

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 budget performance figures shown in appendix 1 result in a net underspend of £0.495 million for the year which is 0.24% of the revised budget and a £0.697 million improvement on the position reported to Council on 12th February 2019.

The non-essential vacancy freeze and the moratorium on non-essential spend remain in place and continue to contribute to containing expenditure within budget.

As recommended in the August report a Financial Monitoring 2018/19 Recovery Plans report was prepared and presented to Council on 2nd 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.

£1.714 million of the Recovery Plan target was achieved in 2018/19 and this is covered in more detail throughout the additional information in appendix 2. This figure includes full recovery of the Adult Social Care position.

The main areas of variance for 2018/19 are outlined below:

Demand Led Pressures totalling £1.714 million:

- Delegated Adult Social Care services, particularly the Community Care Resource Panel and in Home Care packages of £0.719 million;
- Additional running costs for Care Homes for Older people of £0.052 million;

- Residential Placements in Children's Services of £0.716 million, and
- Bed and Breakfast budgets of £0.227 million for Homeless clients.

This is a reduction of £0.206 million from that reported in Quarter 3.

Other pressures totalling £3.817 million including:

- £2.672 million slippage in delivering the package of £9.356 million of transformational, operational and service cost reductions and income generation measures as outlined in detail in Appendix 2; and
- Housing Benefit overpayment recoveries of £0.533 million as a consequence of DWP rule changes and an increase in the volume and value of outstanding debt;
- Insurance settlements in excess of budget by £0.374 million as a consequence of the unusually high volume of claims during the severe winter of 2017/18 and a higher than anticipated volume and value of claims made during the 2018/19 winter;
- Price inflation and policy related pressures on energy spend of £0.238 million.

These are more than offset by some favourable movements totalling £5.011 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 £1.332 million underspend in loan charges;
- Schools are underspent by £0.461 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 generated an improvement on budget of £0.439 million for Council Tax Income;
- One-off Scottish Government Grant funding of £0.545 million to partially offset costs associated with the severe winter and also as a result of distribution of grant which in some areas is higher than anticipated;
- Planning and Building Warrant fee income of £0.528 million;
- The impact of vacant posts across the Council of £1.186 million;
- The impact of the MIJB recovery plan of £0.524 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 £0.182 million with a revised allocation to the Board of £39.932 million.

The outturn reflects the impact of the MIJB recovery plan which indicated that despite in-year projections of adverse variances, spend would be contained within the revised budget of £39.932 million in accordance with the Integration Scheme.

The outturn was a net underspend of £0.524 million and in accordance with the Integration Scheme this has been retained by MIJB as a reserve.

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 £1.197 million applied in 2018/19 which includes £0.783 million of one-off severance costs associated with the 2017 Voluntary Severance Scheme.

A review of commitments for future years identifies £0.750 million that is expected to be utilised during the period to 31st March 2022. This leaves £0.374 million as uncommitted.

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 future severance and transformation costs. As a consequence the uncommitted element of Council Transformation funding of £0.374 million, as shown above, is now included within the non-earmarked element of the General Fund.

2.4 General Fund Reserve

The 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)
General Reserve at 1 April 2018		6.352
<i>Planned movements in reserves</i>		
Planned Enhancement	0.199	
Supplementary Estimates	(0.947)	
Council Transformation Programme Costs (section 2.3)	(1.197)	
Other	0.151	
		(1.794)
Underspend per appendix 1		0.495
Devolved School Management carry forward		0.364
Budgets carried forward for use in 2019/20		3.220
General Fund Balance at 31 March 2019		8.637

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

	£ million
General Fund Balance at 31 March 2019	8.637
<i>Earmarked for specific purposes</i>	
Budgets carried forward for use in 2019/20	(3.220)
Budgets earmarked for Council Transformation	(0.750)
Enhancement to Reserves earmarked for training	(0.199)
Devolved School Management carry forward	(0.364)
General Reserve at 31 March 2019	4.104

The uncommitted element of the General Fund is £0.682 million more than projected at Quarter 3.

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 the 2% minimum General Reserve balance will 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 £4.104 million is £0.804 million above the minimum set in the Reserves Strategy and can accommodate the additional expenditure approved by Council on 7 May 2019 without the need to apply the interventions provided for in the Reserves Strategy.

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 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 note the contents of this report and consider the financial outturn for 2018/19 in the context of the Medium Term Financial Strategy.

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Background Papers: