

# Finance and Resources Committee

2.00pm, Thursday, 8 February 2018

## Council's Budget 2018/23 – Risks and Reserves

Item number 5.2  
Report number  
Executive/routine  
Wards  
Council Commitments:None

### Executive Summary

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The report advises members of the risks inherent in the revenue and capital budget framework and the range of measures and provisions established to mitigate these.

The report outlines the level of reserves held and the purpose for which they are maintained, including consideration of the adequacy of balances held to mitigate against known risks.

## Council's Budget 2018/23 – Risks and Reserves

### 1. Recommendations

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- 1.1 Members of the Finance and Resources Committee are asked to:
  - 1.1.1 Note the content of this report; and
  - 1.1.2 remit the report to the City of Edinburgh Council for decision on 22 February 2018 as part of the budget-setting process.

### 2. Background

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- 2.1 This report advises members of significant risks identified in the budget process, quantifying them wherever possible, and sets out the range of measures and provisions in place to mitigate these.
- 2.2 Unallocated reserves are held against the risks of unanticipated expenditure and/or reduced income arising in any particular year. In addition, there are specific earmarked reserves set aside to manage timing differences between the receipt of income and the related expenditure being incurred, in accordance with accounting rules.
- 2.3 The reserves held by the Council are reviewed annually as part of the revenue budget process. The review considers the level of balances, the risks inherent in the budget process and the adequacy of arrangements in place to manage these known risks.

### 3. Main report

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#### Risks

- 3.1 There are always risks inherent in the budget process. What is important, however, is that they are identified and mitigated/managed effectively. Appendix 1 shows a risk matrix, setting out how it is planned the known risks identified in this report will be managed. The list is however not exhaustive, due both to the complexity of the changing environment within which the Council operates and the diversity of its activity.

## **Funding Settlements**

- 3.2 Financial settlements and wider fiscal policy changes, or more specifically their impact on the level of savings required to set a balanced budget, pose a significant risk to the financial stability of the Council. The 2018/19 Local Government Financial Settlement was announced on 14 December 2017 and confirmed a higher level of external funding than had been assumed within the budget framework, primarily reflecting the impact of the Scottish Government's baselining of the additional funding approved as part of the revised Settlement for 2017/18. Further additional funding was also announced for Local Government during consideration of the draft budget by the Scottish Government. A more detailed update on the implications of this provisional level of grant funding is included elsewhere on today's agenda.
- 3.3 The level of funding for future years could vary for a number of reasons, including the use of updated population data and the complexities of the funding distribution formula, as well as wider Scottish Government and UK Government fiscal policy. Current expectations, however, are for future years' local government settlements to be increasingly challenging given the substantial level of savings delivered in recent years, reinforcing the need for significant service change, demand management and service prioritisation beyond 2018/19.

## **Delivery of approved savings**

- 3.4 The budget process makes assumptions on the level of savings that can be delivered for individual proposals and those linked to wider projects and initiatives. There are risks around the ability to deliver both the savings of £9.8m already approved by Council for 2018/19, particularly those linked to the Council's Asset Management Strategy, and the additional proposals brought forward in the revenue budget framework for decision on 22 February 2018 within the timescales stated and on a sustainable basis.
- 3.5 The increased scrutiny introduced during recent years' budget processes at both the proposal development and implementation stages has contributed to a significant increase in the proportion of savings subsequently delivered. There remains a risk, however, that the full level of approved savings may not be delivered, particularly in areas affecting frontline service provision and those proposals rooted in demand management and service transformation such as Health and Social Care.

## **Demographic changes**

- 3.6 Demographic changes continue to have an impact of the overall level of demand for the Council's services and the ability to provide for this within available resources. The budget framework contains significant additional demographic-related investment in 2018/19 and subsequent years, however the level of additional funding provided assumes that both greater use of preventative approaches to service delivery and service prioritisation will be required.

## **Welfare reform and other legislative changes**

- 3.7 The Council's revenue budget framework incorporates provision for anticipated additional expenditure demands, and where relevant, reduced income, of planned welfare reform on its activities. Due to the emerging nature of some of these reforms, however, there is a risk that additional pressures become apparent and require the identification of further savings across other areas of Council activity, particularly following the full roll-out of Universal Credit for new claims from October 2018.

### **Income**

- 3.8 Assumptions are made in the budget process on the level of income that will be generated by services. There are risks associated with these assumptions around (i) demand for chargeable services and (ii) the ability to collect all income due. The Council has a range of measures in place to mitigate these risks, such as service level agreements with external users, application of appropriate debt policies and regular monitoring of income levels as a prompt to remedial action.

### **Other risks**

- 3.9 The long-term revenue implications of the Local Development Plan and other major infrastructure-related projects and facilities are still emerging. While the revenue and capital budget frameworks incorporate some provision in these areas, there is a significant risk that the Council will require to support additional borrowing and/or running costs. The Council will therefore continue to review the adequacy of the level of provision made within the budget framework as funding requirements and their associated timing become clearer.
- 3.10 There is a risk, in particular, that insufficient investment in the Council's buildings infrastructure will prevent delivery of core services. With this in mind, the revenue budget framework update included elsewhere on today's agenda reminds members of the significant backlog and on-going maintenance requirements across the corporate estate and the potential for additional investment to be committed to these areas.
- 3.11 Following some relaxation of public pay policy at both UK and Scottish Government levels, there is a risk that the agreed level of pay award for 2018/19 and subsequent years exceeds the corresponding provision within the budget framework. As with all expenditure and income factors, while these assumptions will be regularly reviewed, this risk reinforces the need for on-going tightening of workforce controls and prioritisation of the Council's activities to ensure that employee costs are maintained within affordable and sustainable levels.

### **Reserves**

- 3.12 Members are aware that the Council holds a number of earmarked reserve balances within the General Fund. At 31 March 2017, the General Fund balance stood at £141.826m, of which £128.801m was earmarked for specific purposes.

The unallocated General Fund balance remained at £13.025m, in line with the medium-term strategy of the Council. There are significant planned applications of earmarked reserves during 2017/18, in the region of £28m, consistent with the assessment of the risks and commitments underpinning the Council's wider financial strategy, with a projected balance at 31 March 2018 of £101m. Over the longer term, the Council has plans to use further reserves to support a range of targeted service initiatives.

- 3.13 There is no provision within the current budget framework to provide for any increase in the unallocated General Fund, which will remain at £13.025m. As part of the 2016/17 annual audit, the Council's external auditor assessed the level of unallocated reserve as appropriate, in light of the financial risks likely to face the Council in the short to medium term, and the level of earmarked balances held for specific risks.

#### **4. Measures of success**

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- 4.1 The Council identifies and quantifies, where possible, risks that are inherent in the revenue budget in advance of these materialising and puts mitigating actions in place.
- 4.2 The Council maintains an adequate level of unallocated General Fund reserves.

#### **5. Financial impact**

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- 5.1 The report identifies where funding has been made available for the risks set out. The Council holds unallocated General Fund reserves against the likelihood of unfunded risks occurring.

#### **6. Risk, policy, compliance and governance impact**

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- 6.1 The aim of the report is to identify the key risks to the Council and outline actions to manage those risks through planning, mitigating actions and use of reserves, as outlined in the attached appendices.

#### **7. Equalities impact**

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- 7.1 While there is no direct additional impact of the report's contents, all budget proposals are now subject to an assessment of their potential equalities and rights impacts. The equalities and rights impacts of any substitute measures identified to address savings shortfalls are similarly assessed and are reported elsewhere on today's agenda.

## 8. Sustainability impact

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- 8.1 While there is no direct additional impact of the report's contents, the Council's revenue budget includes expenditure impacting upon carbon, adaptation to climate change and contributing to sustainable development. In addition, all budget proposals are now subject to an upfront assessment across these areas and are reported elsewhere on today's agenda.

## 9. Consultation and engagement

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- 9.1 There is no external consultation and engagement arising directly from this report, although the Council's budget continues to be subject to a process of regular consultation and engagement, as reported elsewhere on today's agenda.

## 10. Background reading/external references

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- 10.1 [Revenue and Capital Budget Framework 2018/23 - progress update](#), Finance and Resources Committee, 5 September 2017
- 10.2 [City of Edinburgh Council – 2016/17 Annual Audit Report to the Council and the Controller of Audit](#), Governance, Risk and Best Value Committee, 26 September 2017
- 10.3 [Capital Investment Framework 2018/19 to 2026/27](#), Finance and Resources Committee, 27 October 2017
- 10.4 [Revenue Budget Framework 2018/23 – mid-year review](#), Finance and Resources Committee, 7 November 2017

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## 11. Appendices

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Appendix 1 – Risk Matrix

Appendix 2 – Projected Movement in General Fund

**Risk Matrix**

The table below summarises how the risks identified in the report are managed.

<b>Risk</b>	<b>Provision to Manage</b>
Financial settlements	Provisions made in the Long-Term Financial Plan (LTFP)  Regular monitoring of public expenditure projections and recognise potential or actual grant variations in LTFP
Demographic changes leading to rising service demands	Provisions made in LTFP
Legal Claims	The Council provides for a number of known risks and liabilities. Funding could, however, be drawn down from the unallocated General Fund balance to meet unanticipated or additional costs.
Service area-specific risks	Mitigating action undertaken by Directors to identify alternative measures to manage risks, within available resources
Welfare Reform	Provisions made in LTFP Ongoing monitoring of impacts on expenditure and income
Health and Social Care Integration	Ongoing development of Strategic Plan with NHS

## Projected Movement in General Fund

Appendix 2

<b>General Fund</b>	<b>Projected Balance at 1.04.18 £000</b>	<b>Planned (Uses) / Contributions £000</b>	<b>Projected Balance at 31.03.19 £000</b>	
<u>Statutory and / or restricted use</u>				
Balances held by schools under DSM	2,000	0	2,000	Balances set aside for Devolved School Management Scheme. There will always be a balance at March as the DSM scheme is based on an academic year.
Council Tax Discount Fund	26,239	(6,895)	19,344	Monies set aside as a result of reducing Council Tax second home discounts. Use of the fund is prescribed by the Scottish Government and is restricted to supporting the development of affordable housing. It forms part of the Strategic Housing Investment Fund (SHIF), alongside income from the Repair and Renewals fund. The SHIF is fully committed to the delivery of new affordable homes by the Council and housing association partners over the next ten years and investment in services to reduce tenants' living costs.
Licensing Income	3,043	0	3,043	Monies representing licensing income related to cabs, houses in multiple occupation, liquor and landlord registration. Council is not permitted to use these monies on other services.
Unspent revenue grants	1,273	(1,000)	273	Monies set aside at the year end, in accordance with proper accounting practice, where income has been received prior to the relevant expenditure being incurred. Funds will be drawn down in accordance with the grant conditions to match planned expenditure. The majority of funds will be drawn down in year and then new unspent grant funding will be carried forward.

	<b>Projected Balance at 1.04.18 £000</b>	<b>Planned (Uses) / Contributions £000</b>	<b>Projected Balance at 31.03.19 £000</b>	
<b>General Fund</b>				
<u>Balances set aside to manage financial risk</u>				
Balances set aside for specific investment	11,075	(5,779)	5,296	Funding set aside for specific projects. Including monies for Asset Management Strategy, building repairs, Weather Emergency and statutory notice legacy costs.
Workforce restructuring	22,502	(2,500)	20,002	Monies held to cover costs of workforce management changes including staff severance costs, which may be utilised to support future change programmes.
Council Priorities Fund	3,146	0	3,146	Monies set aside from previous years' underspends which will be utilised to fund emerging Council priorities or expenditure pressures.
Dilapidations Fund	5,243	0	5,243	Monies set aside to meet costs arising from the termination of property leases and other related contractual commitments.
Insurance Fund	14,387	102	14,489	Insurance Funds are held to defray any loss where the Council could have insured against a loss but has not done so, and for paying premiums on an insurance policy. This includes the power to meet excesses on insurance policies and other claims arising from ongoing legal inquiries.
<u>Balances set aside from income received in advance</u>				
Recycling balances	324	(324)	0	Monies received through Zero Waste funding, which are fully committed to manage current pressures in Waste Services.
Lothian Buses	795	(795)	0	Holds dividend income previously received from Lothian Buses which is being drawn down to support the Tram Extension feasibility project.

<b>General Fund</b>	<b>Projected Balance at 1.04.18 £000</b>	<b>Planned (Uses) / Contributions £000</b>	<b>Projected Balance at 31.03.19 £000</b>	
Pre-paid PPP monies and lifecycle costs	2,493	322	2,815	Monies set aside in recognition of the phasing issues related to grant monies, for lifecycle costs of projects.
Other Minor Funds	179	(15)	164	Minor funds for other specific projects.
<u>Balances set aside for investment in specific projects</u>				
City Strategic Investment Fund	5,377	(2,855)	2,522	Funds set aside to sit alongside private sector finance to create new city development opportunities. Confirmed or approved uses include drawdown for industrial units at Sighthill and monies to support tram feasibility and EDI transition.
Spend to Save Fund	2,849	(192)	2,657	Funds set aside to assist service areas deliver revenue savings in future years through provision of one-off upfront revenue investment.
Unallocated General Fund	13,025	0	13,025	Unallocated funds held against the risk of unanticipated expenditure and / or reduced income arising in any particular year, in line with Council reserves policy.
<b>Total General Fund</b>	<b>113,949</b>	<b>(19,930)</b>	<b>94,019</b>	