

EXECUTIVE SUMMARY**FINANCIAL REPORT MONITORING PACK – JANUARY 2017**

1. INTRODUCTION

- 1.1 This report provides a summary of the financial monitoring reports as at the end of January 2017. Where relevant, they have been updated to reflect the budget proposals agreed at the Council meeting on 23 February 2017. There are six detailed reports summarised in this Executive Summary:

- Revenue Budget Monitoring Report as at 31 January 2017
- Monitoring of Service Choices Savings
- Monitoring of Financial Risks
- Capital Plan Monitoring Report as at 31 January 2017
- Treasury Monitoring Report as at 31 January 2017
- Reserves and Balances

The web link to the detailed reports is as follows:

<http://www.argyll-bute.gov.uk/financial-monitoring>

- 1.2 The Argyll and Bute Integrated Joint Board (IJB) with responsibility for Social Work and a range of Health services was established and came into effect on 1 April 2016. The IJB will be responsible for financial and strategic oversight of these services. Financial reporting in respect of Integration Services will now be submitted to the IJB via the IJB's Chief Financial Officer and it is expected that the Chief Financial Officer of the IJB will also keep the Council up to date on the financial position. The Scheme of Integration notes at paragraph 8.2.17 that "Any potential deviation from the planned outturn should be reported to Argyll and Bute Integration Joint Board, the Council and NHS Highland at the earliest opportunity".
- 1.3 The reports contained in the Council's monitoring pack will no longer have the same level of detail on Integration Services. However, when available, the latest budget monitoring for the IJB will be an Appendix to the Monitoring of Financial Risks report.

2. DETAIL**2.1 Revenue Budget Monitoring Report**

- 2.1.1 This report provides a summary of the current revenue budget monitoring position to ensure net expenditure is contained within budget. It provides corporate and departmental information with comparisons on a forecast outturn and a year to date basis.

- 2.1.2 The revenue budget as at 31 January 2017 is estimated to be £1.794m underspent. It was agreed, at the Council meeting on 23 February 2017, that £0.172m is to be earmarked to develop detailed business cases in respect of 11 digital transformation options and to support the work of the Transformation Board. This reduces the forecast underspend to £1.622m.

The majority of the underspend is either one-off or as a result of careful financial management. Where relevant any impact on next year has been accounted for within the 2017-18 budget estimates. The underspend mainly relates to:

- forecast saving in loans interest payments of £0.900m due to effective management of the Council's cash and borrowing position,
- vacancy savings in excess of target amounting to £0.660m due to careful management of posts in advance of future saving requirements,
- additional anticipated income from berthing, car and passenger dues since the introduction of RET, £0.200m,
- an underspend of £0.200m within Amenity services due to a service redesign
- saving of £0.500m in utilities due to a reduction in energy costs and also the corporate approach adopted to monitor and manage utilities,
- offset by a forecasted overspend in winter maintenance of £0.270m, a shortfall in planning and building warrant fees of £0.210m and a shortfall in savings due to the delay in implementing two service choices savings options £0.308m.

- 2.1.3 There is also a further potential one-off windfall in 2016-17 in respect of two young adults who used to live in Argyll and Bute but who now live in Glasgow. For the last few years, the Council has been in dispute with Glasgow City Council regarding responsibility for funding the care packages and Scottish Ministers have determined that Glasgow City Council were responsible for funding both young people. As at the end of January, £0.326m has been settled in relation to one young person and the invoice for the second young person will be issued shortly, which is expected to be in the region of £0.350m to £0.400m. An update will be given in the next monitoring report.

- 2.1.4 There is a year to date deficit of £0.468m against the year to date budgeted expenditure which is due to profiling of budgets.

2.2 Monitoring of Service Choices Savings

- 2.2.1 This report provides an update on the implementation and delivery of the Service Choices policy savings options agreed by Council in February 2016. The savings options will be reported as being delivered, on track to be delivered, still to be implemented, being developed or delayed.
- 2.2.2 Of the 125 savings options, 85 have already been delivered, 17 are on track to be delivered, 13 have still to be implemented, 2 have still to be developed and 8 are delayed.

- 2.2.3 There are 8 savings options reported as delayed. The changes to the delayed savings reported to P&R on 16 February 2017 for the period end of December 2016 are noted below.

Development and Infrastructure

- There is one change to the delayed savings reported to P&R on 16 February 2017 in respect of the car parking saving option. The service have undertaken a review during December and January and are now confident that the saving can be fully delivered.

- 2.2.4 The 8 options delayed are noted below and further information is contained within the report.

Community Services:

- Creation of a Charitable Leisure Trust – initial timeframe not feasible, delay of around 6 months with a financial implication in 2017-18 of £0.429m. The business case suggests full year NDR and VAT savings of £0.636m offset by recurring costs of £0.095m resulting in a net saving of £0.541m full year (original estimate £0.700m). This has been reflected within the updated budgetary outlook.
- ASN Efficiencies - as a result of the annual exercise to consider the individual needs of our young people there has been a greater need identified than previously forecast with a financial delay implication of £0.090m within 2016-17. The service are working to ensure that the cost of this delay is met from existing resources.
- The increase to fees for non-statutory music tuition by 50% - not fully achievable in 2016-17 due to the implementation date being pushed back until August for legal reasons. Although non-statutory music tuition fees were increased by 50% it should be noted that:
 - In schools in Argyll and Bute, Music Education as a subject is part of the expressive Arts curriculum area for Curriculum for Excellence. It is taught by GTCS registered teachers to young people from primary one and throughout the Broad General Education
 - In addition, Education Services contribute to the delivery of the Youth Music Initiative, a Scottish Government programme administered by Creative Scotland – the national agency for the arts, screen and creative industries. This allows for additional music experiences for pupils with one year of free tuition provided,
 - There are no charges for Argyll and Bute pupils who are provided with instrumental music provision relating to learners' SQA course work in music examinations.
- Instrumental Instructor provision reduced by 20% - this equates to a 2.6 FTE reduction however this will not be fully achieved as instructors are on teacher's terms and conditions on which there is currently a no redundancy policy. The financial implication of the two music related savings amounts to £0.018m in 2016-17. The service is working to ensure that the cost of this delay is met from existing resources.

Customer Services:

- Catering and Cleaning redesign (3 options) - Catering and Cleaning Business Case outlines total savings of £0.777m expected by 2020-21 with £0.331m deliverable by 2018-19. Comparing to the original savings estimated there is a shortfall reflected within the budgetary outlook of £0.040m in 2017-18 and £0.524m in 2018-19 as shown in the table below:

	2017-18 £000	2018-19 £000	2019-20 £000
FS01A-C - Long term redesign of catering service.	0	560	560
FS01D - Build up and develop catering service for events and functions.	40	40	40
FS02A-B - Long term redesign of cleaning service.	0	255	255
Total Original Estimate of Savings:	40	855	855
Revised Estimate of Savings	0	331	331
Shortfall / Delayed Saving	(40)	(524)	(524)

Development and Infrastructure:

- Three weekly rubbish collection – This is now fully implemented, however, there was a slight delay to original June implementation date due to complexity of the Service Choice, amendments to routes, negotiations with staff, Trade Unions, Third Sector Groups and contractors. The financial impact of this delay amounts to £0.308m in 2016-17 and although this was originally forecast as an overspend position, the department have now identified additional income to offset the majority of this overspend.

2.3 Monitoring of Financial Risks

2.3.1 This report outlines the process and approach developed in carrying out a financial risks analysis and provides an update on the current assessment of financial risks.

2.3.2 There are a number of Council wide risks identified. In respect of revenue all have been assessed as remote or unlikely with the exception of two risks that have been assessed as possible as noted below:

- Auto enrolment into the pension scheme which impacts on employers superannuation. The majority of staff will not be auto enrolled until October 2017 and the impact of this has been reflected within the medium term budgetary outlook.
- The risk that the Integrated Joint Board (IJB) refer back to the Council for additional funding in the event that there is an overspend and where a recovery plan has proved to be unsuccessful. If an additional payment is required from the Council this will be deducted from future years funding/payments, as set down within the Scheme of Integration.

2.3.3 There are currently 36 departmental risks totalling £3.089m. Only 3 of the risks are categorised as likely, with a potential impact of £0.430m, and no risks have been categorised as almost certain. These will continue to be monitored and action taken to mitigate or manage these risks.

2.3.4 The top 3 risks in terms of their likely financial impact are noted in the table below.

SERVICE	TITLE OF RISK	DESCRIPTION OF RISK	LIKELIHOOD	FINANCIAL IMPACT £000
Roads and Amenity Services	Winter Maintenance	Adverse weather conditions which require greater than budgeted number of gritting runs.	4	300
Roads and Amenity Services	Roads Maintenance	Extreme localised weather may result in loss of bridge, culvert, road or sea defence.	3	300
Roads and Amenity Services	Roads Maintenance	Adverse weather conditions may result in deterioration of the road network necessitating greater spend on reactive repair of defects.	3	230

2.4 Capital Plan Monitoring Report

2.4.1 Capital Plan Monitoring Report – this report provides a summary of the current capital plan monitoring position. Information is provided in terms of monitoring year to date budget, current full year budget, future years total budget and funding and non-financial in terms of project performance.

2.4.2 Actual net expenditure to date is £18.165m compared to a budget for the year to date of £17.911m giving rise to an overspend for the year to date of £0.254m. The forecast outturn for the year is a forecasted underspend of £4.409m.

2.4.3 The £0.117m year to date overspend consists of an overspend variance within Fleet Management due to the timing of vehicle sales and to other small variances of £0.137m across the capital programme.

2.4.4 The forecast underspend for the year is £4.409m. This is largely due to slippages in School projects of £1.863m due to delays in the commencement of construction work. In addition, there are also slippages in Helensburgh and Rothesay CHORD projects of £1.319m.

2.5 Treasury Monitoring Report

- 2.5.1 This report provides information on the current levels and recent transactions in relation to the capital financing limit, total borrowing, temporary borrowing and long term borrowing and investments.
- 2.5.2 The Council drew down £0.1m of funding from Salix in respect of the LED Street Lighting Project with an interest rate of 0% during the period 01 January 2017 to 31 January 2017.
- 2.5.3 Borrowing is estimated to be below the capital financing requirement for the period to 31 March 2017. This reflects the approach taken to minimise surplus cash on deposit in order to avoid overdue exposure to investment/credit worthiness risks. However, if it becomes clear that longer term interest rates are likely to increase significantly the position will be reviewed to ensure the Council locks in funding at low interest rates.
- 2.5.4 Investments at 31 January 2017 were £75.0m with a return achieved of 0.543% which compares favourably with the target of 7 day LIBID which was 0.115%.

2.6 Reserves and Balances

- 2.6.1 This report summarises the overall level of reserves and balances and monitors the spending of the earmarked reserves, providing detailed information on the unspent budget earmarked balances.
- 2.6.2 The Council has a total of £146.204m unusable reserves that are not backed with resources. They are required purely for accounting purposes.
- 2.6.3 The Council has a total of £57.115m usable reserves as at the end of 31 March 2016. Of this balance, £0.671m relates to Repairs and Renewals Fund, £4.027m relates to Capital Funds and the remainder is held in the General Fund, with £43.272m of the balance earmarked for specific purposes.
- 2.6.4 The General Fund contingency is set at 2% of net expenditure for 2016-17. As at the end of January 2017, after accounting for the budget proposals agreed at the Council Meeting on 23 February 2017, the estimated surplus over contingency is £2.714m.

3. RECOMMENDATIONS

- 3.1 Members to note the revenue budget monitoring report as at 31 January 2017 which incorporates the impact, of the motion agreed at the Council meeting on 23 February 2017, on the 2016-17 outturn.
- 3.2 Members to note the progress of the service choices policy saving options as at the end of January 2017.

- 3.3 Members to note the current assessment of the Council's financial risks.
- 3.4 Members to note the capital plan monitoring report as at 31 January 2017 and note the over project cost changes, the project slippages and accelerations and the updated capital plan reflecting these changes.
- 3.5 Members note the treasury monitoring report as at 31 January 2017.
- 3.6 Members to note the overall level of reserves and balances and note the monitoring of the earmarked reserves.

4. IMPLICATIONS

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| 4.1 | Policy – | None. |
| 4.2 | Financial - | Outlines the revenue and capital monitoring for 2016-17 as at 31 January 2017. |
| 4.3 | Legal - | None. |
| 4.4 | HR - | None. |
| 4.5 | Equalities - | None. |
| 4.6 | Risk - | Details of financial risks are included within the report. |
| 4.7 | Customer Service - | None. |

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06 March 2017**