

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

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**1. INTRODUCTION**

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

- Revenue Budget Monitoring Report as at 31 December 2017
- Monitoring of Service Choices Savings as at 31 December 2017
- Monitoring of Financial Risks as at 31 December 2017
- Capital Plan Monitoring Report as at 31 December 2017
- Treasury Monitoring Report as at 31 December 2017
- Reserves and Balances as at 31 December 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 £1.000m as at the end of December 2017. The underspend is in respect of the following:

- Underspend within NPDO (utilities and deductions) as a result of enhanced contract management £0.098m.
- Over recovery of vacancy savings within Customer Services and Development and Infrastructure of £0.153m.
- Grant income in Development and Infrastructure relating to expenditure in the previous year £0.097m.
- Underspend in fleet of £0.132m relating to a delay in replacing vehicles over 5 years old.
- Over-recovery of income within regulatory services (fish export certifications, private landlord registration and appraisal of water supplies) amounting to £0.070m.
- Over recovering of income within piers and harbours as a result of RET £0.200m.
- 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.
- Estimated £0.395m underspend within utilities across the Council.
- Over recovery of Council Tax income amounting to £0.600m.
- Overspend of £0.177m in relation to dangerous buildings.
- Increased demand within ASN support and residential schools placement estimated overspend of £0.213m.
- Under recovery of planning fee income estimated to be £0.240m.
- Estimated winter maintenance overspend of £0.450m. This was the figure calculated as at the end of December, however, due to the snow in January, this overspend is likely to increase and a further estimate will be calculated.

2.1.3 Where the forecast outturn position is recurring in nature, this has already been accounted for as part of the budget outlook position.

2.1.4 There is a year to date surplus of £6.837m against the year to date budgeted expenditure of £155.981m. More forecast is on the forecast outturn position, hence why sometimes the year to date position is not updated. The majority of this variance relates to the timing of income and expenditure and any variances that give rise to a forecast variance have been accounted for.

### **Live Argyll**

2.1.5 The Live Argyll management fee for the 6 month period within 2017-18 was calculated using exactly half of what a full year management fee would have been. However, expenditure and income do not occur evenly throughout the year and therefore Strategic Finance have carried out a line by line analysis to determine the correct allocation required for the 6 month period. This analysis will have no impact on the bottom line in the Council's accounts as budget and actuals will be matched.

- 2.1.6 The analysis has resulted in an increase required to the management fee of £0.039, this is summarised below:

	£000
Earmarked reserves not utilised prior to transfer to Live Argyll	57
Adjustments in relation to under/overspend of budget as at 30 September	(21)
Apprenticeship Levy budget transferred	3
<b>Total</b>	<b>39</b>

- 2.1.7 One further change is required in respect of auto enrolment. The Council have a half year budget provision in 2017-18 of £0.205m in respect of the auto enrolment which covers all staff, including Live Argyll and Health and Social Care Partnership staff. The payroll section have now completed an analysis of who was auto enrolled and the half year cost for Live Argyll is £0.009m. The management fee requires to be adjusted to reflect the budget required and this will be transferred from existing budget provision held by the Council.
- 2.1.8 Council are asked to agree to increase the 2017-18 Live Argyll management fee from £1.728m to £1.776m to reflect these changes.
- 2.1.9 Further accounting adjustments to the management fee will be required at the year end to ensure that costs are apportioned to the correct organisation to meet statutory accounting requirements. If there is no impact on the Council's bottom line position Council are asked to give delegation to the Head of Strategic Finance to vary the management fee for the accounting adjustments.

### **Health and Social Care Partnership**

- 2.1.10 Similar to the Live Argyll change in respect of auto enrolment, the half year cost for the Health and Social Care Partnership is £0.044m and Council are asked to approve that the payment to Health and Social Care Partnership in 2017-18 is increased by this amount. This will be transferred from existing budget provision held by the Council.

## **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, 109 have already been delivered, 13 are on track to be delivered and 3 have a potential shortfall. Overall the delivery of service choices savings has been successful.

2.2.3 There are 3 savings options with potential shortfalls. Two have previously been reported in relation to ASN Efficiencies and Residential Schools. The new potential shortfall relates to music tuition. Summary information is noted below with further information contained within appendices the main Monitoring of Service Choices Savings report.

- 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 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. In addition, it is anticipated that this will continue into next year due to increased demand for the service therefore £0.134m of the saving in 2018-19 will be unable to be met and has been included within the 2018-19 budget forecasts.
- 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. There is a shortfall in the saving of £0.063m in 2017-18, however, it is hoped that the service can contain expenditure within budget in 2018-19.
- Music Instruction Fees - After the 50% rise in fees the saving has not been met in full as take-up of the service has reduced. The full year saving was £0.044m and it is estimated that only £0.009m of the savings will be achieved in 2017-18. An in depth analysis of pupil numbers and patterns is being undertaken at present. Individual conversations with instructors regarding pupil numbers are ongoing with a view to increase the numbers of pupils who pay for tuition.

## **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. The potential financial impact for Council wide risks remaining in 2017-18 has been quantified as £2.125m. There is only one risk with a value that has been assessed as possible and this is in respect of an additional funding request from the IJB.

2.3.3 There are currently 33 departmental risks totalling £3.256m. 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 - Roads 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 8 December 2017 for the period to the end of October are noted below:

- Homeless Temporary Accommodation – this risk has been removed for 2017-18 as full universal credit will not start until 2018-19.
- Energy Costs - a review has been carried out for 2017-18 and there is a forecast underspend for the year. This risk will be included in the 2018-19 risks.

## 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 £23.854m compared to a budget for the year to date of £24.836m giving rise to an underspend for the year to date of £0.982m (4%). The forecast outturn for the year is a forecasted underspend of £2.369m.

2.4.3 The £0.982m year to date underspend relates to a number of projects where the year to date spend is behind the year to date profile.

2.4.4 The £2.369m forecast underspend includes the following underspends that are all recommended to be slipped through to 2018-19:  
 £0.500m in relation to roads reconstruction  
 £0.315m in relation to street lighting  
 £0.695m for Islay High and Rosneath Primary School Pitches – business cases will be prepared with spend forecast in 2018-19.

2.4.5 The forecast total net projects costs on the capital plan are £218.892m compared to a total budget for all projects of £218.355m giving rise to a forecast overspend for the overall capital plan of £0.537m. Appendix 3 within the capital plan monitoring report summarises the material variances contributing to the overspend position and Members are asked to give consideration to this overspend as part of the capital plan process for 2018-

19.

2.4.6 In respect of total project performance, there are 201 projects within the capital plan, 171 are complete or on target and 29 are off target and recoverable and 1 is off target and a problem. The one project which is currently off track and a problem is Queens Hall (CHORD Dunoon). Further explanation is contained within Appendix 3a of the capital monitoring report.

## **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 external borrowing of the Council increased by £0.021m during the period, due to the repayment of the short term temporary borrowing of £10m which had previously been taken out for cash flow purposes offset by a new £10m long term loan from the Public Works Loans Board and temporary borrowing of £0.021m.

2.5.3 Borrowing is below the Capital Financing Requirement for the period to 31 December 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 The levels of investments were £79.5m at 31 December 2017. The rate of return achieved was 0.541% which compares favourably with the target of 7 day LIBID which was 0.357%.

## **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 £93.115m 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 Of the earmarked balance of £41.519:

- £25.233m is invested or committed for major initiatives
- £3.941m has already been drawn down
- £4.481m is still to be drawn down in 2017-18

- £7.429m is planned to spend in future years and
- £0.435m can be released back to the General Fund.

2.6.5 The balance that can be released back to the General Fund relates to employability. In order to meet the Employability Team's ongoing contractual obligations until the end of 2017-18 the Council approved an earmarking of £0.456m in November 2015. Some of the earmarking was drawn down during 2016-17, however, the year-end position for 2017-18 is forecast to be a surplus of £0.114m. This will result in a forecast balance within earmarking of £0.435m which is no longer required and can be released back to the General Fund. This figure will be finalised at the conclusion of 2017-18.

2.6.6 The General Fund contingency is set at 2% of net expenditure for 2017-18. £4m has also been set aside for budget smoothing. Over and above this there is an estimated surplus of £4.594m as shown in the table below.

	<b>£000</b>
Unallocated General Fund Balance as at 31 March 2017	3,299
Budgeted surplus for 2017-18	193
Balance no longer required	0
<b>Revised Unallocated General Fund Balance</b>	<b>3,492</b>
2017-18 Pay Award funding agreed Council 28 September 2017	(123)
Acquisition of land agreed Council 28 September 2017 – use of reserves up to £265k was approved, however, only £110k was required	(110)
Dunoon BIDS agreed Council 30 November 2017	(100)
Estimated Release of employability earmarking agreed P&R 8 December 2017	435
Current Forecast Outturn for 2017-18 as at 31 December 2017	1,000
<b>Estimated Unallocated General Fund Balance as at 31 March 2018</b>	<b>4,594</b>

### 3. RECOMMENDATIONS

3.1 It is recommended that the Policy and Resources Committee:

- a) Consider the revenue budget monitoring report as at 31 December 2017.
- b) Recommend to Council that the 2017-18 Live Argyll management fee is increased from £1.728m to £1.776m in line with the analysis carried out by Strategic Finance.
- c) Recommend to Council that providing there is no impact on the Council's bottom line position, delegation is given to the Head of Strategic Finance to vary the management fee to reflect any accounting

adjustments required at the year-end.

- d) Recommend to Council that the payment to the Health and Social Care Partnership in 2017-18 is increased by £0.044m to transfer over the budget required for auto enrolment.
- e) Note the progress of the service choices policy saving options as at 31 December 2017.
- f) Note the current assessment of the Council's financial risks.
- g) Consider the capital plan monitoring report as at 31 December 2017 and approve the over project cost changes, the project slippages and accelerations noted within Appendix 7 of the capital plan monitoring report.
- h) Note the treasury monitoring report as at 31 December 2017.
- i) Consider the reserves and balances report as at 31 December 2017.

#### **4. IMPLICATIONS**

4.1	Policy –	None.
4.2	Financial -	Outlines the revenue and capital monitoring for 2017-18 as at 31 December 2017.
4.3	Legal -	None.
4.4	HR -	None.
4.5	Equalities -	None.
4.6	Risk -	Risks are included in financial risks report.
4.7	Customer Service -	None.

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**16 January 2018**

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