent budget realignment exercise has been undertaken in 2019/20 which assumes full delivery of the majority of 2018/19's approved savings. Over the short- to medium-term, concerted action is required to address underlying structural deficits and emerging cost pressures in a sustainable way whilst delivering approved budget savings. This need is reflected in the Place Budget Management Strategy.

Resources (£0.136m underspend, representing 0.1% of net budget)

The Directorate saw an outturn underspend of £1.401m, prior to central support cost recoveries from the Housing Revenue Account (HRA), primarily reflecting the combined impact of enhanced workforce controls relating to recruitment, the enhancement of other workforce controls, such as agency and overtime expenditure and a review of discretionary expenditure. As a consequence of both reduced provider expenditure and changes in the proportion of the Directorate's activity rechargeable to the HRA, however, associated income dropped by £1.266m, resulting in a net overall underspend of £0.135m.

Appendix 3

Spend to Save Fund Annual Review, 2018/19

At the Committee's meeting on 4 December 2018, members considered an update on a number of projects previously supported through the Spend to Save scheme. In noting the extent of progress that had been made on these schemes, members further agreed to introduce a short year-end report as part of consideration of the wider revenue budget outturn.

While, given the timing of their approval, the projects concerned are at varying stages of completion, progress on supported initiatives in the period to 31 March 2019 was as follows:

RE:FIT (up to £0.975m of Spend to Save funding approved in April 2016)

The Council initiated a £2.654m energy retrofit programme in ten of its key buildings (eight schools, the City Chambers and the Usher Hall) under the London RE:FIT Framework. The RE:FIT scheme has been designed to help public sector organisations achieve substantial financial savings, improve the energy performance of their buildings and reduce their carbon footprint. Spend to Save funding of up to £0.975m was approved to supplement available investment from SALIX and the former Central Energy Efficiency Fund (CEEF). The project is now delivering annual financial savings in excess of £0.300m and is anticipated to reduce CO_2 emissions by over 1,100 tonnes a year. These savings will be used to repay the final Spend to Save-supported element (some £0.6m) within the approved timescales.

Edinburgh International Climbing Arena – sewer connection (£0.437m of funding approved in November 2017)

The sewerage connection was made in mid-July 2018. The construction took a little longer than planned, primarily due to issues with the part-closure of the road where the connection was made to the main sewer. The final investment cost, however, came in slightly under budget at £0.435m.

The expected benefits have been realised, with savings coming from not having to pay for the effluent tank being emptied and disposed of multiple times a day.

Streetlight LED conversion (£0.768m approved in February 2018. This short-term funding is required to reflect timing differences between the incurring of capital expenditure and the delivery of resultant revenue savings)

The project involves conversion of some 54,000 street lights across Edinburgh to energy-efficient lanterns, along with the associated fitting of telecells (wireless controls). The programme will deliver a sustained reduction in electricity consumption, energy costs and carbon use, as well as reducing lantern maintenance, replacement and waste disposal costs.

The retro-fitting of telecells on existing LEDs is almost complete, with the lantern conversion programme also well underway. The completion timescale (anticipated in 2021/22) and associated budget remain as reported to the Finance and Resources Committee on 23 January 2018.

Craiglockhart Outdoor Tennis (£0.285m approved in March 2018)

The courts opened in early September, with the finalised scheme outturn of £0.252m within the level of expenditure underpinning the original approval. The resulting income continues to perform well against business case estimates.

LED in public spaces (£0.300m approved in June 2018)

To date, a number of projects have been commissioned, with cost estimates awaited for several further schemes. Taking into account the respective payback periods, additional projects will be taken forward either though SALIX or Spend to Save funding.

Given the state of scheme implementation, it is relatively early to assess resulting financial and environmental benefits. In view of the use of proven technology, however, subject to the appropriateness of detailed assumptions on lamp ratings and run times, savings are anticipated to be delivered in line with relevant business cases.

Usher Hall Public Address System (£0.080m approved in June 2018)

On-site testing of systems was provided by suppliers during Spring 2019. The preferred supplier will be appointed shortly with no change to associated costs and installation anticipated by December 2019.

Usher Hall Marketing Poster Boards (£0.120m approved in June 2018)

The scheme requires planning approval, which is being sought, and this has delayed implementation somewhat. There is, however, no change to the anticipated cost or resulting benefits at this stage.

Lagganlia Snow Sports (£0.040m approved in August 2018)

A building warrant has been submitted and the design team is working on collating responses to the Building Control report. Work is also continuing to finalise the tender specification and associated documentation, with a target of going to tender at the end of August/beginning of September, starting on site at the beginning of November and completing construction in February 2020.

A value engineering exercise is also underway to reduce construction costs, informed by the outcome of market testing on the existing specification. Overall project costs are being met from the remaining Boyd Anderson fund balance of £107,000 and the above Spend to Save allocation, with the balance being met from the Outdoor Learning earmarked reserve.

Projects approved in 2019/20

At the Committee's last meeting on 23 May 2019, members agreed to make available up to £0.153m of Spend to Save funding to take forward 3G pitch improvements at Leith Academy. Updates on this and the other projects noted above will be provided as the year progresses.

TRANSFERS TO AND FROM USABLE RESERVES, 2018/19

	Balance at 31-Mar-18 £000	Transfers Out 2018/19 £000	Transfers In 2018/19 £000	Balance at 31-Mar-19 £000
Balances Set Aside to Manage Financial Risks and for Specific Investment				
Balances set aside for specific inv.	40,649	(13,147)	14,794	42,296
Workforce management	18,143	0	51	18,194
Council Priorities Fund	7,691	(2,852)	1,786	6,625
Dilapidations fund	5,077	(356)	1,000	5,721
Insurance funds	15,875	(83)	3,793	19,585
	87,435	(16,438)	21,424	92,421
Balances Set Aside from Income Received in Advance				
Licensing and Registration income	3,080	(855)	359	2,584
Lothian Buses	388	116	0	504
Other minor funds	218	(16)	1	203
Pre-paid PPP monies	2,568	0	385	2,953
Recycling monies	697	(697)	0	0
Council Tax Discount Fund	27,432	(12,346)	3,545	18,631
Unspent grants	1,874	(1,736)	1,799	1,937
City Strategic Investment Fund	5,461	(2,054)	145	3,552
	41,718	(17,588)	6,234	30,364
Balances Set Aside for Investment in Specific Projects which will Generate Future Savings				
Energy efficiency	178	0	66	244
Salix / CEEF	196	(141)	197	252
Spend to save	2,975	(575)	66	2,466
	3,349	(716)	329	2,962
Balances Set Aside under Devolved School Management Scheme and Pupil Equity Fund				
Devolved School Management	5,758	(5,758)	6,073	6,073
Unallocated General Reserve	13,025	0	0	13,025
Total General Reserve	**151,285**	**(40,500)**	**34,060**	**144,845**