

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 to provide detail on material variances.

2 Background

2.1 Budget Performance

The detailed budget performance figures shown in appendix 1 result in a net overspend of £0.622 million for the year which is 0.30% of the revised budget. This is an improvement of £0.134 million on the position reported to Council on 13th February 2018.

The main areas of variance are outlined below:

Pressures

- Demand led pressures in Children's Services of £1.404 million mainly relating to secure placements and both residential and non-residential services. The Children's Services budget has been reducing steadily in recent years due to transformational activity;
- A review of the value of debtors relating to Housing Benefit overpayments resulted in identification of an overstatement of £0.904 million of collectable debt in the Council's Balance Sheet which required a one-off adjustment in the Councils Income and Expenditure account;
- Achievement of Council Transformation Targets for Integrated Service Support, Procurement savings, Customer Services and for tactical reductions in contracted hours has slipped and represents an overspent of £0.830 million;
- Additional costs incurred in dealing with the exceptionally severe winter of £0.686 million. Scottish Government funding of £0.149 million will be received during 2018/19 to partially offset this;
- In setting the 2017/18 budget Council agreed a package of operational and service cost reductions and income generation measures. There is £0.672 million of slippage into future financial years in delivering these;
- Pressures on homeless budgets from slippage in the opening of Pentland House which put additional pressure on Bed and Breakfast budgets for Homeless clients, additional budget pressure from Welfare Reform and the impact of a managing

agent terminating a long-standing contractual relationship for private rented properties. The combined budgetary impact of these is an overspend of £0.548 million.

Favourable Movements

- External advice from the Council's Treasury consultants recommended that the Council consider revising the methodology used to apportion interest costs associated with borrowing. The rationale for this is founded upon the relative certainty of the HRA Capital Plan compared to the General Services Capital Plan and longer term borrowing decisions that have been made in line with this. Revised methodology, combined with slippage in the General Services Capital Plan, results in a £1.164 million underspend in Loan Charges;
- 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 £0.766 million;
- A combination of additional income generated in Roads and Land Services and lower than budgeted costs in Fleet and Waste services gives rise to a £0.488 million underspend in Commercial Services;
- A continued growth of properties in Midlothian generated an improvement on budget of £0.453 million for Council Tax Income;
- Tonnes for Waste Disposal are lower than expected thus generating a saving against budget of £0.343 million;
- Planning and Building Standards income, mainly as a result of some high value applications, exceeds budget by £0.325 million;
- Costs associated with PPP contracts are £0.275 million less than budgeted due to one-off rebates;
- Income at Midlothian Snowsports Centre benefited from good weather conditions in the early part of the season and is £0.117 million better than budgeted.

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 during the year which reduced the budget by £0.116 million resulting in a final allocation to the Board of £38.806 million.

The projected outturn presented to Council on 13th February showed expenditure of £39.028 million which represented an overspend in respect of services delegated by the Council of £0.312 million. During Q4 opportunities arose to utilise one-off funding to reduce in-year pressures for the Community Care Resource Panel. As a consequence the final position was a net underspend of £0.539 million. This is earmarked for specific purposes and subsequently retained by the Midlothian Integration Joint Board in accordance with the Integration Scheme.

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 £5.703 million of this has been applied. This includes severance costs of £2.283 million associated with the 2017 Voluntary Severance Scheme covering sixty nine employees. There is a full year budget saving of £1.359 million associated with forty six of these employees and cost avoidance of £0.747 million for twenty three switch employees.

The remaining balance of the fund is £2.015 million. £1.163 million of this is committed in 2019/20 and 2020/21 for transformation projects and the remainder of £0.852 million is anticipated to be utilised to fund further inevitable costs 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		(5.044)
General Reserve at 1 April 2017		12.607
<i>Planned movements in reserves</i>		
Planned Utilisation	(3.970)	
Supplementary Estimates	(0.144)	
Council Transformation Programme Costs	(0.309)	
VSER 2017 Scheme	(2.283)	
Redetermination of SGG – 31 st January	0.569	
Earmarked Budgets carried forward to 2017/18	3.244	
Other	0.504	
		(2.389)
Overspend per appendix 1		(0.622)
Devolved School Management carry forward		1.181
General Fund Balance at 31 March 2018		10.777

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

	£ million
General Fund Balance at 31 March 2018	10.777
<i>Earmarked for specific purposes</i>	
Budgets earmarked for Council Transformation	(2.015)
Budgets carried forward to 2017/18 for specific purposes	(3.244)
Devolved School Management	(1.181)
General Reserve at 31 March 2018	4.337

The 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 £4.337 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

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 details of performance for the full year against budget. 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 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 position in the context of the Financial Strategy for 2018/19 to 2022/23.

31st May 2018

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Background Papers: