Finance and Resources Committee

10.00am, Thursday, 27 August 2020

Revenue Monitoring 2019/20 – outturn report

Executive/routine	**Executive**
Wards	
Council Commitments	

1. Recommendations

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

1.1.1 note that the provisional outturn position shows an overall overspend of £5.231m, the first such overspend in thirteen years, and that this sum will therefore require to be met by means of a corresponding drawdown from reserves;

1.1.2 note the contributions to and from the General Fund in 2019/20 as detailed in the report;

1.1.3 note that the Housing Revenue Account was balanced after making a contribution of £7.477m towards in-year capital investment;

1.1.4 note that the Common Good Annual Performance Report will be considered at a future meeting of the Finance and Resources Committee, alongside further details of projects currently supported through the Spend to Save Fund and opportunities for further investment; and

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

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Report

Revenue Monitoring 2019/20 – outturn report

2. Executive Summary

2.1 The report sets out the provisional 2019/20 revenue outturn position for the Council based on the unaudited annual accounts. This position shows an overall overspend of £5.231m, the first such overspend in thirteen years, and this sum will therefore require to be met by means of a corresponding drawdown from reserves.

3. Background

3.1 The Council's statement of accounts for 2019/20 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 therein.

3.2 The unaudited annual accounts were published on the Council website by 30 June 2020 and made available for public inspection from 1 July 2020 for a period of 15 working days, in accordance with relevant regulations. Due to the on-going pandemic, however, this year's inspection process was undertaken largely by electronic means.

3.3 Correspondence was received from four individuals on three different subjects during this period, resulting in the lodging of one objection, the outcome of which will be reported at the conclusion of the audit process.

3.4 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 and be presented for approval thereafter by the Finance and Resources Committee.

3.5 The supplementary provisions contained within the Coronavirus (Scotland) Act 2020 allow local authorities, in consultation with their external auditors, to defer reporting to those charged with governance (in the Council's case, members of the Governance, Risk and Best Value Committee) by up to two months i.e. from the end of September until the end of November, reflecting the additional logistical challenges of obtaining appropriate audit assurance within a remote working environment, particularly where access to supporting physical records may not be available. While discussions are continuing, it is likely that there will be some consequent delay to the reporting of the audit outcome and members will be kept apprised of relevant timescales.

4. Main report

Overall position

4.1 The unaudited outturn position for 2019/20 shows an overall overspend of £5.231m, equating to 0.51% of the Council's total net expenditure. Table 1 below summarises the outturn, with further details provided in Appendix 1. This outturn position reflects the Council's first overall overspend since 2006/07.

Table 1 – Summarised Unaudited Outturn Statement, 2019/20

	Revised Budget	Outturn	Outturn Variance (favourable)/ unfavourable
	£000	**£000**	**£000**
Directorate-specific	865,630	875,594	9,964
Non-directorate specific budgets	155,029	150,347	(4,682)
Movements in reserves	(1,406)	247	1,653
Sources of funding	(1,019,254)	(1,020,957)	(1,703)
In-year (surplus) / deficit		**5,231**	**5,231**

4.2 As reported to members of the Finance and Resources Committee on 23 January 2020, a net overspend across Directorates and a number of Council-wide savings targets of £13.8m had been forecast as of that time. These overspends and shortfalls were, however, offset by anticipated savings across a range of corporately-held budgets including loan charges, inflationary provisions and Council Tax and these, alongside unplanned drawdowns of reserves, had allowed a balanced position to be forecast.

4.3 Compared on a like-for-like basis, Directorate outturns subsequently improved by some £2.2m by the year-end, representing the net impact of significant favourable movements within both Communities and Families and Resources. Savings across non-service budgets also showed a slight improvement of £0.4m in the final three months of the year.

Impact of COVID-19

4.4 While the primary income and expenditure impacts of the COVID-19 pandemic are expected to affect the Council in 2020/21, the favourable movement in service outturns and non-service budgets between January 2020 and the year-end was, however, outweighed by some £8.442m of COVID-related impacts as set out in Appendix 2, most materially the loss of the budgeted Lothian Buses dividend (£6m) and reductions in parking income. Of this total, £0.572m of additional expenditure was assumed to be met from the Scottish Government's Hardship and Food Funds, resulting in a net COVID-related pressure of £7.870m. Of this, £1.870m (representing the loss of income across Council services) is therefore reflected in the service outturns in Appendix 1 and summarised in Table 1.

Directorate variances

4.5 As noted in Table 1, the Council's main Directorates showed an overall overspend of £9.964m (1.2%) during the year. Commentaries on the main factors comprising these variances are included in Appendix 3. Additional detail will be reported to relevant Executive Committees.

4.6 The outturn narratives include reference, where relevant, to the recurring impacts of in-year savings shortfalls and residual pressures. Further commentary on this aspect will be included in both subsequent in-year monitoring reports and those relating to the reset of the Council's three-year revenue budget framework.

Edinburgh Integration Joint Board (EIJB)

4.7 For 2019/20, the EIJB's financial plan was presented to the Board in March 2019, with assumed funding from its partners totalling £660m and estimated costs of £684m, giving an initial gap of £24m. To mitigate this shortfall, a savings and recovery programme of £12m was agreed and the Board resolved to work further with its partners to identify means to achieve financial balance. Updates on this position were provided to each board meeting and, by June 2019, the deficit was reduced to £7m through a combination of agreed additional funding from the Council and use of EIJB reserves.

4.8 Recognising the need to balance the EIJB's existing commitments, its ambitions for supporting transformational change and the requirement to address the in-year financial shortfall, it was agreed to use further slippage and use of reserves to offset the remaining gap. This, alongside outperformance of the savings and recovery programme, supported the achievement of in-year balance against the agreed budget, being the first year in which the EIJB had not relied on one-off contributions from its partners.

Other areas

4.9 In view of the significant pressures experienced within service areas, net savings across non-service specific areas totalling £4.733m played a key role in mitigating the Council-wide level of overspend. The main elements comprising this outturn position were:

(i) **Loans charge expenditure (£1.370m underspend)**

The favourable outturn primarily reflected savings linked to the Inverse LOBO restructuring undertaken during the year.

(ii) **Council Tax (£1.316m additional income)**

Increased property numbers and slightly 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. While latterly affected by the impacts of the pandemic, the overall in-year collection rate of 97% was comparable to the best-ever such rate achieved in 2018/19.

(iii) **Council Tax Reduction Scheme (£2.249m 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 risk[1], sums paid out in 2019/29 were lower than the level of budgetary provision. As in 2018/19, this underspend has been set aside within the Council's allocated reserves to address potential welfare reform-related pressures in subsequent years and, to this end, has been identified as a mitigation to the level of projected in-year overspend in 2020/21.

(iv) **Other non-directorate specific costs (£5.619m underspend)**

The overall variance reflects a number of elements, including a reduction in the Council's overall energy-related cost liabilities following the ending of the Carbon Reduction Commitment energy efficiency scheme in April 2019, reductions in past service pension costs and a number of inflation-linked contingencies not ultimately required either in part or in full following confirmation of applicable contractual uplifts and employee pay awards and associated Scottish Government funding.

(v) **Interest and investment income (£4.706m income shortfall)**

As noted above, the Council did not receive the planned £6m dividend payment from Lothian Buses. This shortfall was, however, offset in part by the receipt of additional income linked to the Treasury cash fund's continuing outperformance against benchmark during the year.

(vi) **Business Rates Incentivisation Scheme (BRIS) (£0.387m additional income)**

Payment was received in respect of the 2017/18 financial year following the completion of the Scotland-wide Non-Domestic Rates audit process. Following subsequent confirmation from the Scottish Government, it is anticipated that the Council will also receive payment in respect of 2018/19 and this sum will therefore be reflected within the audited accounts.

4.10 Despite these savings, the overall overspend for the year of £5.231m has required to be offset by a corresponding drawdown from the Council's earmarked reserves.

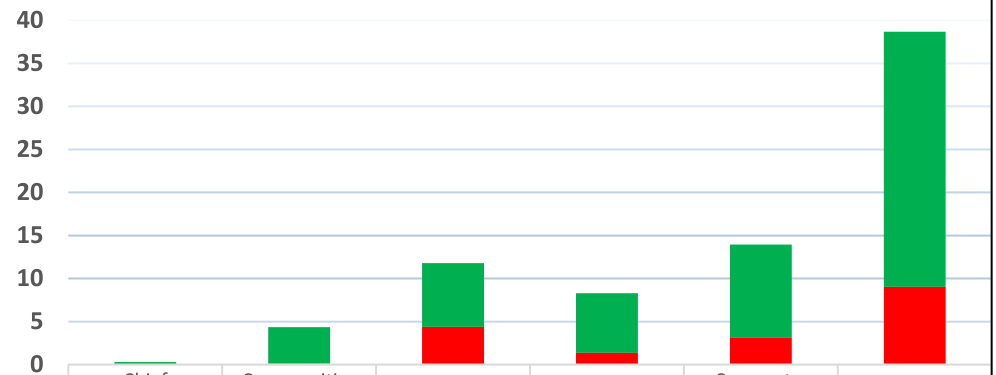
Approved budget savings delivery

4.11 In total, the approved budget was predicated on the delivery of some £38.7m of directorate-specific and corporate savings. As shown in Exhibit 1 below, the final outturn position for 2019/20 indicates that 77% of approved savings by value were delivered. This marks a significant improvement on the equivalent figure for

[1] Given the impacts of the coronavirus pandemic on wider employment levels, the anticipated level of CTRS take-up in 2020/21 exceeds the level of budgetary provision. The Scottish Government has, however, made available further funding such that any year-end overspend should be fully mitigated by the provision of additional grant support.

2018/19 of 60% and reflected, in part, the provision of additional project management resource.

Exhibit 1 – Delivery of approved budget savings, 2019/20



	Chief Executive	Communities and Families	Place	Resources	Corporate savings	All services
Delivered (£m)	0.286	4.199	7.385	6.938	10.839	29.647
Not delivered (£m)	0.000	0.135	4.400	1.371	3.120	9.026

4.12 As of period eight, 85% of service-specific and Council-wide savings were forecast to be delivered. The subsequent deterioration, particularly in the case of income-related savings, was attributable in part to COVID-related disruption.

4.13 The principal areas of shortfall were:

(i) various savings across the **Place Directorate** totalling £4.4m, comprising a combination of delays in delivery and/or development of implementation plans and income shortfalls, an element of which was attributable to the knock-on impacts of the pandemic (particularly for parking);

(ii) a number of savings across the **Resources Directorate**, most materially those in respect of additional advertising income and investment portfolio rationalisation within Property and Facilities Management. These shortfalls were, however, fully mitigated by alternative actions, such that a balanced overall outturn position was achieved; and

(iii) **Council-wide savings** of £2.75m across the areas of lean business process review, income generation and intelligent automation.

4.14 In the majority of cases, the substitute measures identified were of a non-recurring nature, emphasising the on-going need for robust planning at the savings inception, development and implementation stages. Given the importance to the integrity of the budget framework of sustainable mitigating measures, Executive Directors have therefore in 2020/21 been asked to bring forward actions to mitigate, in full, residual pressures or anticipated shortfalls in savings delivery. As noted in the revenue budget update report included elsewhere on today's agenda, an overall unmitigated pressure of £3m remains in 2020/21 at this stage.

Spend to Save Fund

4.15 As part of the 2018/19 revenue outturn report, members of the Committee considered a short summary of progress in taking forward projects supported through the Spend to Save Fund. In 2019/20, use of the fund was more limited, with £0.028m spent on lighting upgrades and £0.298m received from repayments for previously-supported projects, resulting in a year-end fund balance of £2.736m.

4.16 On 28 July, Council approved a motion requesting that details be brought forward on funds, including spend to save, available to support a green recovery. A more detailed overview of the fund's activity, including both expenditure commitments and sums to be repaid, will therefore be brought to the Committee's next meeting.

Housing Revenue Account (HRA)

4.17 The HRA outturn position was largely consistent with the in-year forecast reported at period eight in that that HRA was balanced after making a contribution of £7.477m towards in-year capital investment. This contribution was materially more positive than the approved Business Plan budget of £2.647m. This arose, in turn, from treasury management savings (including those related to Inverse LOBO restructuring) and reductions in the operating costs of maintaining and managing the housing estate. This meant that a lower level of reserves required to be drawn down from the Strategic Housing Investment Fund (SHIF)[2] 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

4.18 As at 31 March 2020, General Fund reserves stood at £119.787m, a reduction of £25.058m 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 overall decrease in the level of earmarked reserves during the year mainly represents the effect of three main factors:

(i) **net reduction in sums held within the Council Tax Discount Fund (£14.327m),** in turn reflecting a drawdown of £18m 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 £3.673m from Council Tax second home discount income earmarked under statute;

(ii) **unplanned drawdowns from the Council Priorities Fund and Welfare Reform reserves** totalling £7.872m reported to and approved by members during the year; and

(iii) **a further necessary drawdown of earmarked reserves of £5.231m to address the remaining year-end deficit on the General Fund**.

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[2] The SHIF comprises sums from the Council Tax Discount and Renewal and Repairs Funds.

4.19 These sums were offset by net contributions to reserves of £2.372m across a range of other areas, including an increase in the amount of unspent grants as of the year-end (partly due to COVID-related disruption) and a £0.902m increase in the level of the unallocated general reserve, representing the transfer of the unallocated element of the City Strategic Investment Fund.

4.20 While the adequacy and appropriateness of the overall level of reserves held is reviewed annually by Council as part of the revenue budget-setting process, an on-going re-assessment of the level and nature of these reserves and wider financial planning assumptions is being undertaken as part of the Adaptation and Renewal Programme.

Common Good

4.21 During 2019/20, the Common Good Fund generated an overall surplus of £3.343m, primarily due to the receipt of sums linked to the granting of a lease at 329 High Street. It is anticipated that recommendations on the application of these funds will be brought to the Finance and Resources Committee, alongside more detailed commentary on the outturn and related current financial and other issues, as part of the Common Good Annual Performance Report.

5. Next Steps

5.1 The Unaudited Accounts are currently the subject of consideration by the Council's external auditor. The supplementary provisions contained within the Coronavirus (Scotland) Act 2020 allow local authorities, in consultation with their external auditors, to defer reporting to those charged with governance (in the Council's case, members of the Governance, Risk and Best Value Committee) by up to two months. While discussions are continuing, it is likely that there will be some consequent delay to the reporting of the audit outcome and members will be kept apprised of relevant timescales.

6. Financial impact

6.1 The report identifies a provisional deficit of £5.231m in the year to 31 March 2020 and the corresponding need to draw down offsetting funds from reserves.

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 both the wider scope aspects of this year's external audit process and the Council's Best Value Assurance Review.

8. Background reading/external references

8.1 Unaudited Annual Accounts 2019/20, The City of Edinburgh Council, 30 June 2020

8.2 Revenue Monitoring 2019/20 – month eight position, Finance and Resources Committee, 23 January 2020

8.3 Revenue Monitoring 2019/20 – half-year report, Finance and Resources Committee, 6 December 2019

8.4 Revenue Monitoring 2019/20 – period three report, Finance and Resources Committee, 15 August 2019

8.5 Revenue Budget Framework 2019/24 – progress update, Finance and Resources Committee, 23 May 2019

8.6 Coalition Budget Motion, The City of Edinburgh Council, 21 February 2019

8.7 Council Change Strategy – Risks and Reserves 2019-2023, Finance and Resources Committee, 1 February 2019

9. Appendices

Appendix 1 - Unaudited Revenue Budget outturn statement, 2019/20
Appendix 2 - COVID-related losses of income and expenditure, 2019/20
Appendix 3 - Service outturn commentaries, 2019/20
Appendix 4 - Transfers to and from usable reserves, 2019/20

Appendix 1

Unaudited Revenue Budget outturn statement, 2019/20

	Revised Budget	Outturn	Outturn Variance (favourable)/ unfavourable
Directorates	**£000**	**£000**	**£000**
Chief Executive's Service	9,187	9,050	(137)
Communities and Families	420,437	423,570	3,133
Health and Social Care	218,472	218,472	-
Place	46,273	53,269	6,996
Resources	167,583	167,555	(28)
Lothian Valuation Joint Board	3,678	3,678	-
Directorate totals	**865,630**	**875,594**	**9,964**
Non-directorate specific areas			
Loan Charges	106,080	104,710	(1,370)
Other non-service specific costs	30,667	25,048	(5,619)
Council Tax Reduction Scheme (Note 1)	26,319	24,070	(2,249)
Net Cost of Benefits	(127)	(277)	(150)
Interest and investment income	(7,910)	(3,204)	4,706
Non-directorate specific areas total	**155,029**	**150,347**	**(4,682)**
Movements in reserves			
Net contribution to / (from) earmarked funds (Note 1)	(1,072)	581	1,653
Contribution to / (from) Capital Fund	(334)	(334)	-
Movements in reserves total	**(1,406)**	**247**	**1,653**
Sources of funding			
General Revenue Grant	(360,206)	(360,206)	-
Non-Domestic Rates	(365,250)	(365,250)	-
Council Tax	(293,798)	(295,114)	(1,316)
Business Rates Incentivisation Scheme	-	(387)	(387)
Sources of funding total	**(1,019,254)**	**(1,020,957)**	**(1,703)**
In-year (surplus) / deficit	**-**	**5,231**	**5,231**

Note 1 – uncommitted funds linked to the in-year underspend in respect of the Council Tax Reduction Scheme of £2.249m were transferred to an earmarked reserve and are included in the balance shown within the "Movement in reserves" section.

COVID-related losses of income and increases in expenditure, 2019/20

	£m
Lothian Buses dividend	6.000
Parking income	1.264
Adult education and other cancelled classes	0.134
Roads Services (loss of capitalised salary income due to delayed site starts and/or work suspension)	0.170
Community use of schools	0.085
Arts venues (Usher Hall, Assembly Rooms and Churchill Theatre)	0.080
Museums and galleries	0.074
Scientific, Registration and Bereavement Services	0.040
Regulatory	0.023
Total	**7.870**

	£m
Additional ICT expenditure to facilitate home working/remote learning	0.264
Continuing Free School Meal payments	0.122
Personal Protective Equipment and hand-washing stations	0.083
Food parcels for shielded groups and associated staff overtime	0.046
Other (various)	0.057
Total	**0.572**

Appendix 3

Directorate outturn commentaries

Chief Executive's Service (£0.137m underspend, representing 1.5% of net service budget)

Overall expenditure was maintained within budgeted levels, despite reductions in income from rechargeable services, primarily through employee cost savings from vacancy management within the Strategy and Communications Division.

Communities and Families (£3.133m overspend, representing 0.7% of net service budget)

The Communities and Families unaudited outturn position for 2019/20 shows a net overspend of £3.133m.

The main areas of pressure included:

- **Homelessness and housing support** – demand for temporary accommodation continued to grow due to a shortage of suitable move-on accommodation, causing the average length of stay to increase. While a falling number of properties in the Private Sector Leasing (PSL) scheme has increased the reliance on more expensive and less suitable types of temporary accommodation, improved terms in the new PSL contract effective from April 2020 seek to address this. Additional funding of £2m has also been provided within the budget in 2020/21 to address the underlying pressures, although this has subsequently been impacted by the COVID-19 situation.

- **Home-to-school transport** – action was taken to reduce use of individual transport which reduced annual costs by £0.8m but still resulted in a significant pressure of £1.8m. Additional funding of £1.5m has been added to the budget in 2020/21 to address the underlying pressure. The adequacy of this provision may, however, be affected by the schools re-opening in August and is therefore being kept under review.

- **Looked-After Children accommodation** - including secure services, residential care and the impact of Unaccompanied Asylum Seeking Children (UASC). There was higher- than-budgeted use of secure care and residential schools, the latter being impacted by the need to accommodate UASC within our own residential units.

- **Community access to schools** – ongoing pressure relating to an approved saving on secondary school lets. Year-on-year improvements are being made but there was a remaining pressure of £0.9m. Additional funding of £0.320m has been added to the budget in 2020/21 partially to address the underlying pressure. Further proposed actions to address the residual pressure have been impacted by the COVID-19 situation and the position will be kept under review.

The main areas of mitigation were in Children's Services, including one-off income contributions, and service-wide management action in relation to vacancy control.

Place (£6.996m overspend including COVID-19 related costs, representing 15.1% of net budget overspend. Excluding COVID-19 related costs, the equivalent figures are £5.345m and 11.6%)

The Directorate's activities continued to be subject to significant pressures during the year and the reported outturn position (after exclusion of COVID-19 related costs) is largely consistent with that reported at month eight. These pressures 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 2019/20 savings totalling £11.785m (some 25.5% of 2019/20 net budget) which included efficiency savings of £2.765m, in addition to full mitigation of other service pressures.

Around 63% of 2019/20 approved savings were delivered in year, with undelivered previous-year savings such as charging for garden waste being delivered in full. The organisational review of the Economic Development service approved for delivery in 2018/19 was also completed in 2019/20. Budget savings from strategic reforms relating to Localities and Transport companies were not delivered in 2019/20 but are progressing. A £0.700m pressure in respect of the temporary suspension of environmental testing services within Place also contributed to the overall overspend.

The 2020/21 budget management strategy which was agreed and is currently being implemented by the Place Senior Management Team has given full consideration to legacy and new budget pressures as well as the in-year savings requirement. Over the short- to medium-term, concerted action is required to address underlying budgetary issues in a sustainable way.

Resources (£0.028m underspend, representing 0.02% of net budget)

The outturn position reflects a favourable movement of £0.659m from the position reported to Finance and Resources Committee on 23rd January 2020. This reflects additional savings achieved through successful Non-Domestic Rates appeals, application of further workforce controls and controls on discretionary expenditure during 2019/20, the effect of which was to offset in full underlying pressures within the Property and Facilities Management Division.

REVENUE BALANCES

	Balance at 31-Mar-19 £000	Transfers Out 2019/20 £000	Transfers In 2019/20 £000	Balance at 31-Mar-20 £000
Balances Set Aside to Manage Financial Risks and for Specific Investment				
Balances set aside for specific inv.	42,296	(12,110)	13,270	43,456
Workforce management	18,194	(7,160)	2,000	13,034
Council Priorities Fund	6,625	(9,154)	3,286	757
IFRS9 Gains	0	0	230	230
Dilapidations fund	5,721	(2,493)	0	3,228
Insurance funds	19,585	0	512	20,097
	92,421	(30,917)	19,298	80,802
Balances Set Aside from Income Received in Advance				
Licensing and Registration income	2,584	(118)	516	2,982
Lothian Buses	504	(196)	0	308
Other minor funds	203	0	1	204
Pre-paid PPP monies	2,953	0	364	3,317
Council Tax Discount Fund	18,631	(18,000)	3,673	4,304
Unspent grants	1,937	(1,484)	2,723	3,176
City Strategic Investment Fund	3,552	(902)	145	2,795
	30,364	(20,700)	7,422	17,086
Balances Set Aside for Investment in Specific Projects which will Generate Future Savings				
Energy efficiency	244	0	51	295
Salix / CEEF	252	(217)	235	270
Spend to save	2,466	(28)	298	2,736
	2,962	(245)	584	3,301
Balances Set Aside under Devolved School Management Scheme and Pupil Equity Fund				
Devolved School Management	6,073	(6,034)	4,632	4,671
Unallocated General Reserve	13,025	0	902	13,927
Total General Reserve	**144,845**	**(57,896)**	**32,838**	**119,787**