
2018/19 UNAUDITED REVENUE OUTTURN

Report by the Chief Financial Officer

EXECUTIVE COMMITTEE

4 June 2019

1 PURPOSE AND SUMMARY

- 1.1 This report provides the Executive Committee with a statement comparing final revenue outturn expenditure and income for 2018/19 with the final approved budget for the year along with explanations for significant variances.**
- 1.2 An unaudited outturn net underspend of £1.344m was achieved in the 2018/19 revenue budget. The £1.344m net underspend (0.52% of final approved budget) was delivered following a number of earmarked balances approved by the Executive Committee during 2018/19. In total, these amount to £7.365m and relate to a number of initiatives across departments and specifically include £1.158m of carry forward for Devolved School Management (DSM including PEF). The net outturn position has primarily been achieved through the completion of a balance sheet review previously reported through Executive revenue monitoring during 2018/19. This review highlighted a previous over accrual of Housing Benefit, the conclusion of which has resulted in a one off benefit of £1.215m to the revenue account in 2018/19. The remaining services have delivered a small underspend position having delivered significant financial plan savings totalling £16.4m. A high level summary of the outturn position in each Council Service is detailed in section 4 of this report.
- 1.3 2018/19 continued to be a year of change for the Council with a significant change programme undertaken as well as the ongoing stabilisation and developments in the new ERP system. As a result of further development of Business World system functionality during 2018/19, a new budget forecasting tool was developed and tested. This is now being used by finance staff and is in the process of being rolled out to budget managers for full roll out to all budget managers during 2019/20. Real time financial reporting with drill-down functionality to individual transaction level within Business World is also now available to budget managers. This additional financial information, once fully operational, will assist managers with the process of effective budget management.
- 1.4 2018/19 represents the third operational year of the Health & Social Care partnership which has resulted in a fundamentally different way of working with NHS Borders through the Integration Joint Board (IJB). Within integrated Health & Social Care services, during 2018/19, additional in-year budget allocations were made to the value of £3.2m to support delayed discharge and alleviate service pressures of £1.8m. In year £1.4m of savings which were anticipated by the Financial plan were not delivered and this required additional financial resources from the Council to ensure that the Service did not overspend its allocated budget. Of this identified £3.2m budget shortfall, £1.2m has now been vired in to the service on a permanent basis. The H&SC partnership budget presents significant risks to

the Council and will require robust management action in 2019/20 and future years to both contain demand pressures within existing budgets and deliver required financial plan savings. It should be noted that the Council will not be in a position to allocate substantial additional resources to the partnership in 2019/20 and as such it is essential that managers manage their services within approved resource levels.

- 1.5 The need to enhance the delivery of service change and savings through a revised 5 year programme of transformation across the Council – called 'Fit for 2024' - was recognised and approved by Council on the 28th February 2019. This programme, led by CMT, has the aim of delivering a Council that is adaptable, efficient and effective, and one ultimately capable of not only meeting the challenges ahead, but of fully optimising outcomes for the citizens and communities for which it is responsible. This programme will be designed to deliver savings in a more cross cutting, permanent and sustainable way in the future through a planned series of service reviews.
- 1.6 It should be noted that, overall, as required in the Financial Plan, savings of £16.414m were successfully delivered during 2018/19. Of these, £11.656m (71%) were delivered permanently. The remaining £4.758m (29%) of savings were achieved on a temporary basis. Particular emphasis is being placed by CMT on the permanent delivery of these savings during the early part of 2019/20 or where this is not possible on the identification of alternative proposals.

2 RECOMMENDATIONS

2.1 It is recommended that the Executive Committee:

- (a) Agrees the content of this report and notes the outturn position for 2018/19 prior to Statutory Audit;**
- (b) Notes that this draft unaudited outturn position will inform the budgetary control process during 2019/20 and financial planning process for the current and future years;**
- (c) Approves the adjustments to previously approved earmarked balances noted in Appendix 1; and**
- (d) Endorses the Corporate Management Team proposals for the use of the balance of £1.344m identified in 6.2 of this report.**

3 BACKGROUND

- 3.1 On 28 February 2019, Council approved an updated Financial Strategy for the years 2019/20 - 2023/24. Specifically within the Financial Strategy, the key financial objectives were to:
- (a) set a prudent, sustainable budget in line with available resources;
 - (b) continue to invest in infrastructure that will raise standards, improve quality of life for local communities and reduce future demand for services.
 - (c) set a capital programme which keeps debt within prudent sustainable limits as set out in the treasury strategy,
 - (d) provide for loans charges of £20.358m (2019/20) to finance capital investment recognising the long term implications of capital borrowing. This figure is planned to rise in future years reflecting the Council's capital plans;
 - (e) maximise income while keeping fees charged to service users at an affordable level;
 - (f) continue to invest in new ways of working and efficiency projects to deliver long term financial savings and service benefits;
 - (g) focus on preventative revenue and capital spend; and,
 - (h) recognising the challenges faced by the organisation, maintain unallocated reserves of £6.315m for 2019/20 as outlined in section 5 below and in line with the assessed risk register in appendix 1.
- 3.2 The assessment as at 31 March 2019 is that despite financial pressures arising during the 2018/19 financial year the approved strategy remains appropriate and assured with unallocated balances of £6.315m now in place as planned from the 1st April 2019.
- 3.3 During 2018/19 detailed Revenue Monitoring Reports were reviewed by Corporate Management Team regularly allowing appropriate corporate management action to be taken during the year where required. In line with Financial Regulations quarterly monitoring reports were submitted to the Executive Committee. Where appropriate, approval was sought from the Executive Committee to vary the budgets through budget virement throughout the year.
- 3.4 Detailed budgetary control reports for 2018/19 were submitted for consideration by the Executive Committee on:
- (a) 21 August 2018 (as at the end of June);
 - (b) 20 November 2018 (as at the end of September);
 - (c) 12 February 2019 (as at the end of December).
- 3.5 Additionally, a further report requesting final virements and earmarked balances was presented to the Executive Committee on 12 March 2019.
- 3.6 In addition to reporting actual expenditure and income to date, these reports projected a final outturn position compared against the latest approved budget and provided explanations for material variances. This report now compares the final, but unaudited, outturn for 2018/19 with final approved budgets.
- 3.7 It was agreed by CMT at the start of 2018/19 to reduce discretionary spend wherever possible across the Council, this direction was followed up in November 2018 with an instruction that all Services must impose a freeze on all non-essential discretionary spend during the remainder of 2018/19 in

order to assist the Council's overall financial position. The favourable position at year-end has been assisted by this planned management action.

4 FINAL OUTTURN STATEMENT

4.1 The revenue account for 2018/19 delivered a favourable variance of £1.344m (0.52% of final approved budget). The outturn includes adjustments for earmarked balances brought forward from previous years and those carried forward to 2019/20. The Council has continued to operate within a challenging environment during 2018/19 due to ongoing demographic and other demand pressures, primarily within Health & Social Care, delays in delivery of savings, pay and price increases and restrictions in public spending. Key points to note from the outturn position are:

- The work to fully embed Business World ERP, the new integrated Finance, HR and Procurement system, continued during the year with the developments and roll out of new functionality, training and the upgrade to Milestone 7.2. The scale and complexity of this transformational change has required significant resource commitment within the Council. Significant progress has been made in 2018/19 including the launch of a new budget forecasting tool which is now being used by finance staff and is in the process of being rolled out to budget managers. This forecasting tool will be fully rolled out to all budget managers during 2019/20. Real time financial reporting with drill-down functionality to individual transaction level within Business World is also now available to budget managers assisting managers with the process of effective budget management. A prioritised risk based approach to budget monitoring continues to be adopted to ensure that any risks posed to the control environment are mitigated. The process of budget monitoring will be greatly assisted by the new ERP system in 2019/20.
- The Council experiencing significant financial pressures during 2018/19, primarily in Assets & Infrastructure and Health & Social Care, attributable to increased costs and delays in the delivery of planned savings in the revenue budget. CMT reviewed the position continually through the year and took action through a range of alternative measures to identify savings which offset this position and delivered an underspend position by the 31st March 2019. It is increasingly evident that the Council is finding it more and more difficult to balance the revenue budget given the sustained service demands e.g. in Adult Social Care. It is essential to ensure the financial sustainability of the council that the revenue budget is balanced and that this is achieved through the delivery of permanent savings in line with the timescales approved in the Financial Plan. The 2019/20 Financial Plan recognised the demand challenges within H&SC, robust management action is now required to both manage demand pressures within existing budgets and deliver required financial plan savings. The performance of the H&SC partnership and ongoing concerns regarding the NHS Borders budget is a key risk facing the Council.
- Members will recall the initial results of a balance sheet review undertaken during 2018/19 indicated that there has been an over accrual of Housing Benefit in previous years which was partially released during 2018/19 to support the revenue plan. Work to finalise the position with respect to Housing benefit has confirmed that previous estimates of the financial performance of the service in past financial years have been too pessimistic and a further release of budget has been possible at the year end. The service costs £28m per annum. The work undertaken has now identified the previous accrual is not required and £1.215m (equivalent to 4% of annual spend) can

now be released to assist with the 2018/19 year end position. This exercise ensures the budget for the service more accurately reflects actual activity levels moving forward.

A high level summary of the outturn position in each Council department is shown below. The detailed outturn statement for the 2018/19 revenue budget is shown in Appendix 1.

4.2 Culture & Sport
Favourable £0.019m

Contracted Services is presenting a small favourable variance of £0.019m, primarily attributable to lower depreciation and interest charges on school sports pitches.

4.3 Asset & Infrastructure
Favourable £0.309m

Asset and Infrastructure have experienced a challenging year, particularly around the delivery of Financial Plan savings. The out-turn position is however an underspend (£0.309m), this is primarily relating to a lower than average winter in the last quarter.

4.4 Economic Development & Corporate Services
Favourable £0.009m

Economic Development & Corporate Services recorded a broadly balanced year-end position, the underspend to budget is mainly due to higher than budgeted Commercial Property Income £0.015m; offset by small adverse spend to budget in the other service areas.

4.5 Health & Social Care (H&SC)
Favourable £0.271m

H&SC experienced significant pressures in 2018/2019, mainly experienced within the services delegated to the Health and Social Care Partnership. Additional in-year budget of £3.2m was allocated to the Service; alleviating service pressures of £1.8m and £1.4m of unachievable Financial Plan savings. Additional virements were required to address a combination of demand pressures through additional care packages, pressures arising through support provided to manage delayed discharge in the NHS and the failure to deliver savings required by the Financial Plan. The demand pressures are primarily attributable to greater number of clients, with more intensive care packages being required. It should be noted that the H&SC partnership with NHS Borders is under significant financial pressure with NHS Borders currently reliant upon additional financial support from Government being provided to address their on-going deficit. The small year-end underspend delivered by the H&SC service was against a revised budget which was £3.2m higher than the starting position. The H&SC budget for 2019/20 has seen an increase in core recurrent resources of £2.496m. It is essential that managers take action to control budgets within approved resources as the Council is not in a position to provide more resources to the partnership than were planned and approved through the 2019/20 budget agreed in February 2019.

4.6 Children & Young People
Adverse £0.413m

Early Years has an overall underspend of £0.307m which has been delivered due to slower than expected uptake for 1140 hours, expanded private places (£0.094m) and discretionary spend freeze (£0.040m) which offsets a range of pressures across other service areas within the directorate. Small adverse variances have been reported across schools primarily due to additional senior teaching staff across some high schools and a delay in the delivery of

a small number of financial plan savings. Within Children & Families Social Work, External Placements is reporting an outturn pressure of £0.404m due to the volume and cost of current high-tariff placements. This area remains a service priority and work is ongoing to develop local solutions and facilities to meet the need of young people within their communities and avoid wherever possible sending them out the area. This includes the Council's continuing partnership with Aberlour and the development of additional youth mental health support services.

4.7 Customer & Communities
Favourable £0.195m

Customer & Communities has delivered an underspend position of £0.195m mainly due to increased fee income Blue Badge scheme, Registrars' Fees and street naming and numbering.

4.8 Housing Benefit
Favourable £1.215m

As highlighted in more detail at 4.1 above this favourable variance is due to additional one-off funding from Housing Benefit as a result of a balance sheet review.

4.9 Finance, IT & Procurement
Adverse £0.059m

Finance, IT and Procurement is reporting an outturn pressure of £0.059m. This is attributable to reprofiling of the IT transformation programme which has resulted in a small amount of spend (£0.054m) being retained as revenue expenditure as it cannot be capitalised.

4.10 Loans Charges
Adverse £0.188m

Significant virement was approved in year from the loans charges budget of £2.428m due to the tactical decision to defer capital borrowing. The final outturn indicates this was £0.188m overly optimistic.

4.11 Human Resources
Adverse £0.074m

A pressure from payment of redundancy payments in 2018/19 has been partially offset by increased income within the Employment Support Service and discretionary savings across the Service.

4.12 Regulatory Services
Adverse £0.083m

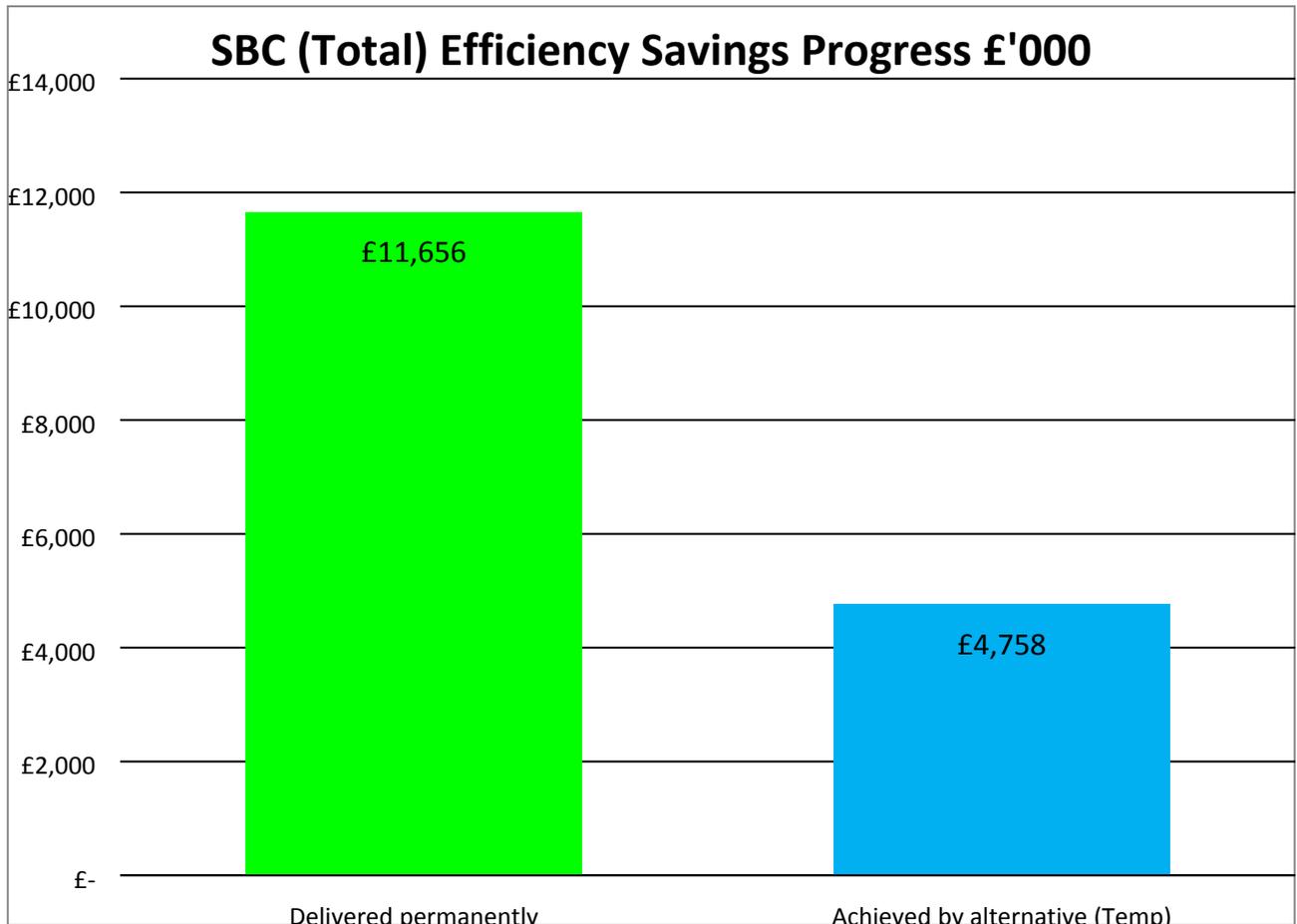
Overachievement of Building Standards and Development Control Income in the last quarter of the year, along with discretionary spend savings across the Service have allowed for the absorption of all but £83k of the £344k costs incurred to date in direct action works in Jedburgh as approved by the Executive Committee in February 2019.

4.13 Funding (Including Council Tax)
Favourable £0.143m

Following year end accounting and rollover the final Council Tax outturn figure for the year was £0.080m more income than budgeted at £60.124m compared to a budget of £60.044m. Council Tax Reduction Scheme underspend by £0.063m mainly due to the reduced number of claims and claim adjustments for prior years.

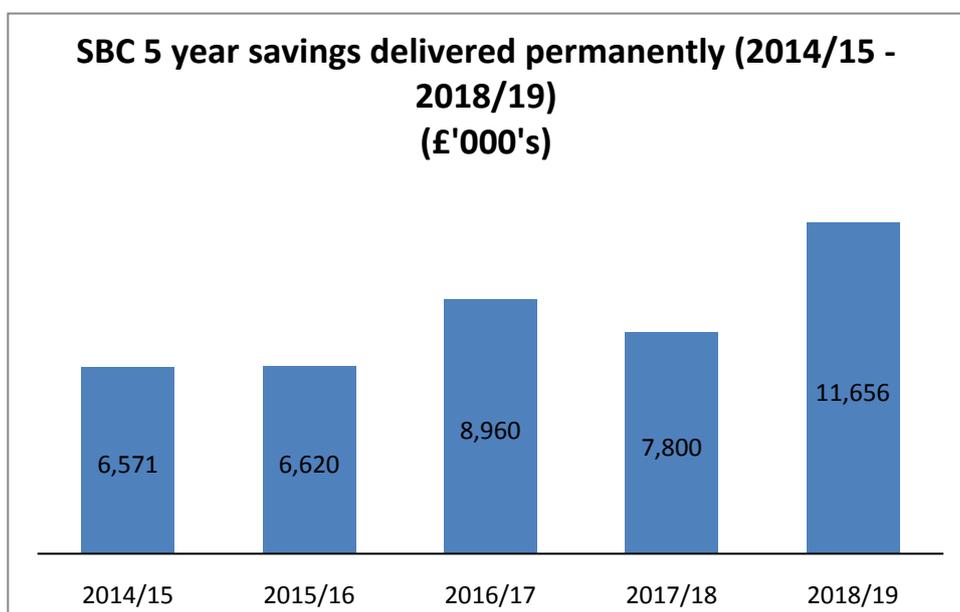
5 FINANCIAL PLAN SAVINGS

5.1 A summary of the delivery of all savings agreed within the 2018/19 Financial Plan is outlined in Appendix 2 to this report and is summarised for the Council as a whole below:



5.2 Overall, savings of £16.414m were delivered during 2018/19. Of these, £11.656m (71%) were delivered permanently. The remaining £4.758m (29%) of savings were achieved on a temporary basis, mainly as a result of timing issues, and these savings still require to be addressed permanently during 2019/20. The savings not yet delivered on a permanent basis highlights the need for robust scrutiny and challenge by Senior Officers and Elected Members and reinforces the importance of budgetary control by managers and regular reporting during the financial year. The CMT is now focussing particular emphasis on the permanent delivery of these remaining 2018/19 savings during the early part of 2019/20, or the identification of alternative proposals.

5.3 The chart above highlights the continuing scale of savings being delivered within the Council on an ongoing basis with a further £16.414m being delivered in 2018/19, £11.656m permanently (71% of total required). £7.8m of savings were delivered on a permanent basis in 2017/18 (64% of total required), £8.96m in 2016/17 (73% of total required), £6.62m in 2015/16 (85% of total required), £6.571m in 2014/15 (81% of total required). This demonstrates the scale of change undertaken within the Council over the last 5 years with permanent savings delivered over the past 5 years shown on the graph below. It should be noted that a significantly greater level of savings was required in 2018/19 compared to previous years.



- 5.4 The delivery of savings is the key to the ongoing financial sustainability of the Council and the risks of non-delivery pose a significant threat to the delivery of the financial plan. Ongoing effort will be required going forward to further improve this delivery performance due to the scale of further savings required in 2019/20 and future years. In response to this challenge the CMT has revised the Council approach to organisational change under the banner of 'Fit for 2024' which will reshape the transformation programme ensuring individual projects are more cross-cutting and focused on joined up business process review.

6 YEAR END POSITION

- 6.1 The favourable outturn position reported is subject to the statutory audit process.
- 6.2 The Corporate Management Team has identified a requirement to fund the following priorities in 2019/20 as part of the overall efficient management of the Council:

Priority	Value (£m)	Reason
Bad Debt provision	0.150	This increase will ensure the provision remains in line with management's assessment of high risk outstanding debts
Workforce management	0.400	The level of change in the organisation as a result of Fit for 2024 requires a provision to support workforce transformation including severance costs where appropriate
Borderlands	0.100	Council's contribution towards the development of the Borderlands business case and delivery model
Waste	0.344	As per the May Council report the Waste service has an additional funding requirement as a result of the implementation of the new Waste contract from June 2019
Children & Youth Services	0.200	Additional front line support to children and young people requiring support with mental health issues including 24 hour supported places to prevent escalation and avoid more expensive support models.

IT transformation	0.150	Increase IT transformation reserve to consolidate SBCares financial systems on to Business World and support IT transformation in the Council
Total	1.344	

7 IMPLICATIONS

7.1 Financial Recommendations

There are no costs attached to any of the recommendations contained in this report its content being specifically related to reporting the revenue account outturn as at 31 March 2019.

7.2 Risk and Mitigations

The final outturn position reported is subject to the external audit. Additionally, the recurring impact of reported pressures during the financial year and the temporary achievement of £4.758m of planned efficiency savings will require to be addressed on a permanent and recurrent basis in 2019/20. The Council's risk register identifies the failure of managers to control budgets effectively as being a key financial risk facing the Council and this risk is particularly applicable to the H&SC partnership.

7.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals contained in this report.

7.4 Acting Sustainably

There are no significant effects on the economy, community or environment.

7.5 Carbon Management

No effect on carbon emissions are anticipated from the recommendation of this report.

7.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

7.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to either the Scheme of Administration or the Scheme of Delegation is required as a result of this report.

8 CONSULTATION

- 8.1 The Corporate Management Team, the Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit & Risk, the Chief Officer HR and the Clerk to the Council are being consulted and any comments will be reflected in the report.

Approved by

David Robertson
Chief Financial Officer

Signature

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Background Papers:
Previous Minute Reference:

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Suzy Douglas can also give information on other language translations as well as providing additional copies.

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