

Financial Monitoring 2019/20 – General Fund Revenue**Report by Gary Fairley, Chief Officer Corporate Solutions****1 Purpose of Report**

The purpose of this report is to provide Council with information on performance against revenue budget in 2019/20, details of the material variances and a projection of the General Fund Balance.

2 Background**2.1 Budget Performance**

The projected budget performance figures shown in appendix 1 result in a net underspend of £1.081 million for the year which is 0.52% of the revised budget. Projections have improved by £0.649 million from quarter 2. This is mainly as a consequence of operational measures that have been implemented to contain in-year spend.

Although a net underspend is reported, the Chief Executive continues to be very clear in her message that service overspends represent an unacceptable position. The Chief Executive and the Chief Officer Corporate Solutions have implemented enhanced financial scrutiny arrangements for the Place Directorate. This includes establishment of a Budget Board to provide enhanced financial oversight and this supplements good practice in the People and Partnerships Directorate.

Detailed reviews of service areas that are most significantly overspent have taken place and relevant senior officers have been tasked to deliver at pace recovery actions. Projected overspends in Commercial Operations and Property and Facilities Management have reduced during Q3. Work continues to improve the financial position further in these areas and also in Customer and Housing Services.

To supplement information Appendix 1a provides detail of year to date budgets and actuals which is part of regular information provision to budget holders.

Section 2.2 of the report covers the position with the Midlothian Integration Joint Board. The main areas of variance projected at quarter 3 for the remainder of Council services are outlined below:

Projected Overspends

- a £2.576 million shortfall in delivering the package of £7.988 million of transformational, operational and service cost reductions and income generation measures as evidenced in detail in Appendix 2;

- Insurance settlements in excess of budget of £0.240 million as a consequence of the volume and some associated high values of claims on the Council received during the year.

These are partly offset by favourable movements totalling £3.927 million.

- Scottish Government funding for the teacher's pay award and for additional employer's superannuation costs for teachers exceeds the amount provided for in the budget by £0.620 million. Clarity in both areas emerged once the 2019/20 budget was set and in the case of teachers pensions this was only during Q2;
- The impact of operational control across the Council of £1.707 million. Strict vacancy control is in place and elements of the projected underspend mitigate some of the shortfall in delivering savings proposals;
- Homeless service charge income of £0.402 million for Pentland House. This was previously credited to the Housing Revenue Account;
- Re-phasing of three large projects in the General Services Capital Plan results in a reduced borrowing requirement in 2019/20 and consequently an underspend of £0.373 million in costs of servicing borrowing;
- Developer contribution funding of £0.256 million which contributes to annual contractual payments for the Newbattle Digital Centre of Excellence;
- Planning and Building Warrant fee income of £0.203 million;
- Family placements for children of £0.366 million as a consequence of more cost effective solutions being implemented where possible.

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 £42.634 million to the Midlothian Integration Joint Board (MIJB) for the provision of delegated services.

The main areas of variance projected at quarter 3 for the Adult Care element of MIJB are:

- The Community Care Resource Panel is projected to overspend by £0.944 million although this can be volatile given the fluidity of demand and potential high value of individual packages of care;
- Costs of £0.350 million in excess of budget for the Home Care service and Midlothian Enhanced Rapid Response and

Intervention Team (MERRIT). A shortage of external supplier capacity continues to place pressure on internal resources; and

- Additional running costs for Care Homes for Older people of £0.146 million.

These are partly offset by some favourable movements:

- Vacant posts across areas of service of £0.329 million;
- Funding that is yet to be allocated to specific commitments of £0.256 million; and
- Income from service users that is £0.098 million in excess of budget.

The position will be reported to the MIJB on Thursday the 13th February. In accordance with the Integration Scheme the MIJB is required to put in place a recovery plan to address the projected overspend. At this time the expectation is that action by the MIJB will address the projected overspend and no provision has been made for an additional budget allocation from the council.

2.3 Council Transformation Programme

In 2019/20 £0.281 million is projected to be applied to support the ongoing transformation programme. There are commitments of £0.468 million identified for future years.

The Reserves Strategy reported to Council on 12th February 2019 brought to Members attention the Capital Receipts Flexibility Scheme introduced by the Scottish Government in December 2018. Members approved recommendations to use scheme as the mechanism for funding applicable future severance and transformation costs. As a consequence uncommitted Council Transformation funding of is now included within the non-earmarked element of the General Fund.

2.4 Capital Receipts Flexibility Scheme

The Scottish Government introduced a Capital Receipts Flexibility Scheme which permit councils, subject to meeting some clearly defined criteria, to use in-year Capital Receipts to fund transformational costs. In 2019/20 £0.509 million of severance costs have been incurred and this is shown in General Fund Movement in section 2.5. Work is underway to assess the applicability of all of this spend against Capital Receipts Flexibility Scheme criteria. Capital Receipts for 2019/20 are currently projected to be £2.758 million.

At this stage it is expected that service review work in Lifelong Learning and Employability (LLE) will meet the scheme criteria. Severance costs of £0.224 million of 2019/20 relate to this review and are shown below in section 2.5 as funded in this way. The LLE review released 12 staff at an average payback of 0.50 years whilst at the same time transforming the service.

2.5 General Fund Reserve

The projected balance on the General Fund as at 31 March 2020 is as follows:

	£ million	£ million
Reserve as at 1 April 2019		8.637
Less earmarked reserves utilised in 2019/20		(3.584)
General Reserve at 1 April 2019		5.053
<i>Planned movements in reserves</i>		
Supplementary Estimates	(0.490)	
Council Transformation Programme Costs (section 2.3)	(0.281)	
Severance Costs (net of Capital Receipts Flexibility)	(0.391)	
Non Domestic Rates Revaluation Appeals	0.750	
Other	0.004	
		(0.408)
Underspend per appendix 1		1.081
General Fund Balance at 31 March 2020		5.726

Projections at quarter 3 therefore show an improvement of £0.540 million in the General Fund Reserve from the position at quarter 2.

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

	£ million
General Fund Balance at 31 March 2020	5.726
<i>Earmarked for specific purposes</i>	
Budgets earmarked for Council Transformation	(0.468)
Enhancement to Reserves earmarked for training	(0.199)
General Reserve at 31 March 2020	5.059

The Reserves Strategy approved by Council on 12 February 2019 needs the Council to maintain an adequate level of General Reserve to provide a contingency for unforeseen or unplanned costs and that in the current financial context approve the adoption of 2% of net expenditure (excluding resources delegated to the IJB) to be considered a minimum. This equates to £3.3 million. Council also agreed that where projections indicate that should the 2% minimum General Reserve balance be breached an immediate recovery plan be implemented to recover the position, failing which, the next available budget would need to provide for the restatement of reserve position.

The General Reserve of £5.059 million is above the minimum set in the Reserves Strategy but will only remain that way if there is no further adverse performance against budget or drawdown of reserves.

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 half 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.

Members are reminded that the information set out in the report and appendices is largely based on projections and will inevitably change over the second half of the year. Major change factors include the impact of adverse weather conditions and other unforeseen events.

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 underlying financial position and that the non-essential vacancy freeze and the moratorium on non-essential spend remain in place;
- b) Note that delivery plans for remaining areas of savings that remain behind schedule will be developed during Q4;
- c) Note the enhanced financial scrutiny arrangements for the Place Directorate; and otherwise
- d) Note the contents of the report.

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Background Papers: