

REPORT TO: Cabinet

MEETING DATE: 11 December 2012

BY: Executive Director of Support Services

SUBJECT: Financial Review 2012/13 - Quarter 2

1 PURPOSE

- 1.1 To record the financial position at the end of the 2nd 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 September 2012 and in particular the implications this may have in developing budgets for years beyond 2012-13;
 - Note that measures continue to be taken to reduce expenditure and secure greater efficiencies with a view to increasing the reserves available for future budgets;
 - Approve the 2012/13 budget adjustments outlined at Section 3.19.

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 revenue 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 planned expenditure of £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.

Council Summary for Quarter Two

3.3 A summary of the financial position across each of the Business Groups at the end of September 2012 is appended at Appendix 1a. The overall picture at the end of September is an under-spend when compared to budget of £1.812 million.

3.4 This under-spend can be split as follows;

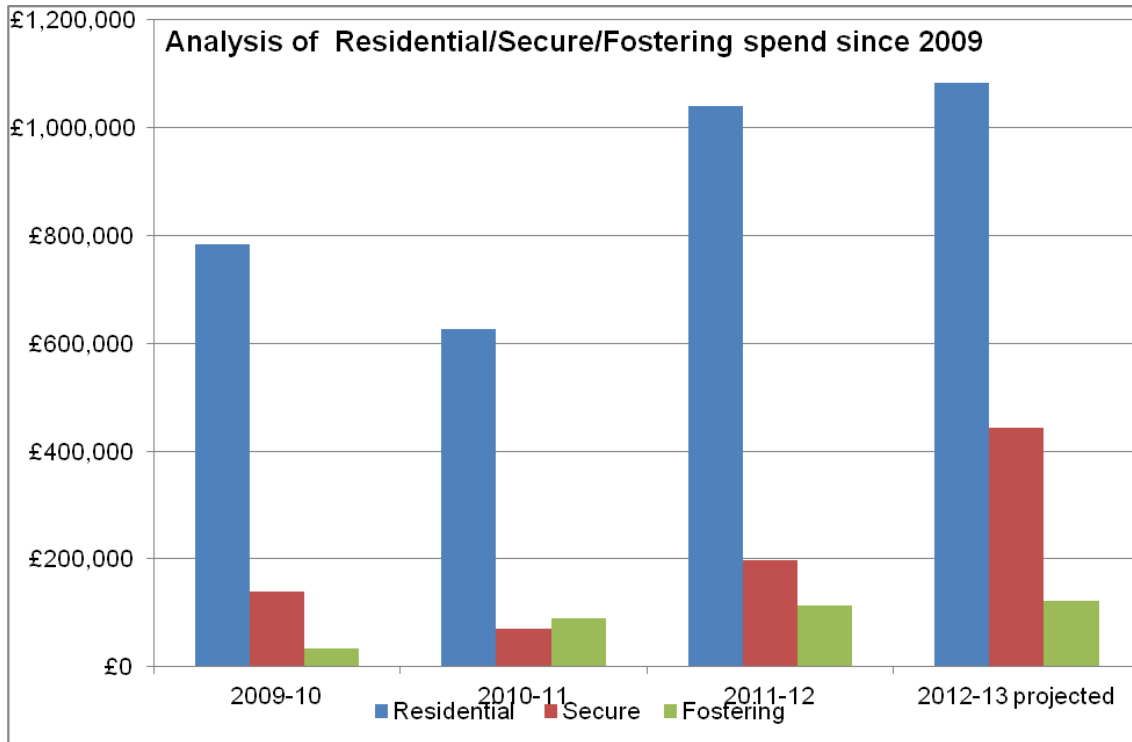
Area	Position at the end of September (£000s)	(Surplus) or Deficit
Housing Revenue Account	25	Surplus
Primary Schools DSM budgets	222	Surplus
Secondary Schools DSM budgets	155	Surplus
Other General Service Budgets	1,410	Surplus
Total	1,812	

3.5 The position at the end of September has been achieved by significant under-spends within the Primary Schools (largely due to lower than budgeted pupil numbers) and the Transport & Waste Groups and by other smaller under-spends across other Group budgets. Across the council, non-school staffing budgets are under-spent by approximately £460,000 at the end of September.

3.6 However, we would not expect the current under-spending to continue to the end of the year and in fact, our current forecast is that an overspend is likely and that the Council is likely to use more reserves than that planned when the 2012/13 budget was set. This is a deterioration from that reported within the Q1 and Mid Year reports and reflects two specific changes since these reports were written.

- Firstly, the overall position on the **Children's Wellbeing Group** is now forecast to be an over-spend of £1.2 million by the year-end. This is higher than the £0.8M estimated at the end of Quarter 1 due to the continued increase in the use of residential and secure placements. The historical pattern of this use has been highlighted in the graph below and shows a 40% increase in residential spend and a 300-400% increase in secure accommodation spend since 2009 . The increased volume of children and young people's referrals leading to statutory interventions requiring the use of external

fostering, residential and secure placements mirrors the national trend. The overall over-spend for Children's Wellbeing Group in 2012/13 is attributable to a continuation of overspending evident in 2011/12 predominantly due to the additional cost pressures relating to the external placements noted above and delays in implementing planned 2012/13 Efficient Workforce Management savings of £170K.



- Following an announcement in November, the grant we are now likely to receive from the Scottish Government in relation to the **Teacher Induction/Probationer Scheme** for 2012/13 is now likely to be £350,000 less than the amount received in 2011/12 and the amount anticipated for 2012/13. There are a number of reasons for the drop but the most relevant to East Lothian is the reduction in the number of probationers being recruited to East Lothian. Since 2010/11 this number has dropped from 101 to 58.
- 3.7 The financial results to the end of September have also seen an increasing concentration of financial challenges within the Services for People Department. The position within the Children's Wellbeing Group has been discussed above but is worth noting that the Additional Support for Learning Group and Adult Wellbeing Group are over-spent at the end of September and the Secondary Schools and School Support budgets are at risk of overspending at the year-end.
- 3.8 Eight business groups are now rated as a High financial risk – an increase of one from the position reported at the end of June. The increase relates to the Additional Support for Learning budget which has

been amended to reflect increased costs for pupil transport. Four of the eight high risk Groups are within the Services for People Department.

- 3.9 Apart from the changes noted above there has been relatively little change in the financial position reported at Quarter One and in the Mid Year Financial Strategy report. The majority of Support Services and Services for Communities are currently expected to end the year within budget. However, across some Groups the progress made towards the required 2012/13 efficiency savings has been slower than planned. It is currently unlikely that the Efficient Workforce Management savings targeted in Facility Services, Cultural Services, Children's Wellbeing and Primary Schools will be achieved in this financial year. In addition, Community Partnerships will end the year over- budget based upon the current level of grant payments committed from this Group.
- 3.10 Performance in relation to council tax is slightly better than anticipated. By the end of the year we expect council tax income to be £100,000 more than the budgeted amount. The final position in relation to council tax will depend heavily on the level of debt outstanding at the year-end and the level of bad debt provision which needs to be made.
- 3.11 Members will recall that the Mid Year Financial Strategy report identified a number of additional control measures required to reduce expenditure, secure greater efficiencies and increase the reserves available for future budgets. Although clearly not part of the expenditure figures for Quarter 2, work is ongoing in relation to these and it is hoped that these will have a positive effect by the time the Quarter 3 report is made to Cabinet. At this stage however it is worth re-iterating the specific control measures that have been approved. They are;
- All budget holders must ensure every effort is made to contain spending within approved budget levels. Where demand pressures are evident, this will require appropriate management actions and/or compensating cost reduction measures to be identified.
 - Additional purchasing commitments should be avoided where possible.
 - Expenditure on staffing should be minimised through continued application of stringent workforce management measures including careful monitoring of vacancies and minimising the use of overtime and temporary and agency working
- 3.12 One of the key aims for the usual Quarter Two finance reports is to give an indication of the level of reserves which are likely to be available to help balance future budgets. Based upon the results to date we are currently of the view that the Council should only estimate that it will have a relatively small amount of reserves (£2 million) to support setting budgets for 2013/14 and beyond.

Housing Revenue Account (HRA)

- 3.13 Progress with the 2012/13 HRA revenue budget has been much as expected. At the end of September 2012 the main revenue budgets were £26,000 under spent. Although the rental income figure was less than expected – due to slower delivery of new build affordable homes and those under the open market acquisition scheme - this was more than outweighed by other areas such as under-spends on staffing costs.
- 3.14 Spending on the Affordable Housing projects over the same period totalled £2.6 million. Projected expenditure at the year-end is likely to be £9.2 million, an under-spend of £7.8 million for the year. The Head of Housing & Environment has attributed the under-spend to the following;
- Delays in site starts across a number of projects to allow for additional unplanned pre-site work to be undertaken;
 - Delays in tender awards due to cost saving exercises;
 - The removal of the Abbeylands project from the programme;
 - Planning consent not granted for the Cockenzie Harbour site;
 - A review of both procurement processes and the available budgets for those sites being brought forward by developers.
- 3.15 The Modernisation budget spent £4.5 million over the same period. This represents 42% of the annual total. It is currently expected that this budget will be £500,000 under-spent by the year end. This is due to contract renewals and a review of the Scottish Housing Quality Standard requirements.
- 3.16 Under-spends on both these areas will feed through to lower debt charges and a higher year-end surplus within the Housing Revenue Account. Based upon the current HRA debt, interest rates and forecast capital spending we would expect debt charges of £6.3 million compared to a budgeted level of £7.1 million.

General Services Capital Budgets

- 3.17 As part of the Mid Year Financial Strategy review in October, the Council agreed to a revised capital expenditure limit of £33 million for 2012/13 capital expenditure. Since this date discussions have been ongoing between officers and the new Administration to manage the 2012/13 capital budget within the new limit.
- 3.18 Spending on projects, up to the end of September 2012, have been presented at Appendix 2. The total spend at the end of September totals £16.1 million or 48% of the revised spending limit.

Budget Adjustments

- 3.19 In-year adjustments to the approved budget between the various Business Groups are required every financial year. Where necessary

these are supported by reports to the Members Library. The following adjustments have been carried out between July – September of the 2012/13 financial year to reflect changes in Council and Scottish Government policy and changes in organisational responsibility:

- Inter group transfers of £103,000 have been carried out relating to changed managerial arrangements within various parts of the Services for People department.
- Inter group transfers of £380,000 to reflect the transfer of Corporate Health & Safety and Organisational Development from Human Resources to a new Corporate Policy and Improvement team

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 – “Council Financial Strategy 2012/13 to 2014/15”

7.2 Member’s Library May 2012 (116/12) – “Capital Investment & Treasury Management Strategy 2012/13 to 2014/14”

7.3 Council 28 August 2012 – Item 6 “2011/12 Year-End Financial Review”

7.4 Cabinet 11 September 2012 – “Financial Review 2012/13 – Quarter 1”

7.5 Audit & Governance Committee 18 September 2012 – Item 1 “ELC ISA 260 Report to those charged with governance”

7.6 Audit & Governance Committee 18 September 2012 – Item 2 “ELC Draft Annual Audit Report to Members”

- 7.7 Cabinet 09 October 2012 – Item 2 “Update on the Open Market Acquisitions Strategy”
- 7.8 Members Library Service 30 March 2011 – Short-term Loan to Musselburgh Old Course Golf Club.
- 7.9 Council 23 October 2012 – Item 4 – Financial Strategy 2012-2015 Mid Year Review

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REVENUE BUDGET PERFORMANCE at 30 September 2012

	Budget for the year £000	Actual to 30/09/12 £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	6,332	5,599	733	13.1%	High	No change
Pre-school Education & Childcare	5,494	4,286	4,300	(14)	(0.3%)	Low	No change
Additional Support for Learning	7,853	5,563	5,271	292	5.5%	High	Increase
Schools - Primary	30,610	13,085	14,894	(1,809)	(12.1%)	Low	No change
Schools - Secondary	36,241	17,060	17,493	(433)	(2.5%)	Medium	No change
Schools Support Services	3,250	1,605	1,615	(10)	(0.6%)	High	No change
Adult Wellbeing	45,384	19,903	19,444	459	2.4%	High	No change
	139,906	67,834	68,616	(782)	(1.1%)		
Services for Communities							
Community Housing	3,372	2,107	2,305	(198)	(8.6%)	Low	No change
Housing Revenue Account	0	(4,891)	(4,865)	(26)	0.5%	Low	No change
Planning & Environmental Services	1,465	1,378	1,435	(57)	(4.0%)	Low	No change
Property Services	1,658	1,734	1,805	(71)	(3.9%)	Low	No change
Facility Support	3,061	638	535	103	19.3%	High	No change
Landscape & Countryside Mgt	5,732	2,689	2,603	86	3.3%	Medium	No change
Transport & Waste Services	13,142	4,285	4,805	(520)	(10.8%)	High	No change
	28,430	7,940	8,623	(683)	(7.9%)		

Support Services

Community Partnerships	(2,061)	715	427	288	67.4%	High	No change
Cultural Services	4,153	2,147	2,006	141	7.0%	High	No change
Community Development	3,538	1,831	1,785	46	2.6%	Medium	No change
Healthy Living	4,366	1,677	1,690	(13)	(0.8%)	Medium	No change
Economic Development	1,020	519	499	20	4.0%	Low	No change
Customer Services	1,448	997	1,121	(124)	(11.1%)	Low	No change
Financial Services	2,183	461	732	(271)	(37.0%)	Low	No change
Revenues & Benefits	936	111	182	(71)	(39.0%)	Low	No change
IT Services	1,845	1,024	1,040	(16)	(1.5%)	Low	No change
Law & Licensing	519	256	272	(16)	(5.9%)	Low	No change
Human Resources	1,240	578	617	(39)	(6.3%)	Low	No change
Policy/Governance/Internal Audit	3,887	1,877	1,941	(64)	(3.3%)	Low	No change
	23,074	12,193	12,312	(119)	(1.0%)		
Total All Departments	191,410	87,967	89,551	(1,584)	(1.8%)		
Corporate Management							
Revenue Support Grant (inc. NNDR)	(171,070)	(76,078)	(76,078)	0	0.0%	Low	No change
Asset Management	17,149	4,504	4,485	19	0.4%	Low	No change
Council Tax	(46,390)	(44,185)	(44,061)	(124)	0.3%	Low	No change
Joint Board Requisitions	10,561	5,279	5,279	0	0.0%	Low	No change
Other	3,408	2,222	2,345	(123)	(5.2%)	Low	No change
HRA Transfer	(995)	0	0	0	0.0%	Low	No change
Use of Reserves	(4,073)	0	0	0	0.0%	Low	No change
	(191,410)	(108,258)	(108,030)	(228)	0.2%		
Total All Council	0	(20,291)	(18,479)	(1,812)			

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 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

CAPITAL PROJECTS - POSITION AT 30 SEPTEMBER 2012

	Actual Spend (£000s)
New Day Centre - Gullane	100
Fa'side Tranent - new residential home and Day Centre	158
Musselburgh Care Home	1,200
PV installations in public buildings	174
Property Renewals	618
Brunton Hall - Theatre and Main Hall refurbishment	1,330
Dunbar - new Community facility	671
John Gray Centre Haddington	373
Whitecraig Community Centre	8
Ormiston Community Centre	153
Tranent Library	786
North Berwick Museum - refurbishment	104
Dunbar New Primary School	34
Haddington IS / St Mary's RCPS - New shared Campus	4,852
Replacement Vehicles	720
East Lothian Legacy Project - 3 new All Weather	130
East Lothian Legacy Project - All Weather Running/Meadowmill	167
Pavilions	32
East Lothian Legacy Project - Meadowmill Alterations	182
Sports Centres - refurbishment & Equipment	4
Schools IT	638
Corporate IT Program	121
CCTV Upgrades	5
Polson Park restoration (HC038)	2
John Muir Country Park Play Area	78
Coastal Car Parks/Toilets	283
Peppercraig Depot Haddington	6
Roads/Salt Barn/Safety Hot spots	3,106
Dolphinstone - Recycling/Transfer Station	4
Purchase of New Bins	78
Gross Capital Spend	16,117