

REPORT TO: East Lothian Council

MEETING DATE: 27 August 2019

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: 2019-20 Quarter 1 Financial Review

1 PURPOSE

- 1.1 To inform Council of the financial position at the end of June 2019.

2 RECOMMENDATIONS

- 2.1 Council is recommended to note the financial performance at the end of the first quarter of 2019-20 against the approved budgets.

3 BACKGROUND

- 3.1 At its meeting on 12 February 2019 the Council approved a budget for 2019-20 for both General Services and Housing Revenue Account (HRA) revenue and capital, and outline budgets for subsequent financial years.

General Services Summary – Quarter 1

- 3.2 The approved General Services revenue budget for 2019-20 included the following:
- After providing for around £23.0 million of corporate commitments, funding amounting to over £225.0 million to support service delivery;
 - Planned utilisation of £3.0 million of General Reserves;
 - The requirement to deliver £5.2 million of recurring planned efficiencies.
- 3.3 This report sets out the financial position for the Council as at the end of June 2019 against the approved budgets, with a reported ledger overspend of just under £0.800 million (1.6%). Making projected year-end estimates at this stage of the financial year is very difficult but from a financial management perspective, it is our intention to focus on early warning of potential overspending thus allowing appropriate, remedial management intervention to take place.

- 3.4 An analysis of the financial position across service groups is set out in **Appendix 1** with further detail setting out the key challenges and emerging risks across each of the Directorates are set out within the narrative below.
- 3.5 The **Resources and People Directorate, covering the wider Education Group including Children's Services and Council Resources** is reporting an overspend of around £0.935 million (3.0%). The Education Group is reporting a collective overspend of £1.1 million (4.0%), with most of the pressures evident within Children's Services (£0.627 million) and Education ASL (£0.252 million), where both areas were categorised as High Risk during 2018-19 and continue to face challenges during 2019-20. Council Resources is reporting an underspend at end of June of £0.172 million (6.7%); however a number of services are undergoing planned service reviews and the delivery of these will be kept under close review.
- Within Children's Services, most of the pressure relates to the number of children placed in External Residential Placements, with further pressures experienced in secure placements, transportation costs and external fostering. A new Children's Services Project Board, chaired by the Chief Executive, has been established with the principle aims being to develop a clear understanding of financial pressures, identify opportunities to transform delivery of Children's Services and reduce current costs to a sustainable level. At this admittedly early stage in the year, it is considered highly likely that without corrective interventions, the service will not operate within approved budgets.
 - Relating to ASL, most of the pressures remain within the Education cost associated with External Placements and also transportation costs, with current forecasts suggesting that it is unlikely this service will operate within approved budget levels.
 - Education Support Services are currently reporting an overspend against planned budget of £0.220m, all of which relates to this area carrying the Education share of corporate savings. More details relating to corporate savings is set out in **Appendix 3** of this report.
 - There remains significant pressures across the wider Education Group, and we continue to work closely with Education and Children's Services Management colleagues on a range of matters including revision and delivery of the current expansion plans to support the new national policy requirement to deliver 1140 hours of early learning and childcare. It is imperative that this developing service operates within the new resources being made available and this will be subject to constant monitoring and review.
- 3.6 The **Health & Social Care Directorate** covers the Adult Wellbeing service. The first quarter of 2019-20 is reporting an overspend of £0.1 million (1.0%). Most of this relates to an increased number of older people in external residential homes. The budget remains under close review, and we are actively working with Adult Wellbeing management to clearly identify specific areas of pressures and wider forecasts and identify any necessary corrective action. Members are reminded that the majority of

this budget is delegated to the IJB, and therefore any under / overspends must be managed within the wider overall IJB budget.

- 3.7 Within the **Partnership & Community Services Directorate**, despite a reported underspend of £0.350 million (4.1%), pressures remain in a number of service areas. These include: support for repairs and maintenance for our existing asset base; costs within the wider roads service particularly relating to the recovery of income; and Landscape and Countryside, with pressures relating to the wider recovery of income and higher than expected costs relating to repairs and maintenance of fleet.
- 3.8 In line with previous quarterly reports and as shown within **Appendix 1**, we have continued to provide an assessment of financial risk. Currently two service areas (Children's and ASL) are categorised as High Risk in line with the financial risk rating set out in **Appendix 2** of this report. This assessment suggests a strong possibility that these budgets will not operate within approved limits and may as a consequence face additional financial controls. Respective Heads of Service are considering appropriate remedial action.
- 3.9 We also continue to provide an assessment of progress made in implementing planned efficiencies, and this is set out in more detail within **Appendix 3** of the report and includes a 'RAG' assessment of the progress made. In total, this amounts to £5.2 million, of which £3.2 million relates to service specific efficiencies as well as £1.993 million relating to the delivery of corporate efficiencies (covering transformational change as well as the review of staffing / senior management). The current assessment suggests the following summary highlights:
- Just under a third of the plans are rated 'Green' indicating that the saving has already been achieved/secured (circa £1.5 million);
 - A further £2.7 million are categorised as 'Amber' – suggesting that plans are in place but not yet secured and the delivery of these will be subject to on-going close monitoring;
 - The remaining balance (circa £1.0 million) has been categorised as 'Red', indicating a high risk that the planned saving will not be fully delivered in 2019-20.
- 3.10 The achievement of the corporate savings has been devolved proportionately to respective Heads of Services to manage wherever possible within their overall staffing budgets. Any service unable to meet these savings through management of staffing budgets will be expected to identify alternative options within their own service areas.
- 3.11 Overall, the Council continues to operate within an extremely challenging financial climate and based upon the Q1 reported financial position, the Council is currently at significant risk of overspending in the 2019-20 financial year. The Council Management Team (CMT) members both collectively and individually are actively monitoring the financial position and looking for ways in which spending commitments can be contained within approved levels. Where this can be done without impact on agreed policy objectives, implementation will progress, but should such corrective

action have a potential impact upon policy and service delivery, it will be necessary to bring back a further report with detailed proposals seeking Council approval.

General Services Capital Summary – Quarter One

- 3.12 In accordance with normal practice at Q1, the capital budget has been re-profiled to reflect the closing position at the end of 2018-19, the outcome of which remains subject to the conclusion of the statutory audit. This is an on-going process to ensure that in particular, the delivery of improvements to the education estate remains aligned to related housing and population demand projections.
- 3.13 **Appendix 4** sets out the 2019-20 re-profiled budgeted expenditure to the end of June 2019 with actual expenditure currently totalling £4.1 million, which remains low, but not untypical relative to the annual budget or the proportionate stage in the financial year. Whilst significant progress has been made with a number of key projects, there remain a wide range of external factors outwith the direct control of the Council, which may influence the timing of capital plans, and some flexibility to respond to any such variations may be required.
- 3.14 The 2019-20 capital plans has been updated to take into consideration the following elements:
- Where necessary, proposed carry forwards relating to the 2018-19 financial position;
 - Additional £1.275 million grant received from the Scottish Government in relation to Town Centre Improvement;
 - Updated re-profiling and allocation of 1140 hours capital projects which is required to manage the additional investment provided by the Scottish Government to support the delivery of the expansion programme;
 - Additional external Roads funding relating to Electric Car Charging Points, with the programme fully funded.
- 3.15 The summary table overleaf provides a narrative of the key issues to highlight, and the delivery of the programme relative to approved plans will remain under review.

Project	Narrative
Community Projects	Town Centre Regeneration – Additional funding has been secured from Scottish Government. This will be used to provide town centre development and parking provision in Haddington and work on Prestonpans High Street.
Roads, Lighting and related Assets	<p>Roads – A programme of works is now in place to deliver the enhanced capital programme.</p> <p>Roads (Externally Funded Projects) – additional funding has been received to deliver Electric Car Charging Points. The programme will be fully funded.</p>
Property – Education	<p>Letham Primary – Work is on-going and it is anticipated that significant spend will be incurred during 2019-20.</p> <p>Ross High School – Project works currently planned to commence in this year.</p> <p>North Berwick High School – Project works currently planned to commence this year.</p>
Property – Other	<p>Accelerating Growth – Linked to the delivery of the wider City Deal and Growth agenda. Some aspects of planned delivery remain outwith the Council's control but it is anticipated significant spend will be incurred during 2019-20.</p> <p>Court Accommodation – Works progressing – spend anticipated during 2019-20.</p> <p>Replacement Pathways – Discussions on-going – project unlikely to commence in 2019-20.</p>
Capital Plan Fees	Capital Plan Fees – Review ongoing to ensure where appropriate fees built into overall project costs. Anticipate this will be fully allocated in 2019-20

Housing Revenue Account Summary - Quarter One

- 3.16 At the end of June 2019 the Housing Revenue Account is reporting a break-even position against planned budget. In line with the existing financial strategy whereby the Council should maximise any flexibility arising from revenue balances to minimise the future impact of debt charges, any additional surplus arising during 2019-20 will be applied in this manner.
- 3.17 Details of the Housing Revenue Account capital budgets and expenditure incurred to date is set out in **Appendix 5** of this report. The total capital budget approved for HRA was £32.890 million. As at end of June 2019,

the actual spend was £3.657 million (11%). Despite the relatively low level of spend, work is progressing well on both the major programmes relating to modernisation and new affordable housing programme, and it is anticipated that both will deliver broadly in line with the approved budget. Officers are continuing to explore options to maximise grant subsidy income where opportunities prevail. The Scottish Government's Mortgage to Rent Scheme continues to be supported and promoted, but in the current year to date, no eligible applications have been received.

4 POLICY IMPLICATIONS

- 4.1 There are no direct policy implications associated with this report although ongoing monitoring and reporting of the Council's financial performance is a key part of the approved Financial Strategy.

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report has been considered and given there is no change in policy direction, there is no requirement to undertake any further impact assessment.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – as described above
 6.2 Personnel - none
 6.3 Other – none

7 BACKGROUND PAPERS

- 7.1 Council 11 December 2018 – Item 5 – Financial Strategy 2019-24
 7.2 Council 12 February 2019 – Item 2 – Administration Amendment General Services budget proposals
 7.3 Council 12 February 2019 – Item 3 – Administration Amendment Rent Proposals

AUTHOR'S NAME	Jim Lamond
DESIGNATION	Head of Council Resources
CONTACT INFO	jlamond@eastlothian.gov.uk
DATE	8 August 2019

Budget Monitoring 2019/20

Appendix 1

Service	Head of Service	Business Unit	2019/20 Budget £'000	Year to Date			Variance %	Financial Risk Assessment
				2019/20 Actual to Date £'000	2019/20 Budget to Date £'000	2019/20 Budget Variance to Date £'000		
Resources & People	Education	Childrens	14,580	4,129	3,502	627	17.9%	High
Resources & People	Education	Additional Support for Learning	7,973	5,189	4,937	252	5.1%	High
Resources & People	Education	Pre-school Education & Childcare	11,833	4,926	5,039	-113	-2.2%	Medium
Resources & People	Education	Schools - Primary	38,460	5,423	5,369	54	1.0%	Medium
Resources & People	Education	Schools - Secondary	40,691	8,025	7,958	67	0.8%	Medium
Resources & People	Education	Schools - Support Services	2,664	1,107	887	220	24.8%	Medium
RESOURCES & PEOPLE	EDUCATION TOTAL		116,201	28,799	27,692	1,107	4.0%	
Resources & People	Council Resources	Financial Services	1,548	561	611	-50	-8.2%	Low
Resources & People	Council Resources	Revenues & Benefits	1,836	-27	27	-54	-200.0%	Low
Resources & People	Council Resources	IT Services	2,152	491	548	-57	-10.4%	Low
Resources & People	Council Resources	Legal & Procurement	551	175	180	-5	-2.8%	Low
Resources & People	Council Resources	People & Governance	4,706	1,185	1,191	-6	-0.5%	Low
RESOURCES & PEOPLE	COUNCIL RESOURCES TOTAL		10,793	2,385	2,557	-172	-6.7%	
RESOURCES & PEOPLE TOTAL			126,994	31,184	30,249	935	3.1%	
Health & Social Care Partnership	Adults & Older People	Adults	21,020	4,137	4,035	102	2.5%	Medium
Health & Social Care Partnership	Adults & Older People	Older People	25,833	4,928	4,852	76	1.6%	Medium
Health & Social Care Partnership	Adults & Older People	Director, Planning & Performance	5,326	861	940	-79	-8.4%	Medium
HEALTH & SOCIAL CARE PARTNERSHIP TOTAL			52,179	9,926	9,827	99	1.0%	
Partnerships & Community Services	Development	Planning	983	259	275	-16	-5.8%	Low
Partnerships & Community Services	Development	Economic Development & Strategic Investment	1,561	212	243	-31	-12.8%	Low
Partnerships & Community Services	Development	Property Maintenance Trading Account	-813	-198	-163	-35	21.5%	Low
Partnerships & Community Services	Development	Community Housing	2,000	-159	-37	-122	329.7%	Low
PARTNERSHIPS & COMMUNITIES SERVICES	DEVELOPMENT TOTAL		3,731	114	318	-204	-64.2%	
Partnerships & Community Services	Infrastructure	Facility Support Services	3,538	610	605	5	0.8%	Medium
Partnerships & Community Services	Infrastructure	Facility Trading Activity	-276	-2,094	-2,107	13	-0.6%	Medium
Partnerships & Community Services	Infrastructure	Asset Planning & Engineering	2,510	820	891	-71	-8.0%	Medium
Partnerships & Community Services	Infrastructure	Landscape & Countryside Management	5,099	1,520	1,464	56	3.8%	Medium
Partnerships & Community Services	Infrastructure	Roads Network	4,568	893	872	21	2.4%	Medium
Partnerships & Community Services	Infrastructure	Roads Trading Activity	-728	-334	-311	-23	7.4%	Medium
Partnerships & Community Services	Infrastructure	Transportation	1,135	-387	-364	-23	6.3%	Low
Partnerships & Community Services	Infrastructure	Waste Services	7,550	1,814	1,826	-12	-0.7%	Low
Partnerships & Community Services	Infrastructure	Active Business Unit	3,590	631	675	-44	-6.5%	Low
PARTNERSHIPS & COMMUNITIES SERVICES	INFRASTRUCTURE TOTAL		26,986	3,473	3,551	-78	-2.2%	
Partnerships & Community Services	Communities & Partnerships	Corporate Policy & Improvement	1,185	320	326	-6	-1.8%	Low
Partnerships & Community Services	Communities & Partnerships	Connected Communities	6,722	2,254	2,243	11	0.5%	Medium
Partnerships & Community Services	Communities & Partnerships	Protective Services	1,745	918	933	-15	-1.6%	Low
Partnerships & Community Services	Communities & Partnerships	Customer Services Group	3,517	1,055	1,113	-58	-5.2%	Low
PARTNERSHIPS & COMMUNITIES SERVICES	COMMUNITIES & PARTNERSHIPS TOTAL		13,169	4,547	4,615	-68	-1.5%	
PARTNERSHIPS & COMMUNITY SERVICES TOTAL			43,886	8,134	8,484	-350	-4.1%	
SERVICE TOTAL			223,059	49,244	48,560	684	1.4%	
CORPORATE MANAGEMENT TOTAL			-223,059	-98,908	-99,023	115	-0.1%	Low
TOTAL			0	-49,664	-50,463	799	-1.6%	
TOTAL HRA			0	-4,680	-4,680	0	0.0%	Low

Appendix 2

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

2019/20 Budget Monitoring and Budget Efficiencies

Appendix 3

Budget Efficiencies:

Service	2019/20		
	Achieved	Achievable	TBC
	£'000	£'000	£'000
Education	493	764	914
Council Resources	286	289	0
H&SCP	182	520	0
Communities	112	338	0
Development	324	309	0
Infrastructure	103	524	70
Corporate	0	0	0
Total	1,500	2,744	984

5,228

Savings Currently Red

Service	Proposal	Value	Comments
Education	Staff Performance & Transformational Savings	914	Posts have not been identified.
Landscape & Countryside	Amenity Service - income generating target	20	Work is ongoing to identify opportunities to increase income.
Landscape & Countryside	Commercial Income from Play Area installation	30	Work is ongoing to identify opportunities to increase income.
Roads Trading	Explore new opportunities for income management	20	Work is ongoing to identify opportunities to increase income.
Total		984	

Amber savings with higher risk

Service	Proposal	Value	Comments
Education	Review of Pre-school provision	500	Admin staff may be moved to be under 1140 hrs funding which may present a future risk to the 1140 hrs budget.
Council Resources	Senior Manager Saving	105	Work is ongoing to confirm how this will be achieved.
Total		605	

Allocation of Corporate Savings

Education	914
Council Resources	155
Children's	98
Adults and Older People	214
Development	162
Communities	121
Infrastructure	328
TOTAL	1,993

General Services Capital

2019-20 Q1

Appendix 4

Key - project lifecycle indication	
1 - Feasibility	✓
2 - Design	*
3 - Out to tender	—
4 - Tender Accepted	
5 - Under Construction	
6 - Operational/Retention	
7 - Annual Budget allocation	

	Annual (In-Year)			Project lifecycle indication	Project Status
	Approved Budget 2019/20	Revised approved Budget 2019/20	Actual 2019/20		
Expenditure	£'000	£'000	£'000		
Community Projects					
Assets in the Community - Investment	500	500	-	7	✓
Community Intervention	600	600	112	7	✓
Support for Business - Gateside West	461	461	20	2	✓
Town Centre Regeneration	100	1,375	-	1	*
Synthetic pitches	19	20	-	1	✓
Total Community Projects	1,680	2,955	132		
ICT					
IT Programme	2,110	2,110	587	7	✓
Replacement - CRM Project (Customer Services)	-	103	(22)	5	✓
Total ICT	2,110	2,213	565		
Fleet					
Amenties - Machinery & Equipment - replacement	190	190	120	7	✓
Vehicles	1,850	1,882	1	7	✓
Total Fleet	2,040	2,072	122		

Open Space					
Cemeteries (Burial Grounds)	287	727	-	4	✓
Coastal / Flood Protection schemes - East Beach, Dunbar	-	192	2	3	✓
Coastal / Flood Protection schemes - Haddington	256	328	13	2	✓
Coastal / Flood Protection schemes - Musselburgh	613	780	9	2	✓
Coastal Car Park Toilets	150	480	0	2	✓
Core Path Plan	50	50	2	7	✓
Mains Farm Sports Pitch & Pavilion	429	558	-	5	✓
Polson Park	138	138	-	1	✓
Waste - New Bins	150	150	37	7	✓
Waste - Machinery & Equipment - replacement	40	40	2	7	✓
Total Open Space	2,113	3,442	66		

Roads, Lighting and related assets					
Cycling Walking Safer Streets	171	171	-	7	✓
Parking Improvements	250	418	56	4	✓
Roads	7,500	7,500	732	7	*
Roads - externally funded projects	267	973	320	7	*
Total Roads, Lighting and related assets	8,188	9,062	1,109		

Property - Education					
Aberlady Primary - extension	40	40	-	1	✓
Aberlady Primary - outdoor facility incl 1140	149	149	-	2	✓
Campie Primary - 1140	80	150	1	4	✓
Dunbar Grammar - extension	140	140	-	6	✓
Dunbar Primary - John Muir Campus - Early Learning and 1140	83	83	-	2	✓
East Linton Primary - extension including Early Learning and 1140	913	968	-	2	✓
Gullane Primary - extension including Early Learning and 1140	100	180	-	2	✓
Haddington Infant School - upgrades	6	6	-	6	✓
Law Primary - school extension	37	37	62	6	✓
Law Primary - extension including Early Learning and 1140	147	147	-	6	✓
Letham Primary - New School	6,775	6,695	680	5	*

Longniddry Primary - extension	34	34	-	2	✓
Loretto Primary - 1140	38	63	1	4	✓
Meadowpark Communications Provision - upgrades	8	53	-	6	✓
Musselburgh Grammar - upgrades	283	283	-	2	✓
Musselburgh Primary - 1140 upgrades	36	57	1	3	✓
New Musselburgh Additional Secondary Education Provision	1,700	5,403	242	2	✓
North Berwick High School - extension	5,489	5,600	41	2	*
Ormiston Primary - extension	20	26	31	5	✓
Pinkie St Peter's Primary - extension including Early Learning and 1140	160	160	-	2	✓
School Estate - Curriculum Upgrades	330	330	-	1	✓
Ross High School - extension	5,815	6,082	27	2	*
St Gabriel's Primary - extension including Early Learning and 1140	58	58	-	2	✓
Tranent Early Learning Centre 1140	262	262	-	1	✓
Wallyford Primary - New School	300	300	91	6	✓
West Barns Primary - extension including Early Learning and 1140	175	175	-	2	✓
Whitecraig Primary - extension including Early Learning and 1140	324	324	-	1	✓
Total Property - Education	23,503	27,805	1,176		

Property - Other					
Accelerating Growth - Enabling Infrastructure	3,100	3,038	84	2	*
Court Accommodation - incl. SPOC	1,554	1,554	159	5	*
Haddington Corn Exchange - upgrades	640	797	1	4	✓
Haddington Town House - Refurbishment and Rewire	548	548	-	2	✓
Herdman Flat	160	200	-	2	✓
Inveresk Mills - upgrades	83	169	-	5	✓
Meadowmill - New Depot	-	149	-	2	✓
Port Seton - Community Centre Extension	1,048	1,229	0	3	✓
Prestongrange Museum	100	100	-	2	✓
Property Renewals	951	951	38	7	✓
Eskgreen Care Home - Lift Refurbishment	200	200	-	2	✓
West Barns Primary - Lifecycle improvements	522	522	-	1	✓
Dunbar - The Cove ASN Unit	77	77	-	1	✓
Replacement Pathways Centre	1,046	1,046	-	1	*

Sports Centres	200	200	194	7	✓
Whitecraig Community Centre	483	973	472	5	✓
Total Property - Other	10,713	11,753	947		
Total Property - Education and Other	34,216	39,558	2,122		
Capital Plan Fees	1,728	1,728	-	7	*
Total Gross Expenditure	52,074	61,031	4,116		

2019-20 Q1 Financial Review - Appendix 5

HRA Capital Programme

	Budgeted	Actual	Over/(Under)
	(£000s)	June 2019	(£000s)
		(£000s)	(£000s)
Modernisation Spend	11,998	1,404	(10,594)
New Affordable and Council Housing	18,657	2,253	(16,404)
Mortgage to Rent	840	0	(840)
Fees	1,395	0	(1,395)
Gross Total Housing Capital Spend	32,890	3,657	(29,233)