

REPORT TO: Cabinet

MEETING DATE: 11 September 2012

BY: Executive Director (Support Services)

SUBJECT: Financial Review 2012/13 - Quarter 1

1 PURPOSE

- 1.1 To advise members of the Cabinet of the financial position at the end of the 1st quarter of the financial year 2012/13.

2 RECOMMENDATIONS

- 2.1 Members are recommended to;
- Note the financial performance of services at the end of June 2012;
 - Note the changes to financial risk assessments made at Section 3.6 noting also my reminder to all Executive Directors that all spending pressures must be managed within approved departmental budgets;
 - Approve the 2012/13 budget adjustments outlined at Section 3.14
 - Note my intention to report back to Cabinet or Council in October with regard to my review of the capital programme.

3 BACKGROUND

Budget Summary

- 3.1 At its meeting of 14 February 2012 the Council approved a budget for the 2012/13 financial year and an outline budget for two subsequent years.
- 3.2 The 2012/13 budget can be summarised as follows;
- Government general revenue grant confirmed as £170.8 million – an increase of 0.27% over the previous year.

- Increased expenditure totalling £222.9 million – an increase of 0.25% compared to the previous year's budget.
- Planned use of reserves totalling just over £4.0 million and a transfer from the Housing Revenue Account of just under £1.0 million.
- A gross General Services capital budget of £37.3 million and an HRA capital budget of £32M.

Reserves Position

- 3.3 At the 28th August Council meeting the Head of Council Resources reported on the results of the 2011/12 financial year. In summary, the Council ended the year with the General Services reserves it had expected. These are fully committed and total £14.745 million with details provided below in Table 1.

Table 1	General Services Reserves at 31 March 2012 (£m)
Required to support current and future budgets	6.357
Civil Emergency	2.000
Property Renewals	0.932
Cost Reduction Fund	3.733
DSM Earmarked Reserves	0.573
MELDAP/DAAT Earmarked Reserves	0.082
Insurance Fund	0.973
Capital Receipts Reserve	0.095
Total	14.745

General Services Summary for Quarter One

- 3.4 A summary of the financial position across each of the Business Groups at the end of June 2012 is appended at Appendix 1a. The overall picture at the end of June is an under-spend when compared to budget of £687,000. This has been achieved mostly by under-spends within Support Services Groups and a slightly better than anticipated performance in relation to Council Tax income. By the end of the year we would expect council tax income will be £100,000 more than the budgeted amount.

3.5 However, the relatively positive picture at the end of June masks a number of significant underlying spending issues that suggest a deterioration in the Council's medium term financial prospects. In particular;

- Even at this early stage of the financial year it is highly likely that the Children's Wellbeing Service will significantly overspend their budget. The current prediction is that this budget will overspend by £850,000 reflecting a continuation of overspending evident in 2011/12, further cost pressures especially relating to external placement costs and delays in implementing planned 2012/13 Efficient Workforce Management savings. In the 2011/12 financial year these pressures were contained within the whole budget for Services for People. However, given the predicted size of the 2012/13 over-spend within Children's Wellbeing, and the likelihood that the September school census will now show an increasing roll, it will be necessary for cost reduction measures to be identified to contain spend within the approved Directorate budget.
- Across some Groups the progress made towards the required 2012/13 efficiency savings has been slower than planned. In particular, Facility Services, Cultural Services and Primary Schools – as well as the Children's Wellbeing Group noted above - have experienced delays in implementing Efficient Workforce Management changes and are unlikely to make the efficiency savings required of them for the 2012/13 financial year. The situation within Facility Management also creates some concern that this Group may not make the statutory break-even position required of a trading operation.
- Community Partnerships were over-spent in 2011/12 and it is likely that there will be an over-spend in the current financial year.
- New cost revenue pressures are emerging such as the additional, unbudgeted costs in operating the new Dunbar Community Facility, some 'one-off' costs involved in the transition to a new Wide Area Network for schools and increased costs relating to maternity costs within secondary schools.
- There have been delays in identifying and planning for some of the savings required in future financial years. This includes the 'Thematic Corporate Savings' required in 2014/15 but also a number of efficiency measures which are planned to deliver savings from April 2013.
- From discussion with the Scottish Government and COSLA it is becoming clear that 2013/14 and future Revenue Support Grant settlement will be 'top sliced' to fund certain central government commitments. These include the introduction of a replacement for the Council Tax Benefit scheme and Change Funds for Health

and Early Years. These adjustments have the potential to reduce the grant figures that East Lothian has previously assumed when setting its 2012-15 budget.

- 3.6 As a result of these pressures, seven business groups are now rated as a high financial risk – an increase from five at the end of the financial year. These increased risk ratings have been made to reflect the likely 2012/13 year-end position of each of the Groups – which in part have been informed by the financial position at the end of June.
- 3.7 Our current estimate is that the Council is at risk of an overspend in 2012/13 and without remedial action, may require to use reserves equal to or greater than the £4.0 million planned when the budget was set in February. However, given that we are still early in the financial year, this estimate comes with a relatively high degree of uncertainty.

Housing Revenue Account

- 3.8 As a result of the 2011/12 financial year-end the Housing Revenue Account currently sits with reserve balances totalling £6.7 million.
- 3.9 Progress with the 2012/13 budget has been much as expected. At the end of June 2012 the main revenue budgets were £177,000 under spent.
- 3.10 Spending on the Affordable Housing projects over the same period totalled £4.1million. The Modernisation Programme spent £2.5 million over the same period. This represents 21% of the annual total HRA capital budget.

General Services Capital Budgets

- 3.11 The original budget approved by Council on 14 February, planned for a gross capital spend of £37.3 million.
- 3.12 Gross spending up to the end of June 2012 has totalled £7.9 million – which represents 21% of the budgeted amount for 2012/13.
- 3.13 As reported to Council in my 2011/12 Year-end Review Report and in conjunction with the Corporate Asset Group, I am currently carrying out a major review of the capital programmes. This review will consider the combined impacts of 2011/12 project variations, both overspending and slippage, will also take into account a reassessment of all major capital investment proposals and will consider extending the planning horizon. I would anticipate that this will significantly reduce the likely capital spending for 2012-13 and subsequent years and as previously promised I will bring back a further report in this respect to the Cabinet or Council meeting in October

Budget Adjustments

- 3.14 In-year adjustments to the approved budget between the various Business Groups are required every financial year. The following adjustments have been carried out in the first three months of the

2012/13 financial year to reflect changes in Council and Scottish Government policy and changes in organisational responsibility:

- £197,000 has been added to the Adult Social Care Group to reflect the receipt of additional Revenue Support Grant from the Scottish Government for Telecare (£67,000) and Self-Directed Support (£130,000)
- £13,000 has been added to the Transport & Waste Group in line with additional Revenue Support Grant for the administration/operation of the Blue Badge scheme;
- £93,000 has been added to the Services for People budgets to reflect the receipt of additional Revenue Support Grant from the Scottish Government for an Early Years Change Fund (£25,000) and for the introduction of Curriculum for Excellence (£68,000)
- Inter Group transfers have been carried out relating to the Carbon Reduction Commitment (£53,000), the Anti-Social Behaviour budget (£122,000) and the opening of the John Gray Centre (£35,000) to reflect either changed funding and managerial arrangements.
- Various adjustments have been carried out to correctly account and budget for the new chief officer arrangements.

4 POLICY IMPLICATIONS

4.1 None.

5 EQUALITIES IMPACT ASSESSMENT

5.1 This Report is not applicable to the wellbeing of equalities groups and an Equalities Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

6.1 Financial – as described above

6.2 Personnel - none

6.3 Other – none

7 BACKGROUND PAPERS

7.1 Council 14 February 2012 – All papers

- 7.2 Members Library July 2012 – Draft Statement of Accounts
- 7.3 Audit & Governance Committee 17 July 2012 – All papers
- 7.4 Council 28 August 2012 – Item 06 – 2011/12 Year-End Financial Review

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DATE	30 August 2012

REVENUE BUDGET PERFORMANCE at 30 June 2012

	Budget for the year £000	Actual to 30/06/12 £000	Budget for the period £000	(Surplus) / Deficit for period £000	(Surplus) / Deficit %	Financial Risk Assessment	Change since last assessment
Services for People							
Children's Wellbeing	11,074	2,986	2,411	575	23.8%	High	No change
Pre-school Education & Childcare	5,534	3,842	3,870	(28)	(0.7%)	Low	No change
Additional Support for Learning	7,890	4,122	4,095	27	0.7%	Medium	No change
Schools - Primary	30,610	3,988	4,000	(12)	(0.3%)	Low	No change
Schools - Secondary	36,241	7,138	7,150	(12)	(0.2%)	Medium	No change
Schools Support Services	3,173	769	768	1	0.1%	High	Increase
Adult Wellbeing	45,384	8,064	7,799	265	3.4%	High	Increase
	139,906	30,909	30,093	816	2.7%		
Services for Communities							
Community Housing	3,372	1,349	1,527	(178)	(11.7%)	Low	No change
Housing Revenue Account	0	(2,577)	(2,400)	(177)	7.4%	Low	No change
Planning & Environmental Services	1,465	810	800	10	1.3%	Low	No change
Property Services	1,658	642	709	(67)	(9.4%)	Low	No change
Facility Support	3,061	(1,048)	(1,242)	194	(15.6%)	High	No change
Landscape & Countryside Mgt	5,732	1,130	1,150	(20)	(1.7%)	Medium	No change
Transport & Waste Services	13,142	1,422	1,873	(451)	(24.1%)	High	No change
	28,430	1,728	2,417	(689)	(28.5%)		

Support Services

Community Partnerships	(2,061)	245	245	0	0.0%	High	No change
Cultural Services	4,153	894	839	55	6.6%	High	No change
Community Development	3,538	602	625	(23)	(3.7%)	Medium	Increase
Healthy Living	4,366	526	529	(3)	(0.6%)	Medium	Increase
Economic Development	1,020	236	339	(103)	(30.4%)	Low	No change
Customer Services	1,448	518	589	(71)	(12.1%)	Low	No change
Financial Services	2,183	598	800	(202)	0.0%	Low	No change
Revenues & Benefits	936	77	140	(63)	(45.0%)	Low	No change
IT Services	1,845	616	665	(49)	0.0%	Low	No change
Law & Licensing	519	148	167	(19)	(11.4%)	Low	No change
Human Resources	1,620	367	398	(31)	0.0%	Low	No change
Policy/Governance/Internal Audit	3,508	664	665	(1)	0.0%	Low	No change
	23,075	5,491	6,001	(510)	(8.5%)		
Total All Departments	191,411	38,128	38,511	(383)	(1.0%)		
Corporate Management							
Revenue Support Grant (inc. NNDR)	(171,070)	(9,785)	(9,785)	0	0.0%	Low	No change
Asset Management	17,149	(352)	(355)	3	(0.8%)	Low	No change
Council Tax	(46,259)	(41,796)	(41,416)	(380)	0.9%	Low	No change
Joint Board Requisitions	10,561	2,639	2,639	0	0.0%	Low	No change
Other	3,715	5,317	5,244	73	1.4%	Low	No change
HRA Transfer	(247)	(247)	(247)	0	0.0%	Low	No change
Use of Reserves	(5,260)	0	0	0	0.0%	Low	No change
	(191,411)	(44,224)	(43,920)	(304)	0.7%		
Total All Council	0	(6,096)	(5,409)	(687)			

Financial Risk	Factors	Implications
High	<ul style="list-style-type: none"> - The Business Group has been assessed as likely to overspend in the financial year - There has been a history of overspending within Units / Groups - There are new or revised funding arrangement and / or legislature changes with financial significance - Trading Accounts are in deficit for the year. -Grant schemes, on which the Council is reliant are either unconfirmed or have not been confirmed -The service is demand led and the Council has restricted control over the level and form of service - New Services are planned 	<ul style="list-style-type: none"> -Cabinet & Members Library reports with financial implications are not passed under delegated powers -Directors / Heads of Service will be asked to prepare a financial recovery plan -The Head of Council Resources may take enforcement action to ensure effective budgetary control
Medium	<ul style="list-style-type: none"> - There is significant potential that Business Group could overspend in the financial year - There have been previous incidences of some overspending within Units / Groups - There are new or revised funding arrangement and / or legislature changes with financial significance - Trading Accounts are having difficulty meeting financial targets -Grant schemes, on which the Council is reliant are either unconfirmed or have not been confirmed 	<ul style="list-style-type: none"> -Members library reports are only passed when financial implications are addressed -Directors / Heads of Service will be asked to identify actions necessary to ensure expenditure is within budget by the year-end.
Low	<ul style="list-style-type: none"> -Finances are generally under control for the current financial year -Stable legislature, trading and funding environment -The service is supply led - i.e. the Council can decide the level and form of service -Finances in previous financial years have been controlled -Grant schemes are stable and not anticipated to change significantly 	<ul style="list-style-type: none"> -Members library reports are approved promptly under delegated powers