

**REPORT TO:** Cabinet

**MEETING DATE:** 12 March 2013

**BY:** Executive Director (Support Services)

**SUBJECT:** Financial Review 2012/13 - Quarter 3

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## **1 PURPOSE**

- 1.1 To record the financial position at the end of the 3<sup>rd</sup> 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 December 2012 and in particular the implications this may have for the year-end reserves position and the recently updated Financial Strategy.
  - Approve the 2012/13 budget adjustments outlined at Section 3.19.

## **3 BACKGROUND**

### **Budget Summary**

- 3.1 This report covers the financial position of the Council at the end of the 3<sup>rd</sup> quarter (December 2012) of the 2012/13 financial year. Members will be aware that, at its meeting on 12 February, the Council approved a budget for the 2013-2016 financial years alongside an updated Financial Strategy. The results for this period should be considered within the context of the Council's longer term strategy.
- 3.2 The medium term aim of the Strategy is to have a sustainable General Services budget by the end of the 2014/15 financial year. Component elements of the approach can be summarised as follows;
- Ongoing cost containment/demand management across all areas of the Council;

- The application of a ceiling for debt charges within the General Services and Housing Revenue Accounts. In the case of the former this should mean no new additional debt beyond 2013/14;
- The targeting of significant staffing and procurement savings over the next two years;
- The introduction of a Voluntary Early Release Scheme (VERS) to help manage the planned staffing reductions;
- The building up and/or maintenance of reserves to help fund the changes required;
- Ensuring that tax payers' money is put to maximum effect and that full 'value for money' is extracted from the significant sums of money the Council will spend on an ongoing basis.

### **Council Summary for Quarter Three**

3.3 A summary of the financial position across each of the Business Groups at the end of December 2012 is appended at Appendix 1a. The overall picture at the end of December is an under-spend when compared to budget of just over £0.75 million.

3.4 This under-spend can be split as follows ;

<b>Area</b>	<b>Position at the end of December (£000s)</b>	<b>(Surplus) or Deficit</b>
Housing Revenue Account	82	Deficit
Primary Schools DSM budgets	(429)	Surplus
Secondary Schools DSM budgets	(325)	Surplus
Other General Service Budgets	(84)	Surplus
<b>Total</b>	<b>(756)</b>	<b>Surplus</b>

3.5 The position at the end of December has been achieved by significant under-spends within the Primary and Secondary Schools 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 £398,000 at the end of December. The Children's Wellbeing service continues to overspend significantly.

3.6 Since the last quarterly report was made in December there has been an improvement in the forecast year-end position for 2012/13. The most significant factors are as follows;

- **Joint Board Requisitions** – Members will be aware that the current Police and Fire Boards will be wound up at the end of the 2012/13 financial year with their responsibilities transferred to new national bodies. COSLA and the Scottish Government have now reached agreement on how the reserves of both Fire and Police Boards are to be split. It now appears likely that the method by which the councils will receive their share will be by an adjustment to the 2012/13 requisitions. Our current estimate of the East Lothian share of these reserves is £426,000 - although this will be dependent on both Boards' final audited year-end position;
- **NDR Refunds** – the Council has recently been informed that it has been successful in a number of appeals it made at the time of the 2010 non-domestic rates revaluation. The amount due back to the Council is estimated at £154,000:
- **Stabilisation** – there has been no further deterioration in the financial position of those Groups which had previously been highlighted as overspending during the 2012/13 financial year;
- **Cost Control Measures** – at the end of Quarter 3 we are seeing evidence of under-spends emerging across various services. This can be attributed to the cost control measures introduced during the year including the reduction on capital limits, general advice to minimise spending and tighter application of restrictions in recruitment across the Council as part of Efficient Workforce Management Planning:
- **Capital slippage** – there is likely to be some slippage in the 2012/13 Capital Plan. This is referred to in more detail at Section 3.15.

3.7 As a result of the above we are currently estimating that the Council is likely to use less than the planned £4.073 million of reserves originally allocated in the 2012/13 budget. This should provide some additional flexibility in managing future budgets. In line with the Financial Strategy any improved position in relation to reserves will be added to the Cost Reduction Fund at the end of the financial year.

3.8 Over the past quarter, there have been no changes in the financial risk rating assigned to the various business groups. Eight continue to be assessed as High financial risk. These continue to include the Children's Wellbeing and Additional Support for Learning Groups which are both forecast to overspend in 2012/13. The factors behind these positions have been covered in previous quarterly reports.

3.9 The majority of Support Services and Services for Communities are currently expected to end the year within budget. However, as reported at Quarter 2, across some Groups, the progress made towards the required 2012/13 efficiency savings has been slower than planned. In the case of the Facility Services Group it is likely that these efficiency savings will not be achieved fully in 2012/13 and will need to be addressed in 2013/14. In addition, Community Partnerships will end the year over- budget largely

based upon the current level of grant payments committed from this Group.

- 3.10 Performance in relation to council tax continues to be 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.

### **Housing Revenue Account (HRA)**

- 3.11 Activity within the 2012/13 HRA revenue budget has been much as planned. At the end of December, the main revenue budgets were £82,000 over spent. Although the rental income figure was less than expected – due to slower delivery of new build affordable homes and those purchased under the open market acquisition scheme - this was more than outweighed by other areas such as under-spends on staffing costs.
- 3.12 With regards HRA capital, spending on the Affordable Housing projects over the same period totalled £4.2 million. The maximum level of spend at the end of the year is likely to be £9 million.
- 3.13 The spending on the Modernisation and Leasing buy-back budget was £7.1 million over the same period. This represents 65% of the annual total. Based upon current trends we are expecting 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.
- 3.14 So far in 2012/13 the Council has purchased 40 homes. Sixteen of these were purchased under the Mortgage to Rent (MTR) scheme - with the remainder purchased under the Open Market Acquisition scheme. The gross cost of these to date in 2012/13 has been almost £4.99 million against a gross budget for the year of £7.87 million. There has been a significant jump in the number of properties purchased under the MTR scheme – with 10 purchased during 2011/12.

### **General Services Capital Budgets**

- 3.15 As part of the Mid Year Financial Strategy review the Council agreed to a revised capital expenditure limit of £33 million for 2012/13 capital expenditure.
- 3.16 Spending on projects, up to the end of December 2012, has been presented at Appendix 2 alongside the 2012/13 Capital Plan allocations agreed as part of the recent Council budget deliberations. The total spend at the end of December totals £22.7 million or 73% of the revised budget amount.
- 3.17 Many of the large projects that commenced in previous years, such as the new Haddington school, the Brunton Theatre refurbishment as well as the John Gray Centre and Dunbar Community Facility are now largely complete and the final costs are being assessed. As part of our 2012/13

year-end work we will be assessing what potential there might be to offset over-spends on projects such as Ormiston Community Centre against projects which may be completed within the budget allocation.

- 3.18 Notwithstanding the potential for some individual capital projects to overspend, it is our assessment that the Council will under-spend the revised 2012/13 capital budget of £31.2 million. Contributors towards this will be some project slippage on the Gullane Day Centre, the replacement for the Pepperraig Depot and the North Berwick Museum.

### **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 October – December of the 2012/13 financial year to reflect changes in Council and Scottish Government policy and changes in organisational responsibility:

- Inter group transfers of £4.766 million have been carried out as a result of adjustments in the way the Council accounts and budgets for depreciation. The aim of these changes is to simplify these arrangements and to aid better financial management.
- Inter group transfers of £0.657million have been carried out as a result of adjustments in the way the Council accounts and budgets for property recharges. The aim of these changes is to simplify these arrangements and to aid better financial management.
- The Scottish Government has informed councils that the 2012/13 Self Directed Support grant of £130,000 will be paid as a specific grant award. As a result of this an adjustment has been made to the Revenue Support Grant budget.
- Minor adjustments totalling £15,000 have been carried out to reflect finalised managerial arrangements as a result of last year's senior officer review

## **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 2014/15”
- 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.continued direct relevance?
- 7.9 Council 23 October 2012 – Item 4 – Financial Strategy 2012-2015 Mid Year Review.
- 7.10 Cabinet 11 December 2012 – Item 2 - Financial Review 2012/13 - Quarter 2
- 7.11 Council 12 February 2013 – Item 1 – Council Financial Strategy 2013/14 – 2015/16

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<b>DATE</b>	28 February 2013

## REVENUE BUDGET PERFORMANCE at 31 December 2012

	Budget for the year £000	Actual to 31/12/12 £000	Budget for the period £000	(Surplus) / Deficit for period £000	(Surplus) / Deficit %	Financial Risk Assessment	Change since last assessment
<b>Services for People</b>							
Children's Wellbeing	11,074	9,463	8,374	1,089	13.0%	High	No change
Pre-school Education & Childcare	5,494	4,838	4,924	(86)	(1.7%)	Low	No change
Additional Support for Learning	7,853	6,897	6,512	385	5.9%	High	No change
Schools - Primary	29,733	20,660	21,142	(482)	(2.3%)	Low	No change
Schools - Secondary	36,241	25,881	26,028	(147)	(0.6%)	Medium	No change
Schools Support Services	3,219	2,401	2,440	(39)	(1.6%)	High	No change
Adult Wellbeing	45,124	31,030	30,576	454	1.5%	High	No change
	<b>138,738</b>	<b>101,170</b>	<b>99,996</b>	<b>1,174</b>	<b>1.2%</b>		
<b>Services for Communities</b>							
Community Housing	3,372	2,742	3,027	(285)	(9.4%)	Low	No change
Housing Revenue Account	0	(7,584)	(7,666)	82	(1.1%)	Low	No change
Planning & Environmental Services	3,118	2,072	2,244	(172)	(7.7%)	Low	No change
Property Services	2,314	2,342	2,455	(113)	(4.6%)	Low	No change
Facility Support	3,061	1,478	1,453	25	1.7%	High	No change
Landscape & Countryside Mgt	5,732	4,130	4,062	68	1.7%	Medium	No change
Transport & Waste Services	13,142	7,658	8,453	(795)	(9.4%)	High	No change
	<b>30,739</b>	<b>12,838</b>	<b>14,028</b>	<b>(1,190)</b>	<b>(8.5%)</b>		

**Support Services**

Communications & Marketing	488	403	401	2	0.5%	Low	No change
Corporate Policy	1,646	1,196	1,271	(75)	(5.9%)	Low	No change
Community Partnerships	1,006	879	631	248	39.3%	High	No change
Cultural Services	4,153	2,945	2,861	84	2.9%	High	No change
Community Development	3,538	2,630	2,623	7	0.3%	Medium	No change
Healthy Living	4,366	2,733	2,661	72	2.7%	Medium	No change
Economic Development	1,020	668	556	112	20.1%	Low	No change
Customer Services	1,448	1,466	1,623	(157)	(9.7%)	Low	No change
Financial Services	2,149	1,434	1,683	(249)	(14.8%)	Low	No change
Revenues & Benefits	936	325	454	(129)	(28.4%)	Low	No change
IT Services	1,845	1,430	1,466	(36)	(2.5%)	Low	No change
Law & Licensing	519	403	437	(34)	(7.8%)	Low	No change
Human Resources	1,240	829	933	(104)	(11.1%)	Low	No change
Governance/Internal Audit	1,879	1,463	1439	24	1.7%	Low	No change
	<b>26,233</b>	<b>18,804</b>	<b>19,039</b>	<b>(235)</b>	<b>(1.2%)</b>		
<b>Total All Departments</b>	<b>195,710</b>	<b>132,812</b>	<b>133,063</b>	<b>(251)</b>	<b>(0.2%)</b>		
<b>Corporate Management</b>							
Revenue Support Grant (inc. NNDR)	(170,590)	(112,377)	(112,377)	0	0.0%	Low	No change
Asset Management	12,449	6,045	6,020	25	0.4%	Low	No change
Council Tax	(46,390)	(45,699)	(45,577)	(122)	0.3%	Low	No change
Joint Board Requisitions	10,561	7,918	7,916	2	0.0%	Low	No change
Other	3,328	1,240	1,650	(410)	(24.8%)	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
	<b>(195,710)</b>	<b>(142,873)</b>	<b>(142,368)</b>	<b>(505)</b>	<b>0.4%</b>		
<b>Total All Council</b>	<b>0</b>	<b>(10,061)</b>	<b>(9,305)</b>	<b>(756)</b>			



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

## CAPITAL PROJECTS - POSITION AT 31 DECEMBER 2012

		Budget for Year (£000s)	Actual Spend (£000s)	Remaining balance for the year (£000s)	Notes
New Day Centre - Gullane	Adult Social Care	926	108	(818)	
Fa'side Tranent - new residential home and Day Centre	Adult Social Care	250	163	(87)	
Musselburgh Care Home	Adult Social Care	1,150	1,199	49	
Mobile Working	Community Housir	11	0	(11)	
PV installations in public buildings	Corporate	265	174	(91)	
Property Renewals	Corporate	1,200	893	(307)	
Property Fees/Internal Architect etc fees	Corporate	1,605	0	(1,605)	
Environment Fees	Corporate	123	0	(123)	
Brunton Hall - Theatre and Main Hall refurbishment	Culture & Commur	2,235	1,995	(240)	
Dunbar - new Community facility	Culture & Commur	724	676	(48)	
Dunbar Town House Museum	Culture & Commur	48	0	(48)	
Musselburgh Museum	Culture & Commur	0	5	5	Final Fee
John Gray Centre Haddington	Culture & Commur	570	491	(79)	
Whitecraig Community Centre	Culture & Commur	50	8	(42)	
Ormiston Community Centre	Culture & Commur	166	249	83	Over-spend likely
Tranent Library	Culture & Commur	922	849	(73)	
North Berwick Museum - refurbishment	Culture & Commur	1,454	298	(1,156)	
Community Intervention	Culture & Commur	200	0	(200)	
Red School Prestonpans - expand Music Provision	Culture & Commur	100	0	(100)	
Support for Business - Land Acquisition/Infrastructure	Economic Devt	100	0	(100)	
Support for Business - Town Centre Regeneration	Economic Devt	100	0	(100)	
Dunbar New Primary School	Education	300	69	(231)	
Haddington IS / St Mary's RCPS - New shared Campus	Education	6,700	6,678	(22)	
Sandersons Wynd PS - additional Classrooms	Education	17	24	7	
SEN Equipment - specialised equipment for pupils	Education	0	5	5	
Dirleton Classroom Extension	Education	200	2	(198)	

Macmerry PS Extension	Education	100	10	(90)	
Pinkie St Peter's PS Extension/Levenhall Nursery reprovision	Education	100	47	(53)	
Windygoul PS additional Classrooms	Education	0	18	18	
Windygoul PS - Temp Units Rental	Education	12	0	(12)	
Replacement Vehicles	Fleet	1,203	721	(482)	
East Lothian Legacy Project - All Weather Running/Meadowmill	Healthy Living	201	124	(77)	3G Pitch completion
East Lothian Legacy Project - Meadowmill Alterations	Healthy Living	985	1,073	88	
Sports Centres - refurbishment & Equipment	Healthy Living	200	4	(196)	
Expansion of 3G pitch provision	Healthy Living	50	0	(50)	
Schools IT	IT	1,120	764	(356)	
Corporate IT Program	IT	290	174	(116)	
CCTV Upgrades	Customer Services	0	6	6	To be funded by the service
Call Centre Management	Customer Services	0	51	51	To be funded by the service
Core Path Plan Implementation (HC028)	Landscape	18	23	5	
Polson Park restoration (HC038)	Landscape	2	2	-	
John Muir Country Park Play Area	Landscape	80	78	(2)	
Cuthill Park	Landscape	100	9	(91)	
Amenity Services Machinery & Equipment - replacement	Landscape	72	0	(72)	
Cemeteries - Extensions	Landscape	30	0	(30)	
Coastal Car Parks/Toilets	Landscape	552	422	(130)	
PepperCraig Depot Haddington	Landscape	325	6	(319)	
Coastal Protection/Flood	Coastal/Flood	194	98	(96)	
Roads/Salt Barn/Safety Hot spots	Roads	5,584	4,639	(945)	
Salt Barn	Roads	454	476	22	
Dolphinstone - Recycling/Transfer Station	Waste Services	5	5	-	
Purchase of New Bins	Waste Services	120	79	(41)	
Other	Various	0	48	48	
<b>Gross Capital Spend</b>		<b>31,213</b>	<b>22,763</b>	<b>(8,450)</b>	