

Finance Update

Report to: Board

Date: 19 June 2019

Report by: Kenny Dick, Head of Finance and Corporate Governance

Report No. B-23-2019

Agenda Item: 15

PURPOSE OF REPORT

To advise the Board on:

- The progress of the Annual Accounts and the latest projected financial position for 2018/19.
- The income collection and debt management position for 2018/19.
- The budget position for 2019/20.
- Progress on identifying and addressing the financial challenges for 2020/21 and subsequent years.

RECOMMENDATIONS

That the Board:

1. Notes the draft Annual Report and Accounts are expected to be completed and ready for submission to the external auditors on Monday 24 June 2019.
2. Notes the improved projected financial position for the 2018/19 financial year.
3. Notes the effective 2018/19 income collection and debt management activity.
4. Notes the budget position including identified risks for 2019/20
5. Notes progress on identifying and addressing the financial challenges for 2020/21 and subsequent years

Version Control and Consultation Recording Form

Version	Consultation	Manager	Brief Description of Changes	Date
	Senior Management			
	Legal Services			
	Corporate and Customer Services Directorate			
	Committee Consultation (where appropriate)			
	Partnership Forum Consultation (where appropriate)			
Equality Impact Assessment				
Confirm that Involvement and Equalities Team have been informed			YES <input type="checkbox"/>	NO <input checked="" type="checkbox"/>
EIA Carried Out			YES <input type="checkbox"/>	NO <input checked="" type="checkbox"/>
If yes, please attach the accompanying EIA and appendix and briefly outline the equality and diversity implications of this policy.				
If no, you are confirming that this report has been classified as an operational report and not a new policy or change to an existing policy (guidance, practice or procedure)			Name: K Dick Position: Head of Finance and Corporate Governance	
Authorised by Director	Name: Gordon Weir		Date: 24 May 2019	

1.0 INTRODUCTION

1.1 Corporate Plan Reference

Strategic Objective No 4

We will perform as an independent, effective and efficient scrutiny and improvement body, working to consolidate excellence, deliver cultural change, invest in a competent, confident workforce and work collaboratively with partner agencies to support the delivery of safe and compassionate, rights-based care.

Key Priority 4.1

Develop a best value approach underpinned by an efficiency saving regime to identify areas for savings, investment, and growth. This will enable us to meet future financial challenges, working collaboratively with our staff and partner bodies to continue to identify ways of reducing duplication and deploying flexible, innovative approaches to evidence public value. We will revise and strengthen our quality assurance processes and practices across all parts of the Care Inspectorate to ensure we deliver the highest quality work in a way that constantly evolves and improves.

Key Priority 4.5

Strengthen our governance arrangements and success reporting so that we are transparent, accountable and open to challenge on how we evidence our success and use of public monies and resources. We will review in partnership with Scottish Government, our legislative framework to ensure it is fit for purpose and acts as an enabler in delivering our statutory responsibilities of providing protection and assurance for people who use services and their carers.

2.0 ANNUAL REPORT AND ACCOUNTS PROGRESS

2.1 Submission to External Audit

Responsibility for the preparation of the Annual Report and Accounts is shared between several officers. The preparation of the Annual Report and Accounts is progressing satisfactorily and it is expected that the draft documents will be submitted to Audit Scotland for auditing purposes on 24 June 2019 in accordance with the agreed timetable.

2.2 2018/19 Projected Outturn

As noted in 2.1 above, the preparation of the 2018/19 financial statements is progressing satisfactorily. Based on the work to date, the projected financial outturns have been updated and compared to the projected financial position reported to the Board on 28 March 2019.

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2.3 Draft Financial Position

The annual accounts work completed to date projects that there will be a deficit of £1.253m to the core revenue element of the general reserve. Appendix 1 details the position against budget.

Comparison to Position Last Reported to the Board

	Projected Over/(Under)Spend Board 28 March 2019 £000	Latest Projected Over/(Under)Spend Position as at 31 May 2019 £000	Variance £000
Staff Costs	29,010	29,009	(1)
Accommodation Costs	2,486	2,422	(64)
Administrative Costs	2,620	2,491	(129)
Travel & Subsistence	1,574	1,625	51
Supplies and Services	2,705	2,621	(84)
Gross Expenditure	38,395	38,168	(227)
Fee Income	(11,836)	(11,911)	(75)
Grant in aid – core operating costs	(21,389)	(21,389)	0
Grant in aid – Business and Digital Transformation	(670)	(670)	0
Other grant income	(894)	(885)	9
Other income	(1,972)	(2,060)	(88)
Total Income	(36,761)	(36,915)	(154)
Net Expenditure	1,634	1,253	(381)
Gen Reserve Balance	1,055	1,436	381
Gen Reserve %age	3.17%	4.31%	

The latest budget monitoring statement is attached as Appendix 1. The main reasons for the £381k change in the projected financial position are detailed in the sections below.

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2.4 Staff Costs (Decrease of £1k)

The projected decrease in staff costs is mainly due to:

- The identified risk that some of the planned learning and development work may not be completed by 31 March has materialised. This work will now be completed in 2019/20. Projected expenditure has decreased by £43k.
- Other staff cost underspends totalling £11k.

These projected decreases totalling £54k are partially offset by projected cost increases of £53k as follows:

- The accounts must be prepared in accordance with International Financial Reporting Standards (IFRS). These require that annual leave and flexible working hours balances must be valued and accrued in order to disclose the true staff costs for the year. The latest projections show an increase of £9k in the value of accrued annual leave and flexi balances.
- Projected expenditure includes £32k for the SSSC recharge for the shared Senior HR Adviser responsible for the payroll and HR management information system implementation. This was previously projected in Supplies and Services, therefore, there is a corresponding decrease of £32k in this budget heading.
- Overtime costs for Scrutiny and Assurance are projected to increase by £12k.

2.5 Accommodation Costs (Decrease of £64k)

The projected decrease is due to the following:

- Rent and rates charges are expected to be £6k less than previously estimated.
- The reconfiguration of Compass House is expected to be £21k less than previously projected.
- Planned maintenance totalling £13k will now be completed in 2019/20.
- Unplanned repairs and maintenance costs are expected to be £24k less than previously estimated.

2.6 Administration Costs (Decrease of £129k)

The projected decrease of £129k is due to the following:

- There is a reduction in printing, stationery and postages projections of £26k. This is due to work estimated at £9k to develop resources to promote activity in children (My Active World) now not taking place until 2019/20 and a projected decrease in general printing and stationery costs of £17k.
- Savings from the revised telecoms contract are expected to be £36k more than previously estimated.
- The payroll / HR management information service has not developed at the pace we would have liked. This, alongside the recurring charges being less

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than previously projected, has resulted in a projected decrease in expenditure of £60k. This underspend will be partially used to fund additional support for this project in 2019/20.

- A projected reduction of £7k in filming costs relating to the Health and Social Care Standards.
- A current legal case projected to be concluded in 2018/19 is continuing in to 2019/20 with a projected decrease of £9k in fees.
- Planned media training is postponed until 2019/20 with a projected decrease of £11k in professional fees.

These decreases totalling £149k are partially offset by:

- An increase in projected costs of £8k for the CAPA 2 programme. The CAPA 2 programme is fully grant funded.
- Bad and doubtful debt for the year to 31 March was £10k more than budgeted.
- Other variances with a net projected increase of £2k.

2.7 Transport Costs (Increase of £51k)

Projected transport costs have increased by £51k. This is due to an increase in Scrutiny and Assurance travel and accommodation. Further analysis of this spend will be undertaken for the annual travel analysis report.

2.8 Supplies and Services Costs (Decrease of £84k)

The projected decrease is due to the following:

- ICT projected expenditure has decreased by £62k. This is mainly due to the roll out of the new Windows 10 / Office 365 enabled equipment and associated training taking longer than anticipated and moving into the 2019/20 financial year. The time required for this work has also meant other activity originally planned for 2018/19 has had to be delayed.
- The projected costs of £32k for the shared Senior HR advisor posts are now projected in staff costs (see 2.4).
- Hospitality and venue hire spend is projected to increase by £7k.
- Office furniture and equipment purchases are projected to be £3k more than previously estimated. This is due to the purchase of office furniture for the Dunfermline Office.

2.9 Income (Overall Increase of £154k)

2.9.1 Fee Income (Increase of £75k)

There is an overall increase of £75k projected for fee income this financial year.

There were less credits for continuation fees than projected and an increase of £26k is expected.

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The number of services completing their registration at 31 March 2019 was greater than estimated with an additional £49k of registration fees projected.

2.9.2 Grant funding (Decrease of £9k)

Previous projections included a grant for the My Active World project. This grant is now being received in 2019/20.

2.9.3 Other Income (Increase of £88k)

The projected increase in other income is due to the following:

- Additional shared services have been provided to the SSSC with an additional £16k of income projected.
- Income from seconded officers is projected to increase by £24k.
- The conclusion of the backdated VAT claim with HMRC has resulted in an additional claim being submitted for recovery of VAT for 2018/19. This is estimated to be £55k.

These increases in income totalling £95k are partially offset by the following projected decreases:

- Income from the sale of iPads is expected to be £5k less than previously projected.
- Lease income is projected to be £2k less than previously projected. This is due to a projected decrease in repairs and maintenance costs in the last quarter of the financial year.

2.10 Business and Digital Transformation

The cost associated with Business and Digital Transformation is contained within the main income and expenditure projections (Appendix 1).

Digital transformation has attracted specific Scottish Government funding and therefore the budget position is considered within this section.

Appendix 2 details the Business and Digital Transformation budget position. Current projections show the project expenditure will be £40k overspent over the life of the project.

2.11 Care About Physical Activity

During 2016/17 we received grant of £918k from the Scottish Government to fund the 'Care About Physical Activity' (CAPA) Programme. This funding was intended to fund the programme over three financial years. At the time the budget was agreed, it was expected that funding of £357k would be held in the general reserve for activity that will take place in 2018/19. The actual expenditure for 2017/18 was

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less than projected, and £359k of grant funding was carried forward in the general reserve for use during 2018/19.

The offer of grant to extend the CAPA Programme has been agreed, with funding totalling £750k awarded for the CAPA 2 Programme. This grant covers expenditure to be incurred over an 18 month period, beginning November 2018. Income of £210k and expenditure totalling £160k has been included in the projections in this report for the 2018/19 financial year.

Appendix 3 provides detailed expenditure information for these programmes.

3.0 2018/19 INCOME COLLECTION AND DEBT MANAGEMENT

During the year invoices totalling £11.287m were issued. Collection rates remain good.

Appendix 4 provides details of outstanding debt as at 31 March 2019 and compares this to the position as at 31 March 2018.

Appendix 5 provides details of the £0.043m debt written off during 2018/19.

It should be noted that the Executive Framework provides the Chief Executive with delegated authority to approve the write off of debt up to the value of £10,000.

The Sponsor Department must approve any debt write off in excess of this figure.

For the purposes of these authority limits it is the accumulated debt due from a service provider that is considered and not individual invoice values.

4.0 2019/20 BUDGET POSITION

4.1 Confirmation of Grant in Aid Funding

Our 2019/20 grant in aid funding has not yet been confirmed by the Sponsor Department.

We have authority from the Sponsor Department to draw down funding for our projected expenditure at the beginning of each month.

4.2 2019/20 Budget Position

There is no formal budget monitoring in the first quarter of the financial year but based on the expenditure patterns for April and May 2019 there is no reason to predict a significant budget variance at this stage in the financial year.

As noted in section 2.3 our general reserve balance is greater than previously predicted providing some additional comfort for dealing with unexpected net expenditure variations. It should be noted that £163k of the improved general

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reserve balance relates to expenditure originally planned for 2018/19 that will now be incurred in 2019/20. The table below summarises this position.

	£000
Total improvement in financial position	381
Expenditure delayed until 2019/20:	
Learning and development programme	43
Media training	11
Property planned maintenance	13
Payroll / HR service implementation	25
Legal fees	9
ICT modernisation	62
Total expenditure delayed until 2019/20	163
Available additional general reserve funding	218

4.3 2019/20 Budget Risks

Until such time as our grant in funding is confirmed there is a risk that the settlement may be different to the amount we are expecting.

We are still awaiting approval from the Scottish Government Pay Policy Unit to commence pay negotiations with the trade unions. A pay claim of 10% has been submitted by the trade unions which is significantly in excess of budget assumptions.

We are awaiting the outcome of business case submissions for additional funding. We have requested that as far as is possible additional funding is built into our core grant in aid settlement. This includes additional funding for the extra work anticipated from the expansion of early years service provision.

5.0 FINANCIAL STRATEGY

5.1 Revised Financial Strategy

As our 2019/20 grant in aid funding has not yet been confirmed by the Sponsor Department we have decided to delay the revision of the Financial Strategy until this is confirmed. We will also build in the outcomes of the additional funding business cases as these become known. The revised Financial Strategy will be submitted to the next Board meeting on 26 September 2019.

5.2 Member / Officer / Trade Union Budget Working Group

The Budget Working Group met in May 2019 to consider the projected budget deficits for 2020/21 and 2021/22 (based on the Indicative Budgets considered by

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the Board in March 2019).

The Group considered potential actions to reduce the predicted budget deficits and the confidence levels associated with delivering the savings associated with these actions. The Group will continue to meet regularly during 2019/20 and its work will inform the development of the revised Financial Strategy for Board consideration in September 2019.

6.0 BENEFITS FOR PEOPLE WHO USE CARE SERVICES AND THEIR CARERS

This report considers how the Care Inspectorate uses and reports on the use of the funds entrusted to it. This is a key element of public accountability and corporate governance. Public accountability and the governance framework are key drivers towards ensuring that the resources available are directed in accordance with corporate plans and objectives, with the ultimate aim of bringing benefits to people who use care services and their carers.

7.0 POLICY CONSIDERATIONS

In its Budget 2019/20 document, the Scottish Government said it faces a “very challenging overall budget position”, placing its financial considerations within the context of a reduced block grant from Westminster, uncertainty surrounding the relationship between the UK and the EU, and challenges faced by the Scottish economy.

As well as the broader financial landscape, this paper should be considered within the context of a range of policy developments and any additional responsibilities or projects that emerge from these. Major areas of continued policy focus include the continued implementation of health and social care integration and self-directed support, the expansion of funded early learning and childcare to 1,140 hours from August 2020, the Independent Care Review, the Child Protection Improvement Programme and developments relating to the National Health and Social Care Workforce Plan and the Health and Social Care (Staffing) (Scotland) Bill.

8.0 CONCLUSION

This report details an improvement on the previously projected 2018/19 financial position of circa £218k in usable additional funding held within the General Reserve.

Income collection and debt management performance has been effective.

At this early stage in the financial year no issues have been identified that create concerns about significant variance from the 2019/20 budget. However, risks to the 2019/20 budget have been identified.

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The financial challenges identified for 2020/21 and 2021/22 are being addressed through the member / officer / trade union working group. A revised Financial Strategy setting out the financial challenges we face up to 2025/26 will be considered by the Board at its meeting in September 2019.

LIST OF APPENDICES

- Appendix 1** - Care Inspectorate Revenue Budget Monitoring Statement for the Year to 31 March 2019
- Appendix 2** - Digital Transformation Expenditure Position as at 31 March 2019.
- Appendix 3** - CAPA and CAPA 2 Projected Expenditure and Funding for the Year to 31 March 2019.
- Appendix 4** - Outstanding Debt as at 31 March 2019.
- Appendix 5** - Debt Written Off 2018/19

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