

Financial Monitoring 2017/18 – 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 2017/18 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 £0.756 million for the year which is 0.37% of the revised budget. This is an improvement of £1.379 million on the position reported to Council on 7th November 2017.

The main areas of variance are outlined below:

Pressures

- A provision for an additional contribution to the Midlothian Integration Joint Board reflecting demand led pressures in delegated Adult Social Care services, particularly in Home Care packages. They are currently projected to overspend by £0.566 million which is an improvement of £0.235 million from the quarter 2 position. Work continues through the Realistic Care Realistic Expectations work stream to drive cost reduction and it is anticipated that pressure on this budget will continue to reduce. However, spend in this area can be volatile given the fluidity of demand and the potential to have high value of individual packages of care;
- Additional running costs for Care Homes for Older people of £0.178 million which is a deterioration of £0.019 million on quarter 2;
- Achievement of Council Transformation Targets for Integrated Service Support, Procurement savings, Customer Services and for tactical reductions in contracted hours has slipped and is projected to overspend by £0.741 million. This is a marginal improvement on quarter 2;
- In setting the 2017/18 budget Council agreed a package of operational and service cost reductions and income generation measures. There is currently projected to be £0.512 million of slippage into future financial years in delivering these;
- Demand led pressures in Children's Services of £0.699 million mainly relating to secure placements and non-residential services. The Children's Services budget has been reducing steadily in recent years due to transformational activity;

- Slippage in the opening of Pentland House which has put additional pressure on Bed and Breakfast budgets for Homeless clients. An overspend of £0.208 million is currently projected;
- Unit prices and backdated bills for utility costs of £0.143 million;
- Legal expenses associated with a Rights of Way dispute of £0.100 million.

Favourable Movements

- Schools are projected to underspend by £1.493 million. However, under the current Devolved School Management Scheme £1.247 million of budget within schools will be eligible to carry forward for use in 2018/19. Whilst these carry forwards will be shown in the General Fund Balance at 31st March 2018 they will be earmarked for use in 2018/19. The impact of this on the non-earmarked element of the General Fund Balance is a projected underspend of £0.246 million;
- Income at Midlothian Snowsports Centre has benefited from good weather conditions and is projected to be £0.238 million better than budgeted;
- Costs associated with PPP contracts are £0.217 million less than budgeted due to one-off rebates;
- Tonnages for Waste Disposal are lower than expected thus generating a projected saving of £0.203 million;
- A continued growth of properties in Midlothian will generate an improvement on budget of £0.400 million for Council Tax Income;
- Distribution of elements of Scottish Government Grant that were not identified at Council level in the Local Government Finance Circular that was used to set the 2017/18 budget has resulted in a greater share coming to Midlothian than expected. This gives a favourable variance of £0.750 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 £37.510 million to the Midlothian Integration Joint Board (MIJB) for the provision of delegated services. As reported to Council on 23 May 2017 this is supplemented by a one off allocation of £1.180 million as part of the year end flexibility arrangements. In addition there have been minor virements which increase the budget by £0.026 million and which results in a projected revised allocation to the Board of £38.716 million.

The projected outturn indicates expenditure of £39.028 million which represents an overspend in respect of services delegated by the Council of £0.312 million. Whilst the Integration Scheme sets out the mechanism for addressing an overspend position by the MIJB it is considered prudent, given that the MIJB has no reserves, to reflect in

the monitoring the impact an additional contribution from the Council to meet the projected overspend.

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 £4.186 million of this has been applied. This includes severance costs of £0.775 million committed to date associated with the 2017 Voluntary Severance Scheme covering twenty employees with an ongoing annual budgetary saving of £0.638 million for seventeen of these employees and cost avoidance for three switch employees.

After allowing for 2017/18 projected costs the remaining balance of the fund is £3.532 million. £0.731m of this is committed in 2018/19 for transformation projects and the remainder is anticipated to be utilised to fund further severance costs associated with the 2017 VSER scheme or as an inevitable cost of implementing the Change Programme.

2.4 General Fund Reserve

The projected balance on the General Fund as at 31 March 2018 is as follows:

	£ million	£ million
Reserve as at 1 April 2017		17.651
Less earmarked reserves utilised in 2017/18		(5.084)
General Reserve at 1 April 2017		12.567
<i>Planned movements in reserves</i>		
Planned Utilisation	(3.970)	
Supplementary Estimate	(0.144)	
Council Transformation Programme Costs	(0.300)	
VSER 2017 Scheme	(0.775)	
One-off costs of VSER	(0.206)	
Redetermination of SGG – 31 st January	0.569	
Other	0.531	
		(4.295)
Overspend per appendix 1		(0.756)
Devolved School Management carry forward		1.247
General Fund Balance at 31 March 2018		8.763

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

	£ million
General Fund Balance at 31 March 2018	8.763
<i>Earmarked for specific purposes</i>	
Budgets earmarked for Council Transformation	(3.532)
Devolved School Management	(1.247)
General Reserve at 31 March 2018	3.984

The projected position for General Fund Reserves includes the impact of the redetermination for 2017/18 announced by the Finance Secretary on 31st January 2018.

The uncommitted General Fund Reserve at 31 March 2018 is £3.984 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 and is required to provide a contingency in the context of the continued challenging financial outlook, the uncertainty associated with future years grant settlements, pay awards, the economic impact of Brexit and also the potential costs as a consequence of the Limitation (Childhood Abuse) (Scotland) Act 2017.

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 remedial action is taken where possible. 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 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 along with the Chief Executive assurance continues to be sought from Heads of Service that remedial action is being taken to address the projected overspend set out in appendix 2.

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Background Papers: