

## **Financial Monitoring 2018/19 – General Fund Revenue**

### **Report by Gary Fairley, Head of Finance and Integrated Service Support**

#### **1 Purpose of Report**

The purpose of this report is to provide Council with information on performance against revenue budget in 2018/19 and details of the material variances.

#### **2 Background**

##### **2.1 Budget Performance**

The projected budget performance figures shown in appendix 1 result in a net overspend of £0.202 million for the year which is 0.10% of the revised budget and a £0.096 million improvement on the position reported to Council on 12<sup>th</sup> November 2018.

While this is an improvement on the quarter 2 position work continues to secure further improvement. The non-essential vacancy freeze and the moratorium on non-essential spend remain in place.

Although a small net overspend is reported, the Chief Executive is clear in her message that to overspend is an unacceptable position. As a result, the Chief Executive has instructed Directors and Heads of Service to deliver within their set Directorate budgets. Appendix 2 provides information on the service specific mitigating actions which are being progressed with the aim of further reducing the projected overspend.

As recommended in the August report a Financial Monitoring 2018/19 Recovery Plans report was prepared and presented to Council on 2<sup>nd</sup> October. This laid out:

- A net reduction of £0.270 million in the General Fund Balance as a consequence of a supplementary estimate for Christmas Lights and the likelihood of the 2018/19 pay award exceeding existing budget by approximately £0.200 million;
- An adjustment to Quarter 1 projections of £0.370 million for Planning and Building Warrant Fees; and
- A detailed recovery plan with actions to reduce the projected overspend at quarter 1 by £2.636 million.

The latest assessment of delivery on recovery plan actions indicates that £2.256 million of this will be achieved in 2018/19 and this is covered in more detail throughout the additional information column in appendix 2. This figure includes full recovery of the Adult Social Care variance that is shown in detail at appendix 2.

Alongside delivery of the approved recovery plan there is also evidence in quarter 3 projections that spend is reducing as a consequence of only filling essential vacancies and avoiding non-essential spend.

Risks remain in delivering some of the recovery plan actions and further updates on delivery will be provided in the final Financial Monitoring Reports for 2018/19.

The main areas of variance projected at quarter 3 are outlined below:

Demand Led Pressures totalling £1.920 million:

- Delegated Adult Social Care services, particularly the Community Care Resource Panel and in Home Care packages. They are currently projected to overspend by £1.044 million but this can be volatile given the fluidity of demand and potential high value of individual packages of care;
- Additional running costs for Care Homes for Older people of £0.054 million;
- Residential Placements in Children's Services of £0.653 million, and
- Bed and Breakfast budgets for Homeless clients. An overspend of £0.169 million is currently projected.

This is a reduction of £0.136 million from that reported in Quarter 2, mainly relating to costs in Children's Services.

Other pressures totalling £3.158 million including:

- Insurance settlements in excess of budget by £0.250 million as a consequence of the unusually high volume of claims during the severe winter;
- a projected £2.420 million slippage in delivering the package of £9.356 million of transformational, operational and service cost reductions and income generation measures as evidenced in detail in Appendix 2; and
- Price inflation and policy related pressures on energy spend of £0.488 million.

These are partly offset by some favourable movements totalling £4.610 million including the impact of the MIJB recovery plan as follows:

- External advice from the Council's Treasury consultants recommended that the Council consider revising the methodology used to apportion costs associated with external borrowing. This results in a £1.269 million underspend in loan charges;
- Schools are projected to underspend by £0.284 million after allowing for carry forwards of a maximum of 1% in accordance with current Devolved School Management rules;
- A continued growth of properties in Midlothian will generate an improvement on budget of £0.442 million for Council Tax Income;

- One-off Scottish Government Grant funding of £0.149 million to partially offset costs associated with the severe winter;
- Planning and Building Warrant fee income of £0.555 million;
- The impact of vacant posts across the Council of £0.963 million; and
- The impact of the MIJB recovery plan of £0.276 million;
- The impact of the recovery plan actions for Roads and Building Maintenance of £0.672 million.

Detailed information on material variances is contained in appendix 2 which identifies each variance, explains why it happened, outlines what action is being taken to control variances and details the impact of that action.

## **2.2 Delegation of resources to Midlothian Integration Joint Board**

The approved budget provided for the allocation of £39.750 million to the Midlothian Integration Joint Board (MIJB) for the provision of delegated services. In addition there have been minor movements which increase the budget by £0.027 million and which results in a projected revised allocation to the Board of £39.777 million.

The projected outturn reflects the impact of the MIJB recovery plan which indicates that spend can be contained within the revised budget of £39.777 million in accordance with the Integration Scheme.

The Chief Officer of the MIJB is leading on a recovery plan which has been approved by the MIJB.

## **2.3 Council Transformation Programme**

Council approved utilisation of £7.718 million of General Fund Reserve to fund costs associated with the ongoing transformation programme.

At the report date £5.397 million has been applied in prior years and a further £1.424 million is projected to be applied in 2018/19 which includes £0.700 million of one-off severance costs associated with the 2017 Voluntary Severance Scheme. There are commitments of £0.592 million identified for future years. This leaves £0.305 million as uncommitted.

## **2.4 Early Years Expansion**

A detailed report on progress and plans for Early Years Expansion was presented to Council on 26<sup>th</sup> June 2018. The challenges of matching the profile of ring-fenced Scottish Government revenue grant with spend on essential expansion activities particularly relating to increasing the number of Modern Apprentices along with a more balanced offer of 1,140 hours places across partner provider nurseries and childminders were highlighted. Council agreed that the Scottish Government were to be approached to consider a re-profile of £0.898 million of the ring-fenced grant between 2019/20 and 2018/19 and also if that request was declined that consent was sought for the Council to

fund additional funded expenditure from reserves in 2018/19 that could be matched from ring-fenced grant in 2019/20.

The Scottish Government consented to the latter and this is reflected in section 2.5 below as a utilisation of reserve in 2018/19 and a consequent enhancement in 2019/20.

## 2.5 General Fund Reserve

The projected balance on the General Fund as at 31 March 2019 is as follows:

	£ million	£ million
Reserve as at 1 April 2018		10.777
Less earmarked reserves utilised in 2018/19		(4.425)
<b>General Reserve at 1 April 2018</b>		<b>6.352</b>
<i>Planned movements in reserves</i>		
Planned Enhancement	0.190	
Supplementary Estimates	(0.454)	
Council Transformation Programme Costs (section 2.3)	(1.424)	
Pay Award in Excess of Budget (supplementary estimate to be approved)	(0.450)	
Early Years expansion (Section 2.4)	(0.898)	
Other	0.497	
		(2.539)
Overspend per appendix 1		(0.202)
Devolved School Management carry forward		0.384
<b>General Fund Balance at 31 March 2019</b>		<b>3.995</b>

An element of the General Fund is earmarked for specific purposes and this is shown below:

	£ million
<b>General Fund Balance at 31 March 2019</b>	<b>3.995</b>
<i>Earmarked for specific purposes</i>	
Budgets earmarked for Council Transformation	(0.897)
Enhancement to Reserves earmarked for training	(0.190)
Devolved School Management carry forward	(0.384)
<b>General Reserve at 31 March 2019</b>	<b>2.524</b>
Early Years Ring-fenced grant – approved enhancement in 2019/20	0.898
<b>General Reserve at 1 April 2019</b>	<b>3.422</b>

The pay award for Local Government workers has amended to 3.5% for 2018/19 and this is currently being considered by the employee side. The approved budget provided for 3% and the additional cost projected as £0.450 million. This report presents the additional cost as a movement in the General Fund Reserve as presented above, rather than an in-year variance against budget. Council are asked to approve this approach in recommendation 4 (d).

The projected uncommitted General Fund Reserve at 31 March 2019 is £2.524 million which increases to £3.422 million after adjusting for

Early Years Expansion re-profiling. This is £0.353 million higher than projected at quarter 2.

A prudent level of uncommitted reserves is seen to be between 2% and 4% of net expenditure which equates to between approximately £4 million and £8 million. The General Reserve of £3.422 million projected is considerably below the minimal level and there will also be additional one-off costs associated with service transformation and workforce reduction which could further reduce the available reserve.

There is also a risk that the reserve is required as a buffer to offset further slippage in the achievement of planned savings or cost control measures.

### **3 Report Implications**

#### **3.1 Resource**

The projected performance against budget set out in this report presents the initial projections for the year. Work continues within the Directorates to reduce projected overspends and to progress the delivery of approved savings.

Whilst this report deals with financial issues there are no financial implications arising directly from it.

#### **3.2 Risk**

Section 95 of the Local Government (Scotland) Act 1973 requires all Local Authorities in Scotland to have adequate systems and controls in place to ensure the proper administration of their financial affairs.

The assessment of performance against budgets by services is underpinned by comprehensive financial management and budgetary control arrangements. These arrangements are central to the mitigation of financial risk.

Ensuring that adequate systems and controls are in place minimises the risk of significant variances arising, and where they do arise they help to ensure that they are identified and reported on and that appropriate and robust remedial action is taken. The primary purpose of this report is to provide an assessment of performance for the full year based on activity in the first quarter of the year. The material variances detailed in appendix 2 highlight that the financial management and budgetary control arrangements require continual review and enhancement if financial risk is to be effectively mitigated during the year.

### 3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

### 3.4 Impact on Performance and Outcomes

The decisions taken to balance the budget will have fundamental implications for service performance and outcomes. The Council's Transformation Programme aims to minimise the impact on priority services.

### 3.5 Adopting a Preventative Approach

The proposals in this report do not directly impact on the adoption of a preventative approach.

### 3.6 Involving Communities and Other Stakeholders

No consultation was required.

### 3.7 Ensuring Equalities

There are no equality implications arising directly from this report.

### 3.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

### 3.9 IT Issues

There are no IT implications arising from this report.

## 4 Recommendations

It is recommended that Council:

- a) Note that work continues to secure further improvement in the financial position and that the non-essential vacancy freeze and the moratorium on non-essential spend remain in place;
- b) Note that the Chief Executive has instructed Directors and Heads of Service to deliver within their set Directorate budgets;
- c) Consider the financial position, particularly the low projected General Fund Reserve, in the context of the Financial Strategy report on today's agenda;

- d) Approve a supplementary estimate of £0.450 million reflecting the additional cost of the proposed Local Government Workers pay award of 3.5%; and
- e) Otherwise note the contents of the report.

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**Background Papers:**