

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

1. INTRODUCTION

- 1.1 This report provides a summary of the financial monitoring reports as at the end of August 2017. There are six detailed reports summarised in this Executive Summary:

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

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, 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 There is a forecast underspend of £0.068m as at the end of August 2017. The underspend is in respect of the following:
- Underspend of £0.245m relating to a provision for superannuation costs that is no longer required.
 - Apprenticeship levy estimated to be £0.090m below budget.
 - Over recovery of vacancy savings within Development and Infrastructure of £0.103m.
 - Grant income in Development and Infrastructure relating to expenditure in the previous year £0.097m.
 - Increased demand within ASN support and residential schools placement estimated overspend of £0.317m.
 - Under recovery of planning fee income estimated to be £0.150m.
- 2.1.3 There is a year to date surplus of £0.758m against the year to date budgeted expenditure of £94.869m. The main underspend is within Customer Services: £0.200m for Insurance linked to NPDO management fees and £0.202m timing of payment to suppliers. The remainder is related to profiling variances.

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, potential shortfall or delayed.
- 2.2.2 Of the 125 savings options, 100 have already been delivered, 21 are on track to be delivered, 2 have still to be implemented, none are still to be developed, 2 have a potential shortfall and none are delayed.
- 2.2.3 There are 2 savings options reported as having a potential shortfall, both are within Community Services and are summarised below:

ASN Efficiencies - ASN Support is a demand driven service and the needs of our young people will vary periodically due to changes in circumstances, complexity of the support package and the number of young people requiring support. The annual review of ASN support has identified a greater need than previously forecast which will potentially reduce the savings achievable in 2017-18 by £0.150m. The Service will monitor the variability of demand regularly and update this position during the year as individual support packages are reviewed.

Residential Schools – The service provided is for children and young people with complex support needs and each support package is expensive. The service is demand driven and will vary periodically due to changes in circumstance, complexity of the support package and the number of young people requiring a residential placement. After a recent review of residential placements a greater need than previously forecasted has been identified which will potentially reduce the savings achievable in 2017-18 by £0.074m. In addition to the potential shortfall in savings, there is a further demand

pressure of £0.093m.

The Service will monitor the variability of demand regularly and update this position during the year as individual support packages are reviewed.

- 2.2.4 Since the June 2017 monitoring position, an alternative recurring saving has been identified to replace of the Campbeltown Museum saving which is unable to be delivered. This saving is no longer marked as a potential shortfall.

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 will require the Council to automatically enrol all staff into the pension scheme by October 2017 (although staff may wish to opt out) and this will create an additional cost to the Council in respect of employer superannuation contributions. The budget for 2017-18 has been based on the assumption that 60% of the staff auto enrolled will remain in the scheme. There is a risk that all staff could choose to remain in the scheme and the risk has been quantified at £0.136m should this be the case. The actual position will be known post October 2017.
- 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. The forecast overspend for 2017-18 as at the end of July is reported as £4.412m and the share of this apportioned to Argyll and Bute Council is £2.412m.

Following the motion agreed at the Policy and Resources Committee on 17 August 2017, the Chief Executive wrote to the Chair of the IJB to express concern at the escalating funding gap and to seek assurance that plans were in place to address the budget gap. A copy of the Chief Executive's letter and the response from the Chair of the IJB is included as an appendix to the Financial Risks Report. The Chief Executive has further responded to the Chair of the IJB and his response is attached as an appendix to this report.

- 2.3.3 There are currently 36 departmental risks totalling £3.581m. Only 2 of the risks are categorised as likely, with a potential impact of £0.080m, 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.	3	700
Roads and Amenity Services	Roads Maintenance – Bridges, Culverts & Sea Defences	Extreme localised weather may result in loss of bridge, culvert, road or sea defence.	3	300
Roads and Amenity Services	Roads Maintenance – Road Network	Adverse weather conditions result in deterioration of the road network necessitating greater spend on repair of defects.	3	230

2.3.5 The changes to the departmental risks since the last report to Policy and Resources Committee on 17 August 2017 for the period to the end of June are noted below:

Risks Realised:

- Education – ASN Assistants - Demand for the service has increased and a forecasted outturn overspend of £150k has been recognised.
- Education – Residential Placements - Client base has increased with placements being very expensive and a forecast outturn overspend of £167k has been recognised.

Risk Downgraded:

- Customer and Support Services - Sundry Debt Recovery – the financial impact has reduced from £0.110m to £0.085m as the level of outstanding debt has altered over the last couple of months.

Risk Developing:

- Roads and Amenity Services – Winter Maintenance – the financial impact was reduced at the last monitoring period, however, further trend analysis has been carried out and the financial impact has been increased up to £0.700m, as it previously was.

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 £12.585m compared to a budget for the year to date of £11.514m giving rise to an overspend for the year to date of £1.071m. The forecast outturn for the year is a forecasted underspend of £0.078m.
- 2.4.3 The £1.071m year to date overspend relates to a number of projects where the year to date spend is ahead of the year to date profile, it is not an indication of the outturn position.
- 2.4.4 The forecast underspend for the year is £0.078m. This is largely due to forecasted overspend of £0.210m for bridge strengthening work which has been partially offset by a forecasted underspend of £0.071m in the NPDO Solar Panel Installation project and £0.061m of several small underspend variances. There is a request to accelerate budget from 2018-19 to 2017-18 to cover the bridge strengthening overspend.

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 net movement in external borrowing in the period was a decrease of £0.088m.
- 2.5.3 Borrowing is estimated to be below the capital financing requirement for the period to 31 August 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 August 2017 were £66.6m with a return achieved of 0.54% which compares favourably with the target of 7 day LIBID which was 0.112%.

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 £92.755m unusable reserves that are not backed with resources. They are required purely for accounting purposes.
- 2.6.3 The Council has a total of £58.449m usable reserves as at the end of 31 March 2017. Of this balance, £0.896m relates to Repairs and Renewals Fund, £4.064m relates to Capital Funds and the remainder is held in the

General Fund, with £41.519m of the balance earmarked for specific purposes.

- 2.6.4 The General Fund contingency is set at 2% of net expenditure for 2017-18. There is currently an estimated surplus over contingency of £3.172m.

3. RECOMMENDATIONS

- 3.1 It is recommended that the Policy and Resources Committee:

- a) Consider the revenue budget monitoring report as at 31 August 2017.
- b) Note the progress of the service choices policy saving options as at 31 August 2017.
- c) Note the current assessment of the Council's financial risks.
- d) Consider the capital plan monitoring report as at 31 August 2017 and approve the over project cost changes, the project slippages and accelerations noted within Appendix 7 of the capital plan monitoring report.
- e) Note the treasury monitoring report as at 31 August 2017.
- f) Consider the reserves and balances report as at 31 August 2017.

4. IMPLICATIONS

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| 4.1 | Policy – | None. |
| 4.2 | Financial - | Outlines the revenue and capital monitoring for 2017-18 as at 31 August 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. |

APPENDICES

Appendix 1 – Letter of response from Chief Executive to Chair of IJB

Kirsty Flanagan
Head of Strategic Finance
5 October 2017

Policy Lead for Strategic Finance and Capital Regeneration Projects -
Councillor Gary Mulvaney

Argyll and Bute Council
Comhairle Earra Gháidheal agus Bhóid



Chief Executives Unit

Mr Robin Creelman
Chair
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Dear Robin

Thank you for your letter of 20th September 2017 responding to the Motion passed by the Council's Policy and Resources Committee at its meeting on 17th August 2017.

I welcome the assurance you have provided that the Partnership have plans in place to address the projected overspend and the itemised actions you have implemented to ensure a balanced budget outturn. I will share those assurances with the Policy and Resources Committee as part of their consideration of financial risks and continuing budget monitoring.

I note the additional comments you have made in your response and I require to respond to those points as I have heard some of those points being repeated despite having been addressed at the time.

I share with you concern over the scale of the challenge facing health and social care partnerships along with the rest of the public sector. These are times of unprecedented financial and operational challenge and we jointly are in uncharted waters requiring close partnership working and collaboration. The configuration of services in Argyll and Bute and the cross boundary contracting relationships with Greater Glasgow and Clyde are added layers of complication.

The entire direction of service model change is targeted at reducing hospital and institutional care and increasing community services. The obvious effect of that is to increase the costs of community based services. The point I made in my earlier communication therefore still stands, that the requirement to account financial

performance back to parent bodies should not imply an acceptance that any overspend in social care costs are the sole responsibility of the council. I think it is important that there is a cross table understanding and acceptance of this principle now rather than at any time in future if a net overspend is encountered in any financial year by the Partnership.

Turning to a repeated comment in relation to the financial resources at the set-up of the partnership and in particular a due diligence exercise and reference to a sum of £1.580m. This point was addressed at the time but for the sake of clarity I need to confirm that the allocation to the partnership was in full compliance with the guidance issued by the Scottish Government. I would also point out that almost two thirds of the £1.580m sum which is referenced arose from decisions taken by the IJB itself regarding savings already agreed by the Council. Finally, the allocation of resources supported the delivery of services in 16/17 and the Partnership actually reported an underspend of £479k in that financial year due to the diligent budget management by the Partnership's officers.

I note your comments regarding the assumptions presented in the Council's budget outlook papers and the challenges this will present to the partnership. Similar challenges are being faced by the retained council services and we await further guidance from the Scottish Government about what must and must not be done in relation to funding of health and social care partnerships. Additionally there will need to be a political decision as part of the Council's budget setting processes once this guidance is received and we have clarity on what resources the Scottish Government is providing to councils for 2018/19. The assumptions are included to assist with planning however these are not decisions. Updated budget outlooks will be presented to the Policy and Resources Committee at every meeting right up to the budget setting meeting in February and the latest budget outlook, due at the Committee meeting on 19 October 2017, is likely to show a variation in the budget gap as assumptions have been updated.

I would highlight however that the additional one off allocation provided by the Council for 2017/18 to assist with transformation is not baselined and the council will seek clarity on its use for that purpose. This should not be assumed in planning for 2018/19. Officers are available to discuss these projections with the partnership staff to ensure there is clarity on the financial challenges facing both parties.

Finally, I note you have made a comment regarding transparency of information to members and hopefully I can assist your understanding that will provide assurance. The papers presented to members provide direct links to the papers presented to the IJB and through a budgetary cycle we present a series of updates and hold members' seminars in developing the budget options that are determined in February. The challenge for health and social care is clearly articulated but it also sits alongside the innumerable challenges across a very broad range of service areas that members need to balance with. Far from losing sight of our shared responsibility and commitment to care services, elected members are keenly aware of these responsibilities and hopefully the very supportive session at the recent council meeting that you attended demonstrated just how important they hold these services to be. Equally however the establishment of the partnership does not remove social care services from being

impacted by the financial challenges faced by the council in relation to the year on year reduction in resources that we experience.

I thank you for providing the assurance sought by the Policy and Resources Committee and look forward to a closer working relationship in responding to our joint challenges.

Yours sincerely

Cleland Sneddon
Chief Executive

Copy - Councillor Aileen Morton, Leader
 Councillor Gary Mulvaney, Depute Leader
 Councillor Kieron Green
 Councillor Iain Shonny Paterson
 Councillor Alastair Redman
 Councillor Jim Anderson
 Christina West, Chief Officer, Health and Social Care Partnership