

Finance and Resources Committee

10.00am, Thursday 11 October 2018

Revenue Monitoring 2018/19 – progress update

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| Item number | 7.1 |
| Report number | |
| Executive/routine | Executive |
| Wards | n/a |
| Council Commitments | n/a |

Executive Summary

At its meeting on 16 August 2018, members of the Finance and Resources Committee considered the first in-year revenue monitoring report for 2018/19. The report set out a range of significant pressures, particularly in demand-led areas, together totalling £15.2m. In view of these pressures, a number of one-off mitigations, or other savings already assumed within the budget framework going forward, had been identified. Even after taking account of these savings, however, a residual overspend of £7.72m was forecast without identification of additional mitigating actions, with significant further recurring savings required to return the budget framework to a sustainable footing going forward.

In view of this projected position, all Executive Directors and the Chief Officer of the Edinburgh Health and Social Care Partnership were required to identify, as a matter of urgency, further proposed actions to bring their respective budgets into balance by the year-end. This report appraises members of subsequent progress in addressing the projected in-year overspend and sets out a timeline for identifying measures, the full-year effect of which will provide greater stability across the framework going forward.

Revenue Monitoring 2018/19 – progress update

1. Recommendations

- 1.1 Members of the Finance and Resources Committee are asked to:
 - 1.1.1 note the extent of progress made in moving towards a balanced overall position for the year;
 - 1.1.2 approve, subject to ratification by Council, the use of up to £1m of uncommitted monies previously earmarked to support the Transformation Programme to facilitate the engagement of dedicated internal project management resource to develop individual proposals comprising the broader Change Strategy; and
 - 1.1.3 note that a further update, additionally detailing measures to address current-year pressures on a sustainable basis, will be presented as part of the half-year monitoring report to the Committee's next meeting on 4 December.

2. Background

- 2.1 At its meeting on 16 August 2018, members of the Finance and Resources Committee considered the first in-year revenue monitoring report for 2018/19. The report set out a range of significant pressures, particularly in demand-led areas, together totalling £15.2m. In view of these pressures, a number of one-off mitigations, or other savings already assumed within the budget framework going forward, had been identified. Even after taking account of these savings, however, a residual overspend of £7.72m was forecast without identification of additional mitigating actions, with significant further recurring savings required to return the budget framework to a sustainable footing going forward.
- 2.2 In view of this projected position, all Executive Directors and the Chief Officer of the Edinburgh Health and Social Care Partnership were required to identify, as a matter of urgency, further proposed actions to bring their respective budgets into balance by the year-end. This report apprises members of subsequent progress in addressing the projected in-year overspend and sets out a timeline for identifying measures, the full-year effect of which will provide greater stability across the framework going forward. A more detailed half-year update will be provided to the Committee's following meeting on 4 December.

3. Main report

3.1 Since the Committee's meeting on 16 August 2018, Executive Directors and the Chief Officer of the Edinburgh Health and Social Care Partnership have been considering further means by which to mitigate residual pressures such that, as a minimum, a balanced overall position is achieved in 2018/19. Further updates from each of the main service areas are set out in the following paragraphs.

Service-specific budgets - Communities and Families

3.2 As of period three, £9.8m of net budget pressures were being projected as a result of increasing costs in several demand-led areas of service. The main service areas affected included temporary accommodation, home-to-school transport, rising school rolls, community access to schools and the increased use of out-of-Council area placements linked to accommodating a number of Unaccompanied Asylum-Seeking Children (UASC) within the city.

3.3 The report to the Committee's meeting on 16 August intimated the Executive Director of Communities and Families' commitment to making all efforts to identify mitigations to reduce the emerging pressures but that, in light of their extent and the state of development of these actions, there remained the potential for a significant level of overspend, estimated at £5m.

3.4 The Executive Director remains fully committed to an agreed service-wide strategy comprising consideration of savings opportunities linked to the following:

- (i) additional vacancy control measures;
- (ii) identification of income generation opportunities;
- (iii) examination of the scope to stop or reduce planned levels of expenditure, including through more effective demand management; and
- (iv) identification of any spend-to-save opportunities.

3.5 Analysis of updated projections and mitigating actions indicates a degree of improvement, with net pressures of £6.1m now forecast, primarily relating to community access to secondary schools, homelessness, pupil roll-related demography and home-to-school transport (the in-year approved saving for which remains red-assessed at this time). While all material areas of spend will continue to be actively monitored and potential mitigating actions identified, there is, however, insufficient confidence at this stage to make any change to the earlier projection of a £5.0m overspend for the year.

Health and Social Care

3.6 As of period three, an overall service overspend of £6.1m was projected. This forecast reflected anticipated delivery of £2.950m of the £9.050m savings plans underpinning the approved budget but reflected slippage of £6.1m across a number of demand management- and workforce-related initiatives.

- 3.7 Based on initial analysis of period five data, no overall change to the service-wide projection is forecast. The projected employee position is some £1m better than previously reported, reflecting the impact of recruitment control and an approved drawdown from reserves against temporary staffing costs. This favourable movement is, however, offset by an equivalent increase in forecast purchasing expenditure. There has similarly been no net overall movement in the savings delivery assessment, with £6.1m (67%) of these still rated as red. It should be noted that the overall projection is based on continuation of current service volumes, other than where growth is specifically funded by NHS Lothian or other earmarked funding. Furthermore, there continues to be a shortfall of £0.5m in the funding contribution from the IJB to offset the costs of additional community capacity.
- 3.8 An agreement on funding to support additional service activity, receipt of which is predicated on the achievement of improvements in delayed discharge levels, is in the process of being finalised with NHS Lothian. The Health and Social Care Partnership will need to continue to monitor the position to ensure that the desired improvements targeted by this funding are achieved. A separate report on this matter by the Chief Officer of the Partnership is included elsewhere on the agenda.
- 3.9 Short-term actions led by the Head of Operations and EIJB Chief Finance Officer include:
- (i) further strengthening of controls over recruitment and agency staffing;
 - (ii) implementation of a new agency staffing contract;
 - (iii) reviewing, with the potential to stop, discretionary expenditure;
 - (iv) reviewing savings programme delivery, considering requirements for support through a supportive but robust challenge process;
 - (v) working with Finance colleagues to develop greater accountability within locality teams, including realignment of purchasing budgets, regular engagement, improved management information and training; and
 - (vi) initiating a review of reserves and uncommitted funds.
- 3.10 Given the extent of these underlying pressures, however, there remains an urgent need to identify and implement specific measures to substantially reduce the projected overspend in 2018/19 and bring expenditure back within approved levels on a sustainable basis.

Place

- 3.11 The Place Senior Management Team (SMT), along with the Divisional Management Teams, is continuing work to address the financial challenge faced by the Directorate in 2018/19. A cohesive financial strategy is being rolled out to deal with identified pressures of £11.5m, a slight increase from the position intimated in the period three report, comprising £4.8m of legacy and £6.7m in-year pressures.

- 3.12 To enable both a balancing of the overall Place budget and a reallocation of existing budgets across the Directorate (allowing for a more transparent and sustainable budget to be set which respective services can then deliver and be more accountable for), mitigations to at least the same value are required. Mitigations with varying levels of delivery risk have been identified along with stretch in-year savings targets. Development of these mitigations has specifically focused on those actions not affecting existing Council policies and/or impacting on frontline service provision.
- 3.13 Targets and actions to a value of £10.0m have been agreed in consultation with Heads of Service, leaving a residual gap of £1.5m, a £1.5m improvement on the £3m shortfall intimated in the period three report. The Place SMT will therefore seek to develop detailed implementation plans to secure these £10.0m of management actions, whilst at the same time examining all opportunities to address the remaining shortfall.
- 3.14 In addition to regular reporting of financial performance to Place SMT, a robust half-year review will be undertaken and the position reassessed. At this point, decisions will be made, as required, on appropriate management action to address the residual overspend. This may include acceleration of future years' savings proposals in addition to the current suite of identified in-year measures.
- 3.15 While this does not allow the service to project, with certainty, a further reduction in the level of overspend at this time, subject to development and implementation of these further measures, the overall position may nonetheless show improvement after the mid-year review has been undertaken.

Resources

- 3.16 Based on analysis of period two data and an assessment of the in-year deliverability of the savings proposals approved as part of the 2018/19 revenue budget, the period three report intimated that overall expenditure was anticipated to exceed the Directorate's budget by £1.075m.
- 3.17 The Executive Director of Resources committed to identifying sustainable measures to maintain overall expenditure within approved levels. A range of further savings measures has already been identified, including savings from the HR Services Organisational Review, holding of vacant posts and use of contingency budget to reduce the forecast from that indicated above by £0.5m. At this stage, there is additionally now evidence to forecast a balanced outturn for the Resources Directorate on the basis of:
- (i) a recruitment pause and enhanced workforce controls that were applied from 17 September. The maximum saving from these actions is estimated at £0.445m, to the end of the current financial year. The only exceptions to this recruitment pause are essential posts in the Contact Centre and Transactions Team, including Welfare and Benefits administration and Cleaning, Janitorial, Catering and Facilities Management delivery posts; and

- (ii) a review of discretionary expenditure, with spending to be ceased or delayed, where there is currently no legal commitment.

3.18 While there remain a number of risks to the achievement of a balanced position, the Executive Director of Resources and the Directorate Heads of Service will continue to develop further proposals to deliver all savings and mitigate budget pressures on a sustainable basis.

Services reporting to the Chief Executive

3.19 While work is continuing to identify means to deliver the full saving associated with the Strategy and Insight Division's Organisational Review, at this stage a balanced position continues to be forecast.

Non service-specific budgets

3.20 The period three report to the Committee's meeting on 16 August identified total corporate savings relative to the approved budget of £7.455m, comprising:

- (i) savings in loans charge expenditure of £3m;
- (ii) additional income, based on an updated assessment of the size and profile of the Council Tax base, of £1m;
- (iii) application of the 2017/18 underspend of £2.455m in respect of the Council Tax Reduction Scheme against welfare reform-related pressures in the current year; and
- (iv) a £1m saving, based on an updated analysis of applicable rates and in-scope contracts, in the required level of inflationary provision for the year relative to the approved budget.

2018/19 pay award/inflationary provision

3.21 Following approval at the August COSLA Leaders' Meeting, a revised and final employee pay award offer for 2018/19, comprising a 3% across-the-board increase for all staff earning up to £80,000 and a £1,600 flat-rate above this level, has been made. This revised offer follows the decision by the Scottish Government to make available additional funding sufficient to increase the pay offer for teachers earning between £36,500 and £80,000 from 2% to 3%. Given COSLA's policy of maintaining pay parity across all bargaining groups, this improved offer has now been extended to non-teaching staff. Consideration of this offer by the representative trade unions and their memberships is on-going.

3.22 Based on this revised and final offer and taking account of overall sums provided within the budget framework in respect of inflation, the anticipated level of settlement will result in a recurring saving of £0.6m relative to earlier assumptions.

Carbon Reduction Commitment (CRC)

3.23 The UK-wide Carbon Reduction Commitment (CRC) energy efficiency scheme comes to an end in March 2019. At this stage, full details of its replacement, likely to be in the form of changes to existing Climate Change Levy rates, remain to be

confirmed. While any saving relative to budget may therefore be one-off in nature, it is anticipated that, based on past years' payments and available allowances purchased, a saving of £0.250m will be achieved in 2018/19.

Confirmation of audited outturn for 2017/18

- 3.24 The Annual Audit Report was considered by the Governance, Risk and Best Value Committee on 25 September 2018, with approval of the audited accounts provided by this Committee on 27 September. No changes to the unaudited outturn resulted from the audit process. Taking account of Council's previous decision to allocate a total of £0.580m for additional road repairs and engaging on the City Vision, £1.836m of the overall underspend of £2.416m remains unallocated. While not detracting from the more fundamental need to identify recurring savings going forward, it is proposed that, subject to Council approval, this sum now be allocated against the current year's projected overspend.
- 3.25 Taken together, the above corporate factors result in an overall improvement of £2.686m relative to that forecast at period three.

Overall position

- 3.26 Based on the updates contained in the preceding sections, the revised overall position is as shown below:

| | Period three forecast | Changes since period three | Revised year-end forecast |
|---|------------------------------|-----------------------------------|----------------------------------|
| Communities and Families | £5.0m | - | £5.0m |
| Health and Social Care | £6.1m | - | £6.1m |
| Place | £3.0m | (£1.5m) | £1.5m |
| Resources | £1.1m | (£1.1m) | £0.0m |
| Less savings in corporate budgets | (£7.5m) | (£2.7m) | (£10.2m) |
| Updated projected outturn without additional mitigations | £7.7m | (£5.3m) | £2.4m |

- 3.27 While the overall level of improvement is to be welcomed, it is clear that further actions are required. To this end, relevant Executive Directors have been instructed by the Chief Executive to identify additional savings and mitigations, such that, subject to members' agreement of the measures concerned, a balanced overall position may be reported to the Committee's next meeting on 4 December.
- 3.28 More fundamentally, however, given the extent of reliance on corporate and/or one-off savings in the current year, there is a need, particularly in Communities and Families and Health and Social Care which together comprise almost 70% of the

Council's net service expenditure, for additional sustainable measures to be developed, such that each may operate within its approved budgetary allocation from the start of the next financial year. To this end, Executive Directors and the Chief Officer of the Edinburgh Health and Social Care Partnership have similarly been instructed to identify potential measures to contribute positively to the underlying stability of the budget framework and these will be reported as part of the half-year update at the Committee's meeting on 4 December.

Change Strategy

- 3.29 At its previous meeting on 27 September, members of the Committee approved the release for public engagement of the Council's draft Change Strategy. Feedback to *Planning for Change and Delivering Services 2019-2023* will inform the development of detailed proposals, linked to the five underlying priorities of the strategy, that will then form the basis of further elected member consideration in the new year.
- 3.30 Development of proposals on the necessary scale, in terms both of financial savings and associated service redesign, will require dedicated internal project resource to ensure they are suitably robust for consideration (and subsequent delivery) by Council in February 2019. Corresponding project management resource to support delivery of the Council's Transformation Programme was approved as part of setting the 2016/20 revenue budget. Of the £3.9m originally earmarked, however, only £2.706m has been drawn down to date.
- 3.31 In acknowledging residual liabilities linked to this earlier programme, it is recommended that up to £1m of this remaining balance be made available to support provision of dedicated internal Change Strategy-related project management resource. Subject to Committee's agreement, this recommendation will be referred to Council on 25 October 2018 for ratification of use of this earmarked fund.

4. Measures of success

- 4.1 Achieving a balanced overall budget outturn position for 2018/19 and successful delivery of approved savings and key service performance indicators.

5. Financial impact

- 5.1 The report's contents point to a potential in-year overspend, highlighting the importance of prompt action to bring expenditure back in line with approved levels.
- 5.2 The Council's Financial Regulations set out Executive Directors' responsibilities in respect of financial management, including regular consideration of their service budgets.

6. Risk, policy, compliance and governance impact

- 6.1 The delivery of a balanced budget outturn for the year is the key target. The risks associated with cost pressures, increased demand and savings delivery targets are regularly monitored and reviewed and management action is taken as appropriate.
- 6.2 Ongoing communications by the Council's section 95 Officer have reinforced the respective responsibilities of Executive Directors and Heads of Service to maintain expenditure within approved budgets in accordance with the Financial Regulations. Directors also have a requirement to ensure that savings identified are both achievable and delivered to maintain a sustainable budget across the Council. With this in mind, structured plans are in place for review and feedback on current and future years' savings proposals to identify at an early stage where corrective action is required.

7. Equalities impact

- 7.1 While there is no direct additional impact of the report's contents, all budget proposals are now subject to an initial relevance and proportionality assessment and, where appropriate, a formal Equalities and Rights Impact Assessment is then undertaken. The equalities and rights impacts of any substitute measures identified to address savings shortfalls are similarly assessed.

8. Sustainability impact

- 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.

9. Consultation and engagement

- 9.1 In view of the overall projected position set out within this report, the Chief Executive has tasked Executive Directors with identifying mitigating actions to address in-year pressures and to review opportunities for additional savings proposals.
- 9.2 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.

10. Background reading/external references

- 10.1 [Capital Coalition Budget Motion](#), City of Edinburgh Council, 22 February 2018
- 10.2 [Revenue Monitoring 2018/19 – month three position](#), Finance and Resources Committee, 16 August 2018

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11. Appendices

None.