

Financial Monitoring 2014/15 – 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 2014/15 and details of the material variances.

2 Background

2.1 Budget Performance

The detailed budget performance figures shown in appendix 1 result in a net underspend of £4.734 million which is 2.47% of the revised budget for the year.

Performance against budget has improved by £3.304 million from that reported in February for quarter 3. Of this movement £1.148 million is a one-off relating to 2014/15. The most significant movements between quarters 3 and 4 are:

Pressures

- An increased cost of weather related winter maintenance work for roads and footpaths of £0.111 million.

Favourable Movements

- A reduction in spend allocated by the Community Care Resource Panel of £0.835 million;
- A reduction in energy costs across the Council estate of £0.416 million;
- The Councils share of Non Domestic Rate Income generated in excess of targets for the 2012/13 Business Rates Incentivisation Scheme of £0.366 million. Final values were agreed recently and are a one-off;
- A reduction in reactive repairs costs for council buildings of £0.305 million;
- Anticipated recoveries from clients that have been overpaid Housing Benefit of £0.267 million;
- A reduction in running costs of £0.120 million and an increase in customer income of £0.110 million at Midlothian Snowsports Centre. £0.144 million of this is a one-off;
- Slippage in the General Services Capital Plan provides an opportunity to delay long term external borrowing which generates further revenue savings of £0.223 million. Costs are simply delayed rather than avoided so the movement is a one-off;

- A reduction in anticipated commitments for spend on contaminated land of £0.119 million. As this relates to budgets carried forward from previous years it is a one-off;
- A reduction in fuel costs of £0.117 million for running the council's fleet;
- A further reduction in the cost of absenteeism at Newbyres Village of £0.110 million.

In the last two financial years the Council has shown a considerable underspend against its General Fund revenue budget. Some of the areas of underspend identified in 2013/14 were either taken out of the budget through financial discipline or were factored into development of the 2015/16 budget. Although some of the material variances identified in this report are one-off's for 2014/15 it is timely to undertake the same exercise for the 2014/15 outturn.

The finance team will progress this through CMT with outcomes subsequently incorporated into the Quarter 1 Financial Monitoring report for 2015/16 and the Financial Strategy report for 2016/17 – 2020/21 both due to be presented to Council in September.

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 Council Transformation Programme

Council approved utilisation of £5.868 million of General Fund Reserve to fund costs associated with the ongoing transformation programme.

At the report date £2.582 million of this has been applied with future commitments of £0.950 million identified for 2015/16 through to 2016/17. This leaves £2.336 million as uncommitted.

2.3 Voluntary Severance and Early Retiral

Council in September were provided with an update on the impact of the time limited enhanced VSER scheme. The one-off costs associated with approved applications have subsequently been updated to £5.011 million. 2014/15 revenue budget savings in addition to those already targeted though Integrated Service Support were £0.230 million.

2.4 General Fund Reserve

The projected balance on the General Fund as at 31 March 2015 is as follows:

| | £ million | £ million |
|--|-----------|---------------|
| Reserve as at 1 April 2014 | | 20.511 |
| Less earmarked reserves utilised in 2014/15 | | (4.791) |
| General Reserve at 1 April 2014 | | 15.720 |
| <i>Planned movements in reserves</i> | | |
| Planned Enhancement | 0.034 | |
| Supplementary Estimates | (0.345) | |
| Council Transformation Programme Costs | (0.471) | |
| One-off costs of Management Review / VSER | (5.011) | |
| Workforce Reduction Savings from VSER | 0.230 | |
| Financial Discipline | 0.546 | |
| Earmarked Budgets carried forward to 2015/16 | 5.907 | |
| Other | (0.029) | |
| | | 0.861 |
| Underspend per appendix 1 | | 4.734 |
| General Fund Balance at 31 March 2015 | | 21.315 |

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

| | £ million |
|---|---------------|
| General Fund Balance at 31 March 2015 | 21.315 |
| <i>Earmarked for specific purposes</i> | |
| Budgets carried forward from 2014/15 to 2015/16 | (5.907) |
| Budgets earmarked for Council Transformation | (2.336) |
| Borders Rail Economic Development Opportunities | (0.229) |
| General Reserve at 31 March 2015 | 12.843 |

Budgets carried forward from 2014/15 to 2015/16 include ring-fenced funding from partner organisations for clearly defined pieces of work of £3.165 million, budgets provided for specific purposes where spend has slipped into 2015/16 of £1.502 million and earmarked budgets for schools in accordance with the Devolved School Management Scheme of £1.008 million.

The uncommitted General Fund Reserve at 31 March 2015 is £12.843 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 held exceeds this level. However there may be additional one-off costs associated with service transformation and workforce reduction and the reserve may also be required as a buffer to offset any further slippage in the achievement of planned savings.

3 Report Implications

3.1 Resource

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 remedial action is taken where possible. The primary purpose of this report is to provide information on historic performance, however 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.

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 work planned to review the ongoing impact of variances identified in 2014/15 as outlined in section 2.1;
- b) Agree to receive the outcome of this work as part of the Financial reports scheduled for September Council; and otherwise
- c) Note the contents of the remainder of this report.

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Background Papers: