

REPORT TO: East Lothian Council

MEETING DATE: 17 December 2019

BY: Head of Council Resources

SUBJECT: 2019-20 Period 7 Financial Review

1 PURPOSE

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

2 RECOMMENDATIONS

- 2.1 The Council is recommended to note the financial performance at the end of October 2019.

3 BACKGROUND

- 3.1 This report provides Council with an updated position relating to the in-year financial performance for the Council relative to approved budgets. The report sets out the position and projections at the end of October 2019, and builds upon the recent financial update report provided to Council, highlighting key areas of movement and any necessary associated action that is required.

General Services Revenue Summary – Period 7

- 3.2 In summary, the Council is reporting an overspend of £2.515 million as at end of October 2019, an increase of £0.766 million from the Period 5 position reported to Council in October, and remains in line with previous projections. A summary of the position within each service area set out in **Appendix 1** of this report.
- 3.3 In accordance with normal practice, an overall financial risk rating has been assigned to each of the service areas and two service areas (Children's and ASL) remain categorised as High Risk in line with the financial risk rating set out in **Appendix 2** of this report, with around half of

the remaining service areas classified as Medium Risk. This collectively provides a clear indication that services are spending beyond approved budgets.

3.4 The summary below sets out the main changes to the Council position relating to General Services revenue budget relative to the previously reported Period 5 position:

- As at end of October 2019, the Council is reporting an increased overspend of £0.766 million to £2.515 million, with a summary of the Directorate changes is set out below:
 - **Resources and People** – overspend of £2.39 million (increase of £0.484 million). Most of this relates to a combination of increased pressures relating to Children’s and ASL, with pressures within school support relating to the delivery of corporate savings now being managed at a wider Council level. These wider Directorate pressures are in part being offset by increased underspending in Council Resources services, most of which relate to staffing costs pending the full implementation of a number of service reviews. Overall, there remains a significant gap, which is being closely monitored, and enhanced financial controls are in place.
 - **Health & Social Care** - overspend of £0.270 million (increase of £0.093 million), most of which 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 identify specific areas of financial pressure and related trends with a view to identifying any necessary corrective action. Furthermore, the IJB authorised an in-year transfer of resources of £0.437 million which has been effected and is reflected in the position above. As you are aware the majority of this budget is delegated to the IJB, and therefore any under / overspends must be managed within the wider overall IJB resources.
 - **Partnership & Community Services** – overspend of £0.074 million, within which there remains a high number of pressures within the service areas, which offset underspending in other service areas across the Directorate. The main areas of financial pressure include: Landscape and Countryside, Roads and Waste.
- The Council approved total planned savings of £5.2 million, all of which assumed were recurring. With around £1.0 million classified as High risk, this level of saving will not be delivered in 2019-20 and will have implications for future year’s budgets. More details setting out the progress around deliverability of 2019-20 planned efficiencies are set out in **Appendix 3**.
- The Council continues to operate within an extremely challenging financial environment with increased costs and a growing population and demand for services. Overall, the financial projections for the year

continue to indicate that Council services are at risk of overspending against approved budgets of nearly £5 million. Most of this relates to financial pressures within Education & Children's service areas, and are likely to place recurring pressures on the budget going forward. Nevertheless, alongside this, a high number of additional service areas are categorised as Medium Risk, indicating the financial challenges in place across the Council.

- A number of enhanced financial controls are in place across the Council in line with the action approved by Council in October, and this will continue until the end of the year. Furthermore, additional enhanced controls and monitoring is in place for those service areas classified as High Risk, including Children's and Education (ASL) service with a clear aim of reducing expenditure commitments.

3.5 The Council remains focussed on delivering an overall balanced position in this year. Collectively, service projections are forecasting an overspend of £5 million, and as highlighted in the October Council report, for this year, the benefit derived from the Loans Fund review will now be required to partially offset service overspending. The remaining £1.5m balance is being actively reviewed by CMT to identify further ways in which spending commitments can be restricted and ideally contained within approved levels and where possible, without impacting on agreed policy objectives. It remains necessary that any such mitigation will provide a positive benefit to the Council. Nevertheless, some elements of mitigation may be non-recurring, and without addressing the underlying issue of service overspending, this pressure will simply continue into future years.

General Services Capital Summary – Period 7

3.6 General Services capital spend until the end of October 2019 remains relatively low at just under £12 million (around 20%) against an updated budget of £61.0 million, with more details set out in **Appendix 4**. The Period 5 report presented to Council in October indicated projected year-end spend of around £48.0 million and it is now expected that this will reduce further to around £39.7m (65%). The main movements relate to projects being re-profiled into future years to reflect the latest anticipated requirements, design and works profiles, with a summary of the key risks highlighted below:

- The capital programme and anticipated spend levels remain significantly higher than in recent years, with much of the projected underspend likely to be utilised in future years, and matched against expected income in line with the project requirements.
- Many elements of the capital programme remains dependent on wider external factors including economic and market conditions as well as the winter weather, and as such, there remains some risks associated with the current projections.

3.7 The current programme remains ambitious, aligned to the Council's approved Local Development Plan and City Deal requirements; however,

both affordability and deliverability of capital investment plans remains critical, and any implications associated with project delays will need to be carefully considered within the development of future capital investment plans.

Housing Revenue Account – Period 7

- 3.8 At the end of October 2019, the Housing Revenue Account is continuing to report 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 to offset capital investment.
- 3.9 The current position reflects higher than anticipated reactive repair costs. The service is actively managing reactive repairs for the remainder of the financial year in order to contain spend within approved budget levels.
- 3.10 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 October 2019, the actual spend was £16.359 million (44%). Work is progressing well on both major programmes relating to modernisation and new affordable housing with both expected to deliver broadly in line with the approved budget. There is a risk of marginal overspending on both programmes but any impact of overspending will be largely offset by higher grant subsidy. 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. Capital fees are allocated at the year-end and it is anticipated that this will be around approved budget levels.

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 and in the supporting appendices
- 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
- 7.4 Council 27 August 2019 – Item 5 – 2019-20 Quarter 1 Finance Review
- 7.5 Council 29 October 2019 – Item 4 – Financial Review 2019-20 (Period 5)

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DATE	4 December 2019

Budget Monitoring 2019/20

Appendix 1 - General Fund

Service	Head of Service	Business Unit	2019/20 Budget	Year to Date			2019/20 Variance	Financial Risk Assessment
				2019/20 Actual to Date	2019/20 Budget to Date	2019/20 Budget Variance to Date		
			£'000	£'000	£'000	%		
Resources & People	Education	Childrens	14,580	10,529	8,490	2,039	24.0%	High
Resources & People	Education	Additional Support for Learning	8,152	6,767	6,057	710	11.7%	High
Resources & People	Education	Pre-school Education & Childcare	11,856	6,497	6,654	-157	-2.4%	Medium
Resources & People	Education	Schools - Primary	40,432	21,221	21,355	-134	-0.6%	Medium
Resources & People	Education	Schools - Secondary	42,275	23,281	23,346	-65	-0.3%	Medium
Resources & People	Education	Schools - Support Services	2,683	2,266	1,820	446	24.5%	Medium
RESOURCES & PEOPLE	EDUCATION TOTAL		119,978	70,561	67,722	2,839	4.2%	
Resources & People	Council Resources	Financial Services	1,388	662	748	-86	-11.5%	Low
Resources & People	Council Resources	Revenues & Benfits	1,996	735	899	-164	-18.2%	Low
Resources & People	Council Resources	IT Services	2,152	1,216	1,358	-142	-10.5%	Low
Resources & People	Council Resources	Legal & Procurement	551	408	438	-30	-6.8%	Low
Resources & People	Council Resources	People & Governance	4,706	2,875	2,902	-27	-0.9%	Low
RESOURCES & PEOPLE	COUNCIL RESOURCES TOTAL		10,793	5,896	6,345	-449	-7.1%	
RESOURCES & PEOPLE TOTAL			130,771	76,457	74,067	2,390	3.2%	
Health & Social Care Partnership	Adults & Older People	Adults	21,327	11,881	11,484	397	3.5%	Medium
Health & Social Care Partnership	Adults & Older People	Older People	25,535	12,247	12,370	-123	-1.0%	Medium
Health & Social Care Partnership	Adults & Older People	Director, Planning & Performance	5,874	3,824	3,828	-4	-0.1%	Medium
HEALTH & SOCIAL CARE PARTNERSHIP TOTAL			52,736	27,952	27,682	270	1.0%	
Partnerships & Community Services	Development	Planning	983	565	569	-4	-0.7%	Low
Partnerships & Community Services	Development	Economic Development & Strategic Investment	1,561	1,258	1,299	-41	-3.2%	Low
Partnerships & Community Services	Development	Property Maintenance Trading Account	-813	78	95	-17	-17.9%	Low
Partnerships & Community Services	Development	Community Housing	2,160	470	600	-130	-21.7%	Low
PARTNERSHIPS & COMMUNITIES SERVICES	DEVELOPMENT TOTAL		3,891	2,371	2,563	-192	-7.5%	
Partnerships & Community Services	Infrastructure	Facility Support Services	3,538	2,461	2,437	24	1.0%	Medium
Partnerships & Community Services	Infrastructure	Facility Trading Activity	-276	-1,122	-1,159	37	-3.2%	Medium
Partnerships & Community Services	Infrastructure	Asset Planning & Engineering	2,510	2,453	2,486	-33	-1.3%	Medium
Partnerships & Community Services	Infrastructure	Landscape & Countryside Management	5,099	3,513	3,456	57	1.6%	Medium
Partnerships & Community Services	Infrastructure	Roads Network	4,584	2,312	2,147	165	7.7%	Medium
Partnerships & Community Services	Infrastructure	Roads Trading Activity	-728	-213	-214	1	-0.5%	Medium
Partnerships & Community Services	Infrastructure	Transportation	1,119	-30	-33	3	-9.1%	Low
Partnerships & Community Services	Infrastructure	Waste Services	7,550	4,196	4,117	79	1.9%	Medium
Partnerships & Community Services	Infrastructure	Active Business Unit	3,600	1,756	1,758	-2	-0.1%	Low
PARTNERSHIPS & COMMUNITIES SERVICES	INFRASTRUCTURE TOTAL		26,996	15,326	14,995	331	2.2%	
Partnerships & Community Services	Communities & Partnerships	Corporate Policy & Improvement	1,185	724	734	-10	-1.4%	Low
Partnerships & Community Services	Communities & Partnerships	Connected Communities	6,722	4,349	4,299	50	1.2%	Medium
Partnerships & Community Services	Communities & Partnerships	Protective Services	1,795	1,660	1,706	-46	-2.7%	Low
Partnerships & Community Services	Communities & Partnerships	Customer Services Group	3,517	2,499	2,558	-59	-2.3%	Low
PARTNERSHIPS & COMMUNITIES SERVICES	COMMUNITIES & PARTNERSHIPS TOTAL		13,219	9,232	9,297	-65	-0.7%	
PARTNERSHIPS & COMMUNITY SERVICES TOTAL			44,106	26,929	26,855	74	0.3%	
SERVICE TOTAL			227,613	131,338	128,604	2,734	2.1%	
CORPORATE MANAGEMENT TOTAL			-227,613	-149,857	-149,638	-219	0.1%	
TOTAL			0	-18,519	-21,034	2,515		
TOTAL HRA			0	-9,247	-9,247	0		

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	162	540	0
Communities	112	338	0
Development	324	309	0
Infrastructure	415	212	70
Corporate	0	0	0
Total	1,792	2,452	984
			5,228

Savings Currently Red

Service	Proposal	Value	Comments
Education	Staff Performance & Transformational Savings	914	No staffing savings available to deliver corporate savings. Now being managed corporately
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	

Appendix 4
General Services Capital Budget Monitoring Summary

Position as at 31 October 2019

	Annual (In-Year)				
	Approved Budget 2019/20	Updated Budget 2019/20	Actual 2019/20	Outturn 2019/20	Budget- Outturn Variance 2019/20
	£'000	£'000	£'000	£'000	£'000
Expenditure					
Community Projects					
Assets in the Community - Investment	500	500	-	-	(500)
Community Intervention	600	600	133	600	-
Support for Business - Gateside West	461	461	-	50	(411)
Town Centre Regeneration	100	1,375	42	1,375	-
Synthetic pitches	19	20	-	-	(20)
Total Community Projects	1,680	2,955	175	2,025	(930)
ICT					
IT Programme	2,110	2,110	1,188	2,110	-
Replacement - CRM Project (Customer Services)	-	103	(22)	-	(103)
Total ICT	2,110	2,213	1,166	2,110	(103)
Fleet					
Amenties - Machinery & Equipment - replacement	190	190	139	190	-
Vehicles	1,850	1,882	312	1,882	-
Total Fleet	2,040	2,072	451	2,072	-
Open Space					
Cemeteries (Burial Grounds)	287	727	-	120	(607)
Coastal / Flood Protection schemes - East Beach, Dunbar	-	192	12	192	-
Coastal / Flood Protection schemes - Haddington	256	328	26	100	(228)
Coastal / Flood Protection schemes - Musselburgh	613	780	183	568	(212)
Coastal Car Park Toilets	150	480	0	60	(420)
Core Path Plan	50	50	2	48	(2)
Mains Farm Sports Pitch & Pavilion	429	558	-	32	(526)
Polson Park	138	138	-	-	(138)
Waste - New Bins	150	150	112	144	(6)
Waste - Machinery & Equipment - replacement	40	40	29	46	6
Total Open Space	2,113	3,442	364	1,310	(2,132)
Roads, Lighting and related assets					
Cycling Walking Safer Streets	171	171	-	171	-
Parking Improvements	250	418	257	306	(112)
Roads	7,500	7,500	3,220	7,500	-
Roads - externally funded projects	267	973	551	1,713	740
Total Roads, Lighting and related assets	8,188	9,062	4,029	9,690	628
Property - Education					
Aberlady Primary - extension	40	40	-	-	(40)
Aberlady Primary - outdoor facility incl 1140	149	149	0	-	(149)
Campie Primary - 1140	80	150	132	158	8
Dunbar Grammar - extension	140	140	23	23	(117)
Dunbar Primary - John Muir Campus - Early Learning and 1140	83	83	-	-	(83)
East Linton Primary - extension including Early Learning and 1140	913	968	-	87	(881)
Gullane Primary - extension including Early Learning and 1140	100	180	88	180	-
Haddington Infant School - upgrades	6	6	-	-	(6)
Law Primary - school extension	37	37	-	-	(37)
Law Primary - extension including Early Learning and 1140	147	147	0	147	-
Letham Primary - New School	6,775	6,695	2,159	6,759	64
Longniddry Primary - extension	34	34	-	-	(34)
Loretto Primary - 1140	38	63	62	66	3
Meadowpark Communications Provision - upgrades	8	53	0	53	-
Musselburgh Grammar - upgrades	283	283	-	30	(253)
Musselburgh Primary - 1140 upgrades	36	57	50	60	4

New Musselburgh Additional Secondary Education Provision	1,700	5,403	242	4,353	(1,050)
North Berwick High School - Extension	5,489	5,600	59	1,100	(4,500)
Ormiston Primary - extension	20	26	41	50	24
Pinkie St Peter's Primary - extension including Early Learning and 1140	160	160	1	160	-
School Estate - Curriculum Upgrades	330	330	-	330	-
Ross High School - extension	5,815	6,082	526	1,400	(4,682)
St Gabriel's Primary - extension including Early Learning and 1140	58	58	-	58	-
Tranent Early Learning Centre 1140	262	262	-	30	(232)
Wallyford Primary - New School	300	300	105	456	156
West Barns Primary - extension including Early Learning and 1140	175	175	-	275	100
Whitcraig Primary - extension including Early Learning and 1140	324	324	-	1	(323)
Total Property - Education	23,503	27,805	3,490	15,777	(12,028)

Property - Other					
Accelerating Growth - Enabling Infrastructure	3,100	3,038	218	609	(2,429)
Court Accommodation - incl. SPOC	1,554	1,554	213	366	(1,188)
Haddington Corn Exchange - upgrades	640	797	2	530	(267)
Haddington Town House - Refurbishment and Rewire	548	548	-	8	(540)
Herdman Flat	160	200	-	200	-
Inveresk Mills - upgrades	83	169	145	176	6
Meadowmill - New Depot	-	149	3	235	86
Port Seton - Community Centre Extension	1,048	1,229	5	664	(565)
Prestongrange Museum	100	100	-	-	(100)
Property Renewals	951	951	507	951	-
Eskgreen Care Home - Lift Refurbishment	200	200	-	-	(200)
East Linton Primary - Lifecycle improvements	522	522	-	-	(522)
Dunbar - The Cove ASN Unit	77	77	-	-	(77)
Replacement Pathways Centre	1,046	1,046	-	-	(1,046)
Sports Centres	200	200	371	208	8
Whitcraig Community Centre	483	973	823	997	24
Total Property - Other	10,713	11,753	2,287	4,944	(6,809)
Total Property - Education and Other	34,216	39,558	5,777	20,721	(18,837)
Capital Plan Fees	1,728	1,728	-	1,728	-
Total Gross Expenditure	52,074	61,031	11,961	39,656	(21,375)

Income					
Developer Contribution	(24,728)	(24,909)		(10,247)	14,661
Income	(2,064)	(4,437)	-	(4,141)	1,475
Scottish Government General Capital Grant	(9,465)	(9,465)		(9,465)	-
Total Income	(36,257)	(38,811)	-	(23,853)	16,136

Borrowing Requirement	15,817	22,220	11,961	15,802	(5,240)
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2019-20 Period 7 Financial Review - Appendix 5

HRA Capital Programme

	Budgeted	Actual	Available
	(£000s)	October	Balance
	(£000s)	2019	(£000s)
Modernisation Spend	11,998	6,051	(5,947)
New Affordable and Council Housing	18,657	10,308	(8,349)
Mortgage to Rent	840	0	(840)
Fees	1,395	0	(1,395)
Gross Total Housing Capital Spend	32,890	16,359	(16,531)