

Finance and Resources Committee

10.00am, Friday 1 February 2019

Revenue Monitoring 2018/19 – Month Nine Position

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

Executive Summary

The report sets out the projected Council-wide month nine revenue budget position for the year based on detailed analysis of period eight data, building on the period two- and five-based updates considered by the Committee in 2018.

Significant, demand-led pressures continue to be highlighted within service areas, primarily in Communities and Families and Health and Social Care. While means have been identified to address the additional unbudgeted cost of the proposed employer's pay award for non-teaching staff in 2018/19, the overall Council-wide position reflects only marginal improvement from the half-year update, pointing to a year-end overspend of £1.972m without the identification and implementation of further mitigating measures. This position furthermore reflects application of a number of one-off savings, sustainable solutions for which will require to be identified going forward.

Failure to mitigate these pressures by the year-end will result in a reduction of the Council's unallocated reserves and, without recurring means of addressing underlying structural pressures within Directorates/Divisions, threaten the integrity of the wider budget framework.

Revenue Monitoring 2018/19 – Month Nine Position

1. Recommendations

- 1.1 Members of the Finance and Resources Committee are recommended to:
- 1.1.1 note that a number of significant pressures continue to be highlighted by Executive Directors, such that an overall year-end overspend of £1.972m, without the identification and implementation of further mitigating actions, is forecast as of month nine;
 - 1.1.2 note that in light of continuation of this projected overspend position, relevant Executive Directors and the Chief Officer of the Health and Social Care Partnership / Edinburgh Integration Joint Board (EIJB) have been instructed by the Chief Executive, as a matter of urgency, to identify further proposed actions both to allow a balanced overall Council in-year position to be achieved and to address all recurring budget pressures on a sustainable basis, thereby enhancing the underlying robustness of the budget framework;
 - 1.1.3 note the balanced projected position on the Housing Revenue Account (HRA) after making a £33.162m gross contribution towards housing investment; and
 - 1.1.4 refer this report to the Governance, Risk and Best Value Committee as part of its work programme.

2. Background

- 2.1 This report sets out the projected overall nine-month position for the Council's 2018/19 revenue expenditure budget based on analysis of actual expenditure and income to the end of November 2018.

3. Main report

- 3.1 This report represents the third quarterly revenue monitoring report for 2018/19. On-going analysis of the revenue position is undertaken in line with agreed, risk-based principles, with any material changes reported in the intervening periods as required. In this vein, members received an interim progress update at the Committee's meeting on 11 October, prior to consideration of the half-year position report on 4 December 2018.

3.2 A complementary schedule of meetings, aligned to the Council’s revised Committee structure, has also been developed at which directorate-specific commentaries are considered.

Overall position

3.3 As of period nine, an overall overspend of £1.972m is forecast as shown in the table below. This variance reflects £12.113m of projected service expenditure in excess of approved levels, partially offset by £10.141m of savings, or additional income, across a number of corporate budgets and reserves.

Table 1 – 2018/19 Revenue Budget – Projected Expenditure

	Revised Budget (£000)	Period Budget (£000)	Period Actual (£000)	Period Variance (£000)	Projected Outturn (£000)	Outturn Variance (£000)
Directorates	822,454	561,227	571,947	10,720	834,567	12,113
Non-directorate specific areas	163,142	1,202	1,202	0	158,292	(4,850)
Movements in reserves	(1,134)	(1,134)	(1,134)	0	(5,425)	(4,291)
Sources of funding	(984,462)	(656,308)	(656,308)	0	(985,462)	(1,000)
In-year (surplus) / deficit					1,972	1,972

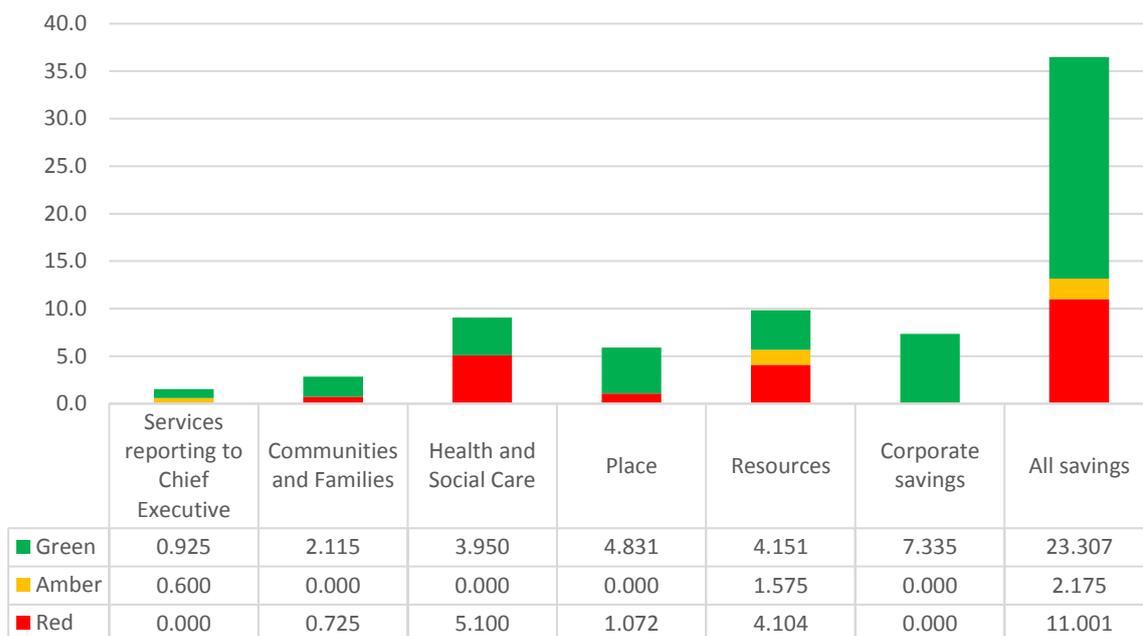
3.4 In light of this projected position, relevant Executive Directors and the Chief Officer of the EIJB have been instructed by the Chief Executive to identify, as a matter of urgency, further proposed actions to bring the Council’s overall revenue budget for 2018/19 into balance by the year-end. In addition, sustainable means of addressing all recurring budget pressures require to be identified to align to the 2019/20 expenditure baseline reflected in the Change Strategy report approved by the Committee on 27 September 2018. An update in this regard is included in the revenue budget report elsewhere on today’s agenda.

3.5 Failure to address these in-year pressures by the year-end will result in a reduction of the Council’s unallocated reserves and, without recurring means of addressing underlying structural pressures within directorates and the EIJB, threaten the integrity of the wider budget framework, resulting in an increased financial budget gap in future years.

Delivery of approved savings

3.6 The approved budget for 2018/19 was predicated on the delivery of £36.5m of directorate-specific and corporate finance savings. As of the end of November, the overall RAG assessment of these savings indicates that, given actions planned or already undertaken, some 70% are on target to be delivered as shown in the chart below.

Chart 1 - RAG assessment of approved budget savings (£m), 2018/19 – November 2018



3.7 Those savings assessed by the Finance Division as red at this stage are set out in the following sections. This list reflects a similar overall anticipated level of delivery as was intimated to the Committee in December, emphasising the need for enhanced robustness in the savings inception, development and implementation process going forward.

3.7.1 Communities and Families

Home to School Transport – due to increases in the underlying volume and complexity of demand for children with special needs, the budgeted saving of £0.4m will not be delivered in the current year and alternative mitigating measures are being sought. A travel demand programme panel has, however, been established to examine means of stabilising this underlying demand through the development of a robust control framework. The panel is also proactively exploring opportunities to promote alternative arrangements, where appropriate, that increase young people’s independence whilst delivering attendant savings through greater use of shared transport.

Advice Services Review – the approved budget saving of £0.175m reflects planned savings in grant payments and staffing efficiencies. It is now intended, however, that relevant grants will be examined as part of the wider Health and Social Care Partnership grant review programme and therefore current agreements have been extended accordingly until 31 March 2019. The staffing review has also been rephased, with a consequent impact on the delivery of approved savings in 2018/19.

Senior Management efficiencies - £0.150m of planned savings in this area will not be achieved in 2018/19. It became apparent early in 2018/19 that

further management savings would be required in 2019/20 and a decision was therefore taken, within Communities and Families, to address all required management savings through one review. Work has begun on scoping out the posts that will be included in the review and the process and timescales are being discussed with Human Resources ahead of discussions with relevant trade unions.

3.7.2 Health and Social Care Partnership / EIJB

Asset-based approach to demand management – “capacity-releasing” savings of £3m. There remains insufficient progress, at this stage, to attribute any specific savings to this initiative during the current year.

Service transformation - Self-Directed Support (SDS) - £1m of approved savings predicated on offsetting disinvestment of in-house services as a result of expansion of SDS. As yet, there is no tangible progress towards delivery of this saving in the current year.

Homecare re-ablement – no substantive progress has been made thus far in developing specific plans to deliver the £1m of assumed savings in this area.

Planned savings in discretionary expenditure – while partial delivery is anticipated in this area, a residual in-year pressure of £0.1m is apparent.

3.7.3 Place

Roundabouts and verge advertising – the associated tendering process has now been completed. While the timing of the contract award means that there is an in-year pressure of £0.2m, the full level of saving is expected to be delivered in 2019/20.

Garden waste charging – following the end of the initial registration period and the first post-implementation sign-up “window”, overall scheme take-up is above the levels assumed in the associated business case. While this level of participation, if sustained, will by extension result in delivery of the corresponding approved full-year saving, apportionment of relevant income in line with the revised implementation date results in a £0.5m in-year pressure.

Parking income – while work is on-going to establish the underlying reasons for the shortfall, at this stage £0.372m of the approved additional income of £0.800m is not anticipated to be received.

3.7.4 Resources

Asset Management Strategy and reviewing Property and Facilities Management (FM) – there is currently a shortfall of £4.104m in savings forecast against the 2018/19 approved savings for Asset Management Strategy and staff turnover savings. The primary factors influencing the inability to deliver the planned savings relate to a lack of property disposals and the necessary rationalisation of the operational property portfolio,

combined with additional cost pressures arising from additional properties, with higher running costs, being added to the portfolio in-year. Without a reduction in the operational property portfolio, then the ability to achieve a commensurate reduction in costs within the FM service is also curtailed.

- 3.8 The above savings assessments have been reflected in the wider outturn commentaries included in the following sections.

Directorate-specific budgets - Communities and Families

- 3.9 As of period nine, the Executive Director of Communities and Families is forecasting an in-year overspend of £4.0m, primarily linked to increasing costs in several demand-led areas of service. This represents a slight positive movement of £0.1m since the equivalent position reported to the Committee's previous meeting on 4 December 2018.
- 3.10 To date, projected unfunded gross budget pressures of £12.7m have been assessed. The main areas affected include temporary accommodation, home-to-school transport, rising school rolls, community access to schools and increased use of out-of-Council area placements linked to accommodating a number of Unaccompanied Asylum-Seeking Children (UASC) within the city. Savings and management action of £8.7m have been identified, leaving a net residual budget pressure of £4.0m.
- 3.11 The report to the Committee's meeting on 4 December 2018 reiterated the Executive Director of Communities and Families' commitment to making all efforts to identify mitigations to reduce these pressures. A strategy has been developed to identify and implement management actions required to address these, comprising vacancy control measures, a review of reserves, identification of income generation opportunities, an examination of the scope to stop or reduce planned levels of expenditure and the identification of any spend-to-save opportunities. All material areas of spend will continue to be actively monitored and potential mitigating actions identified with a view to reducing further the level of overspend by the year-end.

Health and Social Care Partnership / EIJB

- 3.12 The half-year update reported to the Committee's meeting on 4 December 2018 pointed to an anticipated year-end overspend, without the identification and implementation of further savings measures, of £7.041m. This position primarily reflected a combination of additional expenditure relative to approved levels in the areas of Direct Payments, Individual Service Funds and Care at Home and higher-than-budgeted transport costs, alongside a shortfall in income. The overall level of overspend was expressed net of £3.780m of non-recurring EIJB contributions.
- 3.13 Based on consideration and analysis of period eight data, the overall position remains unchanged at this time. Analysis of remaining uncommitted funds potentially available to mitigate further the overall level of overspend is continuing, along with in-depth modelling of anticipated purchasing expenditure based on commitments as recorded within the SWIFT system. Re-alignment of the

purchasing budget (which represents some two-thirds of overall service expenditure) was also completed by the end of December, improving the monitoring, transparency and accountability of spend in this area.

- 3.14 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 without impacting on the service's net budget.
- 3.15 The Chief Executive has written to the Chief Officer of the Edinburgh Health and Social Care Partnership, re-emphasising the urgent need for development of both a suitably-robust EIJB recovery plan for 2018/19 and detailed and sustainable savings proposals for 2019/20, given the resulting and increasing impact on the remainder of the Council's activity. Members of the Committee have also met with the Chief Officer of the Edinburgh Health and Social Care Partnership and the Chief Financial Officer of the EIJB to discuss the EIJB's current and anticipated financial challenges and, more critically, their plans to re-attain financial sustainability, with these officers also in attendance at today's meeting.

Place

- 3.16 The half-year based report considered by the Committee on 4 December 2018 emphasised that the primary focus of the Place Senior Management Team and Finance Business Partners in 2018/19 has been on enhancing budget transparency and sustainability. This approach has involved both a full realignment of budgets, informed by analysis of actual expenditure, income and planned savings, and a comprehensive half-year review of budget management performance. These actions have put in place the foundations of strengthened financial accountability across the Directorate.
- 3.17 In view of the timescales required to embed this objective fully, a number of related budget substitutions have required to be identified to deliver the approved level of 2018/19 savings. As of period eight, however, a number of these measures have not been fully implemented and, as such, the projected overspend at this time remains unchanged at £1.072m. The Senior Management Team will, however, continue to identify potential measures, such that the overall position may be improved further by the year-end.

Resources

- 3.18 As outlined in the directorate-specific report contained elsewhere on today's agenda, the Resources Directorate is projecting a balanced overall position for the year following implementation of a range of financial control and management measures to contain a budget pressure of £4.104m in the Property and Facilities Management Division due to non-achievement of savings previously assumed from the Asset Management Strategy and related employee turnover savings.

3.19 The Resources Directorate continues to progress the identification of additional savings measures to offset any further budget pressures which may emerge, both to ensure the achievement of outturn expenditure in line with the approved revenue budget for 2018/19 and mitigate underlying budget pressures on a sustainable basis.

Services reporting to the Chief Executive

3.20 While work is continuing to identify means of delivering the full income-related saving associated with the Strategy and Communications Division's Organisational Review, in view of existing vacancies within the service, at this stage a balanced position continues to be forecast.

Non directorate-specific budgets

3.21 The half-year update report considered by the Committee on 4 December 2018 advised members of a number of mitigating measures offsetting pressures in directorates, together totalling £10.141m, as follows:

- (i) savings in loan charges 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;
- (iv) a £1.6m 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;
- (v) a £0.25m in-year anticipated underspend in respect of the Council's participation in the Carbon Reduction Commitment (CRC) energy efficiency scheme; and
- (vi) following approval by Council on 25 October 2018, application of the remaining £1.836m of the confirmed in-year underspend for 2017/18 against in-year pressures.

3.22 In view of residual in-year pressures across the Council as a whole, however, the report indicated that analysis of all non-directorate budgets and provisions would continue for the remainder of the year.

Revised employee pay award, 2018/19

3.23 Members will be aware that the employer's initial offer to the representative non-teaching trade unions was a one-year pay settlement, with a 3% increase for all staff whose current pro-rated salaries do not exceed £80,000 and a flat-rate £1,600 increase for staff above this level. The proposed deal also involved full consolidation of the Living Wage within Local Government pay structures.

- 3.24 Consultative ballots amongst members of UNISON, UNITE and the GMB resulted in a strong rejection of the employer's offer. On 14 December 2018, following consultation with member councils, COSLA tabled a revised, three-year proposal comprising increases of 3.5%, 3% and 3% respectively for all staff for the years 2018/19, 2019/20 and 2020/21¹. As of the time of writing, the results of the consultative ballots on the revised offers are not known, although UNISON, the largest representative union for local government employees, has recommended acceptance to its members.
- 3.25 While a 3% across-the-board increase is consistent with budget framework assumptions in the two later years, the 3.5% increase for most non-teaching staff in 2018/19 gives rise to a recurring pressure relative to the approved level of pay award provision of £1.8m. This additional liability is offset presentationally in Appendix 1 against the saving noted at 3.21 (iv) above, resulting in a net overall pressure of £0.2m.
- 3.26 As noted at 3.22, in view of the remaining projected overspend for the year, work has continued to identify any further in-year, and ideally recurring, contribution that could be made from non-directorate budgets. In this regard, detailed modelling of projected loans charge expenditure, taking account of pool interest rates, anticipated capital expenditure levels, the impact of in-year loan redemption and capital receipts, has identified an offsetting (and recurring) saving of £1.8m, increasing the overall in-year underspend in this area to £4.8m.
- 3.27 A report elsewhere on today's agenda notes the impact of the 2018/19 pay award on the incremental savings requirement for 2019/20. As the offsetting loans charge saving above is similarly recurring, this is available to contribute towards the increased funding gap. However, the use of loan charge savings to meet on-going revenue costs reduces the options available to fund future capital expenditure.
- 3.28 Discussions with regard to the teachers' pay award remain on-going, with the employer's revised proposal comprising increases of 3% for most staff in each of 2018/19, 2019/20 and 2020/21, along with restructuring of, and extension to, the teachers' main grade scale. As with non-teaching staff, the budget framework assumes a 3% across-the-board increase in each year concerned. Given the tripartite nature of teachers' pay negotiations, funding for any further increase is assumed to be provided by the Scottish Government. An update on the current state of negotiations will be provided at the meeting.

Project and Change management temporary support

- 3.29 At the meeting of Council on 25 October 2018, members approved the use of up to £1m of previously-uncommitted monies to facilitate the engagement of dedicated fixed-term project managers to develop individual proposals for key projects

¹ The offer for 2018/19 still involves a £1,600 flat-rate increase for staff whose pro-rated salaries are above £80,000, with 3% increases in the two subsequent years.

comprising the broader Change Strategy. To date, recruitment has been completed, or is underway, in the following areas:

- (i) Asset Management Strategy and service re-provisioning;
- (ii) Depot Review;
- (iii) Workforce Modernisation;
- (iv) Fleet Review;
- (v) Operational Efficiencies; and
- (vi) LEAN/Continuous Improvement Team.

3.30 Regular updates on progress in recruitment and achievement of project milestones will continue to be provided to the Finance and Resources Committee, together with details of expenditure incurred.

Sustainability of budget framework

3.31 While the non-directorate savings identified thus far offset the majority of service-specific pressures, given the extent to which the measures concerned are either one-off in nature or already assumed in the budget framework going forward, these should not be seen to detract from the more fundamental need to address underlying pressures within service areas if longer-term sustainability is to be secured.

Housing Revenue Account (HRA)

3.32 As of month eight, a balanced position continues to be projected on the Housing Revenue Account (HRA) after making a £33.162m gross contribution towards housing investment, including £27.816m drawn down from the Renewal and Repairs and Council Tax Discount Fund earmarked reserves.

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 directorate 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 statutory section 95 Chief Financial Officer, the Head of Finance, have reinforced the respective accountabilities and responsibilities of Executive Directors, the Chief Officer of the EIJB and Heads of Service to maintain expenditure within approved budgets, in accordance with the Financial Regulations. Executive Directors and the Chief Officer of the EIJB also have a requirement to ensure that savings identified are both achievable and delivered to maintain a sustainable budget across the Council.
- 6.3 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. In view of reducing levels of savings delivery in 2018/19, however, this process will be re-examined and strengthened at the proposal inception, development and implementation stages as part of the wider Change Strategy.

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 Integrated 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 reiterated to Executive Directors and the Chief Officer of the EIJB their responsibilities to identify mitigating measures 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 [Revenue Monitoring 2018/19 – month three position](#), Finance and Resources Committee, 16 August 2018
- 10.2 [Revenue Monitoring 2018/19 – progress update](#), Finance and Resources Committee, 11 October 2018 (referred to Council on 25 October 2018 for ratification of additional project management support to Change Strategy)
- 10.3 [Place Directorate – Financial Monitoring 2018/19 – month five position](#), Housing and Economy Committee, 1 November 2018
- 10.4 [Revenue Monitoring 2018/19 – month six position](#), Finance and Resources Committee, 4 December 2018

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11. Appendices

One – 2018/19 Revenue Budget – projected expenditure analysis

	Revised Budget	Period Budget	Period Actual	Period Variance	Projected Outturn	Outturn Variance	Percentage Variance
	£000	£000	£000	£000	£000	£000	
Service areas							
Services reporting to Chief Executive	9,443	6,487	6,592	105	9,443	0	0.0
Communities and Families	383,767	256,460	260,225	3,765	387,767	4,000	1.0
Health and Social Care	198,895	132,597	137,973	5,376	205,936	7,041	3.5
Place	58,964	39,309	41,010	1,701	60,036	1,072	1.8
Resources	167,811	123,991	123,764	(227)	167,811	0	0.0
Lothian Valuation Joint Board	3,575	2,383	2,383	0	3,575	0	0.0
Service areas total	822,454	561,227	571,947	10,720	834,567	12,113	1.5
Non-service specific areas							
Loan Charges	112,596				107,796	(4,800)	(4.3)
Other non-service specific costs less sums to be disaggregated:	25,875	n/a	n/a	n/a	26,075	200	0.8
- Apprenticeship Levy	1,857	1,202	1,202	0	1,857	0	0.0
- Early Learning and Childcare	1,176				1,176	0	0.0
- Carbon Tax	1,159				909	(250)	(21.6)
- Non-Domestic Rates (poundage uplift)	0				0	0	n/a
- Energy	500				500	0	0.0
- Discretionary Rates	500				500	0	0.0
Council Tax Reduction Scheme	26,672	n/a	n/a	n/a	26,672	0	0.0
Staff early release costs	3,200	n/a	n/a	n/a	3,200	0	0.0
Net Cost of Benefits	(291)	n/a	n/a	n/a	(291)	0	0.0
Interest and investment income	(10,103)	0	0	0	(10,103)	0	0.0
Non-service specific areas total	163,142	1,202	1,202	0	158,292	(4,850)	(3.0)
Movements in reserves							
Net contribution to / (from) earmarked funds	(1,134)	(1,134)	(1,134)	0	(5,425)	(4,291)	(378.4)
Movements in reserves total	(1,134)	(1,134)	(1,134)	0	(5,425)	(4,291)	(378.4)
Sources of funding							
General Revenue Grant	(360,928)	(240,619)	(240,619)	0	(360,928)	0	0.0
Non-Domestic Rates	(340,474)	(226,983)	(226,983)	0	(340,474)	0	0.0
Council Tax	(283,060)	(188,707)	(188,707)	0	(284,060)	(1,000)	(0.4)
Sources of funding total	(984,462)	(656,308)	(656,308)	0	(985,462)	(1,000)	(0.1)
In-year (surplus) / deficit	0	(95,013)	(84,293)	10,720	1,972	1,972	0.2