

## 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.

Given the position the report also sets out the immediate actions which are being taken to secure a robust recovery plan to limit utilisation of reserves.

#### 2 Background

##### 2.1 Budget Performance

The projected budget performance figures shown in appendix 1 result in a net overspend of £3.002 million for the year which is 1.45% of the revised budget.

The main areas of variance are outlined below:

Demand Led Pressures totalling £2.762 million:

- Demand led pressures in delegated Adult Social Care services, particularly the Community Care Resource Panel and in Home Care packages. They are currently projected to overspend by £1.404 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 £0.228 million;
- Demand led pressures in Children's Services of £0.884 million, particularly in Residential Placements;
- Demand led pressure on Bed and Breakfast budgets for Homeless clients. An overspend of £0.246 million is currently projected.

Other pressures totalling £2.663 million including:

- Insurance settlements in excess of budget of £0.267 million as a consequence of the unusually high volume of claims during the severe winter;
- and a projected £2.396 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.

These are partly offset by some favourable movements totalling £2.255 million 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 £1.131 million underspend in loan charges;
- Schools are projected to underspend by £0.725 million after allowing for carry forwards in accordance with current Devolved School Management rules;
- A continued growth of properties in Midlothian will generate an improvement on budget of £0.250 million for Council Tax Income;
- One-off Scottish Government Grant funding of £0.149 million to partially offset costs associated with the severe winter.

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 virements which reduce the budget by £0.027 million and which results in a projected revised allocation to the Board of £39.723 million.

The projected outturn indicates expenditure of £40.920 million which represents an overspend in respect of services delegated by the Council of £1.197 million. The Integration Scheme sets out the mechanism for addressing an overspend position. The Chief Officer of the MIJB will be required to develop a recovery plan, which in due course will be presented to the MIJB for approval. At this time the financial position presented to Council is based on the MIJB addressing the overspend in full and accordingly no additional contribution from the revised allocation of £39.723 million is provided for in arriving at the Council's reserves position.

## **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 £6.454 million of this has been applied or is expected to be applied in 2018/19 with future commitments of £0.600 million identified for future years. This leaves £0.664 million as uncommitted.

## 2.4 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 Estimate	(0.373)	
Council Transformation Programme Costs (section 2.3)	(0.750)	
One-off costs of VSER	(0.519)	
Other	0.046	
		(1.406)
Overspend per appendix 1	(3.002)	
Midlothian Integration Joint Board (section 2.2)	1.197	
		(1.805)
Devolved School Management carry forward		0.685
<b>General Fund Balance at 31 March 2019</b>		<b>3.826</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>3.826</b>
<i>Earmarked for specific purposes</i>	
Budgets earmarked for Council Transformation	(1.264)
Enhancement to Reserves earmarked for training	(0.190)
Devolved School Management carry forward	(0.685)
<b>General Reserve at 31 March 2019</b>	<b>1.687</b>

The projected uncommitted General Fund Reserve at 31 March 2019 is £1.687 million. 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 projected is considerably below this level and there may 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.

## 2.5 Recovery Plan

The new Chief Executive has instructed Directors and Heads of Service to submit a robust recovery plan and method of monitoring delivery. This will be submitted to Council on Tuesday 2<sup>nd</sup> October. The Corporate Management Team / Senior Leadership Group meet fortnightly and the recovery plan along with the budgetary position will be a standing item to ensure progress is being made with the recovery plan.

The Corporate Management Team already has in place arrangements to control the filling of vacancies. Enhanced controls over non-essential expenditure were put in place in the final quarter of 2017/18 and they have now been strengthened.

### **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 the contents of the report;
- b) Note that the new Chief Executive has instructed Directors and Heads of Service to prepare a robust recovery plan to address the projected overspend and has also put in place a regular monitoring regime to track delivery of this plan. This plan will be presented to Council on 2<sup>nd</sup> October 2018;
- c) Consider the financial position, particularly the low projected General Fund Reserve, in the context of the next Financial Strategy report scheduled to be presented to Council on Tuesday 2<sup>nd</sup> October 2018.

14<sup>th</sup> August 2018

#### **Report Contact:**

**David Gladwin Tel No 0131 271 3113**

**E mail [david.gladwin@midlothian.gov.uk](mailto:david.gladwin@midlothian.gov.uk)**

#### **Background Papers:**