

REPORT TO: Cabinet

MEETING DATE: 10 March 2015

BY: Depute Chief Executive (Resources and People Services)

SUBJECT: Financial Review 2014/15 – to end of December (Q3)

1 PURPOSE

- 1.1 To record the financial position at the end of the 3rd quarter of the financial year 2014/15.

2 RECOMMENDATIONS

- 2.1 Members are recommended to;
- Note the financial performance of services at the end of December 2014.

3 BACKGROUND

Budget Summary

- 3.1 At its meeting of 11 February 2014, the Council approved a budget for the 2014/15 financial year and an outline budget for two subsequent years.
- 3.2 The 2014/15 budget can be summarised as follows;
- Government general revenue grant initially confirmed as £169.7 million.
 - Expenditure of £217.954 million.
 - The removal of reliance in 2014/15 of General Reserves, with a transfer from the Housing Revenue Account of just under £1.0 million.
 - The requirement to deliver £3.6 million of efficiency measures / savings / increased income across Business Groups, including a further £1 million of VERS (Voluntary Early Release Scheme)

savings, recognising the full year impact of VERS departures during 2013-14.

- Gross General Services capital budget of £19.941 million.

3.3 In addition there have been a number of refinements to the approved 2014/15 Budget as set out above.

- A number of 2014/15 budget adjustments were approved by Council on 10 February 2015. In total an additional £1.009m of funding (most notably in respect of the delivery of Free School Meals, Early Years and Discretionary Housing Payments) has been allocated to a number of service areas and these have been reflected within Appendix A.
- Cabinet approved a revised General Services Capital plan on 11 November, with further refinements presented as part of the 2015-18 Capital Budget approved by Council on 10 February 2015.

General Services Summary for Quarter Three

3.4 A summary of the financial position across each of the Business Groups at the end of December 2014 is detailed at Appendix A.

3.5 The unadjusted position at the end of December 2014 is an under-spend compared to budget of £1.544 million. A further under spend of £552,000 relates to the Devolved School Management budgets, which taking both into consideration presents a total under spend as at December 2014 of £2.096 million.

3.6 We have continued to provide an assessment of the progress in implementing the efficiency measures/savings/increased income required for the 2014/15 financial year. Based upon our judgement and knowledge, each Business Group has been assigned a rating reflecting our assessment of progress being made against the planned 2014/15 efficiency savings, and these are set out in Appendix A. The categories are as follows;

- Red – Less than 50% of budgeted efficiency savings are likely to be achieved by the end of the year;
- Amber – Between 50%-100% of budgeted efficiency savings are likely to be achieved by the end of the year;
- Green – 100% of budgeted efficiency savings are likely to be achieved by the end of the year.

3.7 Most service areas are on target to deliver the planned efficiency savings which were identified within the approved 2014/15 budget. The Q1 and Q2 reports for 2014/15 have previously rated the delivery of planned efficiencies within Adult Wellbeing and Children's Wellbeing Service as Amber or Red status, and it remains unlikely that these planned efficiencies will be delivered in full.

- 3.8 In overall terms, there has been an increase of £521,000 in the reported under spend from the Q2 position reported to Cabinet in November. Most of this relates to a combination of: pressures within the Health & Adult Care Partnership Directorate and Children's Wellbeing Service; offset by an increase in the reported under spend within the Partnership & Services for Communities area, largely relating to a continuation of vacancies within the service and higher than anticipated income from planning applications. A financial risk assessment of all service budgets has been made in order to assess the likely net expenditure levels at the financial year end. The risk categories are set out in more detail within Appendix B, with the assessment on a service level set out in Appendix A. In summary, most of the Risk Ratings have remained fairly static from those reported at the Q2 position. The Secondary Schools budget has been downgraded from 'Medium' to 'Low'. Two service areas continue to remain within the 'High' risk category (Adult Wellbeing and Children's Wellbeing), one at 'Medium' (Primary Schools) with the large majority of service areas categorised as 'Low' risk. The risk ratings continue to be kept under close review particularly as we progress through the final quarter of the financial year.
- 3.9 All the Corporate Income budgets such as Council Tax, Joint Board requisitions and debt charges are performing broadly in line with expectations, with an additional benefit of £544,000 now due to be received from the Scottish Government in respect of the 2012/13 Business Rate Incentivisation Scheme (BRIS). This scheme was based on national targets and provided each Council with the potential to retain 50 per cent of any increase in business rates income over and above the agreed target by maximising their existing business rates income and growing their tax base. The 2012/13 BRIS targets have been the subject of on-going discussions between COSLA and the Scottish Government, with agreement now reached relating to the quantum of this target. A new BRIS scheme has now been agreed to be introduced from 2014/15 targeting local buoyancy the outcome of which will need to be closely monitored.
- 3.10 The majority of the budget pressures are a continuation of emerging trends noted in the previous quarterly reports to Cabinet. Within Resources and People Services this includes;
- **Children's Wellbeing Group** – the Children's Wellbeing Group at the end of December reported a budgeted overspend of £556,000. As set out in Quarter 2 report, there continues to remain a number of significant pressures within the Children's Wellbeing service and as such a 'High' financial risk rating continues to remain in place. Given this, the Head of Children's Wellbeing was asked to prepare a budget recovery plan setting out the main financial pressures, and the steps which will be taken in order to exercise financial control. The plan identified a number of savings which will be used to partly offset against the current overspend position. Furthermore, additional funding in 2014/15 of £371,000 has also been received by the Council for Children's Wellbeing service and was approved as part of

the 2014/15 budget adjustments in February 2015, this funding will be used to support existing budget pressures. The Head of Children's Wellbeing and her service management continue to operate enhanced budgetary control measures aimed at reducing expenditure in a variety of areas to help offset these spending pressures however it is unlikely that this pressure will be fully mitigated, and there continues to remain a high likelihood that the service will overspend their budget allocation for 2014/15.

- The **Primary School budget** continues in line with the previously reported Quarter 2 position. Whilst overall the Primary School sector is reporting an under spend of £86,000, this figure is inclusive of individual primary school budgets with a total reported under spend of £472,000, and which is likely to fall within their current approved carry forward limits. Centrally held budgets for the primary sector remain under pressure; with a reported overspend of £490,000, largely due to delays with the wider review of Janitorial Services which is unlikely to deliver the planned efficiency savings identified within the 2014/15 budget.
 - Although the **Secondary Schools budget** to the end of December 2014 is reporting an overspend of £59,000, this figure includes underspending on individual secondary school budgets with 4 out of the 6 schools reporting an under spend. The Head of Education remains actively engaged in identifying solutions to manage the range of budget pressures within the schools group and it is still anticipated that overall, this service will spend within approved budget at the year end.
- 3.11 Within the Health & Adult Care Partnerships Directorate there continues to be a wide range of pressures with the Quarter 3 position reporting an overspend of £990,000 representing 3.0% of the approved budget.
- 3.12 The main pressure areas continue to be in line with those areas set out within the previous reports for 2014/15, in particular relating to the purchase of care packages for the elderly and individuals with learning disability. In addition, there are pressures associated with delayed discharges, increased home care hours and care home placements. The 'High' financial risk rating which was previously identified for the service remains in place. As set out in the Q2 report, the Director of Health and Social Care and Head of Adult Wellbeing were asked to prepare a budget recovery plan setting out the steps which will be taken in order to exercise financial control. Management continue to apply appropriate control measures and identify further efficiencies which could reduce/constrain expenditure in the current year and for the future, and this position will continue to be reviewed. Nevertheless, significant financial and demographic pressures continue to exist within this Group and it remains highly unlikely that expenditure will be contained within approved budget levels.

- 3.13 The majority of Partnerships & Services for Communities budgets are performing well within approved budgets. The Q3 position until the end of December 2014 is reporting an increased level of under spend within this Group of £2.308m, an increase from the reported £1.455m per Q2 report. The savings accrue from a mixture of; staffing budgets; a relatively mild winter, and higher than anticipated planning fee income. Our assessment suggests that most areas are likely to deliver well within approved annual budgets, however many of the service areas continue to be subject to on-going Service Reviews, and as these reviews are completed it is likely that a number of staffing positions will be filled.
- 3.14 Within the decisions taken as part of setting the 2015/18 budgets, a General Services underspend of around £1m has already been anticipated and it remains highly likely that the Council will deliver this position but this will be kept under constant review between now and the end of the financial year.

Housing Revenue Account

- 3.15 At the end of December 2014 the Housing revenue budget was reporting an under spend of £232,000. Most areas of expenditure remain broadly in line with budgets, however the recovery of rental income is less than anticipated, and void rent levels continue to be higher than expected. These pressures will continue to be closely monitored for the remainder of the year.
- 3.16 Details of the Housing Revenue Account capital budgets are included at **Appendix C**. The total capital budget approved for the HRA was £22.184 million. To the end of December 2014, the actual spend was £10.603 million representing around 48% of the annual total.
- 3.17 Modernisation expenditure as at December 2014 is £5.696 million representing around 56% of the approved budget. Despite this, it is expected that most of the larger budgets are expected to deliver broadly in line with expectations, however some slippage may result. This position will continue to be closely monitored.
- 3.18 To the end of December only one Mortgage to Rent application had been received with actual expenditure of £84,000. Since then, one further application has been approved however it is unlikely that any more applications will be received within the financial year.
- 3.19 The Quarter 2 financial report presented to Cabinet in November advised that outwith the Council's direct control, a number of proposed new developments/sites have been slower to come forward than expected and as such the new housing subsidy provided by the Scottish Government was potentially at risk. In order to prevent this, it was agreed to purchase a number of Open Market Acquisitions (OMA), which would be used in part to deliver the Housing Strategy investment needs whilst allowing us to maximise available Housing Subsidy. The Q3 report sets out the actual position as at December 2014, however since then, a

total of 19 properties have been purchased under OMA to the cumulative purchase value of £1.987million.

- 3.20 Overall, our current assessment suggests that whilst there may be some slippage on the Housing Capital programme relating to; lower than anticipated Mortgage to Rents, and slower than anticipated progress relating to the proposed new developments, it is expected that a large proportion of planned expenditure will be realised in the last quarter of the financial year, and close monitoring of this position will be maintained until the year end.

General Services Capital Budgets

- 3.21 **Appendix D** sets out the 2014/15 expenditure against the revised Capital budget, with actual expenditure totalling £10.123m, representing 47% of the current budget.
- 3.22 The majority of the capital budgets are under spent at the end December, and whilst it is expected that overall there is likely to be some slippage on the capital programme, around 90% of planned expenditure will be realised by the end of March 2015. This includes significant known spending commitments on various large projects including Pinkie St Peters and Windygoul Primary Schools, Coastal Car Parks and Toilets, Replacement Vehicles and the Roads Programme. This position will continue to be closely monitored.

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 11 February 2014 – Item 1 – Council Financial Strategy 2014/17

- 7.2 Council 22 April 2014 – Item 5 – Revisions to Capital Plan 2014-2017
- 7.3 Council 26 August 2014 – Item 4 – 2013/14 Financial Review
- 7.4 Cabinet 21 October 2014 – Item 3 – Financial Review 2014/15 Quarter 1
- 7.5 Cabinet 11 November 2014 – Item 2 – Financial Review 2014/15 Quarter 2
- 7.6 Council 10 February 2015 – Item 1 – Council Financial Strategy 2015-18

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REVENUE BUDGET PERFORMANCE at 31 DECEMBER 2014

Appendix A

	Budget for the year £000	Actual to 31/12/14 £000	Budget for the period £000	(Surplus) / Deficit for period £000	(Surplus) / Deficit %	Financial Risk Assessment	Change since last assessment	Progress with efficiency savings etc
Resources & People Services								
Children's Wellbeing	12,120	9,431	8,875	556	6.3%	High	No change	
Pre-school Education & Childcare	6,130	4,981	5,569	(588)	(10.6%)	Low	No change	
Additional Support for Learning	7,857	6,354	6,402	(48)	(0.7%)	Low	No change	
Schools - Primary	30,845	21,650	21,736	(86)	(0.4%)	Medium	No change	
Schools - Secondary	36,005	26,079	26,020	59	0.2%	Low	Decrease	
Schools Support Services	2,731	2,014	2,114	(100)	(4.7%)	Low	No change	
Financial Services	1,406	996	1,067	(71)	(6.7%)	Low	No change	
Revenues & Benefits	1,527	673	829	(156)	(18.8%)	Low	No change	
IT Services	1,743	1,377	1,381	(4)	(0.3%)	Low	No change	
Legal & Procurement	608	481	527	(46)	(8.7%)	Low	No change	
Human Resources & Payroll	1,261	909	974	(65)	(6.7%)	Low	No change	
Licensing, Admin and Democratic Services	1,879	1,205	1,273	(68)	(5.3%)	Low	No change	
	104,112	76,150	76,767	(617)	(0.8%)			
Health & Adult Care Partnership								
Adult Wellbeing	44,395	34,170	33,180	990	3.0%	High	No change	
	44,395	34,170	33,180	990	3.0%			
Partnerships & Services for Communities								
Planning & Environmental Services	2,366	1,398	1,795	(397)	(22.1%)	Low	No change	
Economic Development & Strategic Services	2,370	1,745	1,726	19	1.1%	Low	No change	
Asset Planning & Engineering	2,451	2,303	2,619	(316)	(12.1%)	Low	No change	
Property Maintenance	(490)	(508)	(277)	(231)	83.4%	Low	No change	
Facility Support Services	3,295	1,653	1,641	12	0.7%	Low	No change	
Landscape & Countryside Management	5,548	3,705	3,936	(231)	(5.9%)	Low	No change	
Roads, Transportation & Waste Services	12,885	7,934	8,327	(393)	(4.7%)	Low	No change	
Healthy Living	3,959	2,502	2,498	4	0.2%	Low	No change	
Community Housing	2,660	2,731	2,999	(268)	(8.9%)	Low	No change	
Housing Revenue Account (HRA)	0	(8,219)	(7,987)	(232)	2.9%	Low	No change	
Communications & Marketing	424	309	344	(35)	(10.2%)	Low	No change	
Policy & Improvement	843	500	609	(109)	(17.9%)	Low	No change	

Community Partnerships	2,205	1,518	1,519	(1)	(0.1%)	Low	No change
Arts, Museums & Music	1,206	728	722	6	0.8%	Low	No change
Community Development	2,629	1,964	1,963	1	0.1%	Low	No change
Customer Services, Libraries & Safer Communities	3,725	3,229	3,366	(137)	(4.1%)	Low	No change
	<u>46,076</u>	<u>23,492</u>	<u>25,800</u>	<u>(2,308)</u>	<u>(8.9%)</u>		
Total All Departments	<u>194,583</u>	<u>133,812</u>	<u>135,747</u>	<u>(1,935)</u>	<u>(1.4%)</u>		
Corporate Management							
Revenue Support Grant (inc. NNDR)	(170,715)	(109,956)	(109,956)	0	0.0%	Low	No change
Council Tax	(47,345)	(48,333)	(48,366)	33	(0.1%)	Low	No change
Debt Charges/Asset Management	14,239	6,378	6,378	0	0.0%	Low	No change
Joint Board Requisitions	674	506	506	0	0.0%	Low	No change
Other	9,389	6,256	6,450	(194)	(3.0%)	Low	No change
HRA Transfer	(995)	0	0	0	0.0%	Low	No change
Transfer to Reserves	170	0	0	0	0.0%	Low	No change
	<u>(194,583)</u>	<u>(145,149)</u>	<u>(144,988)</u>	<u>(161)</u>	<u>0.1%</u>		
Total All Council	<u>0</u>	<u>(11,337)</u>	<u>(9,241)</u>	<u>(2,096)</u>	<u>22.7%</u>		

Appendix B

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

Appendix C

HOUSING CAPITAL SPEND & FINANCING TO DECEMBER 2014

	Budgeted (£000s)	Actual (£000s)	Over/(Under) (£000s)
Mortgage to Rent	662	84	(578)
Modernisation Spend	10,231	5,696	(4,535)
<u>detail of Modernisation Spend:</u>			
Fees	533		(533)
Disabled Adaptations	758	308	(450)
Central Heating/Leasing Purchases	1,616	965	(651)
Electrical Re-wiring	1,717	1,118	(599)
Fencing Programme	201	161	(40)
Energy Efficiency	351	10	(341)
Kitchen Replacement Prog.	1,788	981	(807)
SHQS Abeyance incentive	50		(50)
Roofing / Roughcasting	606	477	(129)
Stair Improvement Programme	30	15	(15)
Groundcare			-
Roads / Walkway pre-adoption works	246		(246)
Structural surveys / works	200	94	(106)
Dispersed Alarms	51	1	(50)
Local Initiatives:Projects	202	52	(150)
Window & Door Replacement Prog.	20	101	81
Bathroom Replacement	951	650	(301)
Extensions	306	77	(229)
Lead Water Pipes	202	287	85
Asbestos Works	353	368	15
IT Projects	50	31	(19)
Gross Affordable Homes spend	8,989	4,823	(4,166)
Open Market Acquisition	2,302		(2,302)
Gross Total Housing Capital Spend	22,184	10,603	(11,581)
Financed By:			
Grants	7,807		(7,807)
Assets Sales/Capital Reserves	2,502	1,271	(1,231)
Borrowing	11,875	9,332	(2,543)
	22,184	10,603	(11,581)

Appendix D

GENERAL SERVICES CAPITAL SPEND - TO DECEMBER 2014

Name of Project	Budgeted Spend	Actual Spend	Over/(Under)
	2014/15 £000	2014/15 £000	(£000s) £000
New Day Centre - Gullane	62	7	(55)
Fa'side Tranent - New residential home and day centre	2,141	2,100	(41)
Haddington Day Centre	60	118	58
Haddington Town House - Steeple Work	104	79	(25)
Gypsy Traveller Site	31	4	(27)
Property Renewals	965	300	(665)
Property Fees/Internal Architect etc fees	1,445	-	(1,445)
Environment Fees	111	-	(111)
Brunton Hall - Theatre and Main Hall refurbishment	225	123	(102)
John Gray Centre Haddington	79	2	(77)
Tranent Library	40	1	(39)
North Berwick Museum - refurbishment	100	60	(40)
North Berwick Community Centre - Lift	68	57	(11)
Community Intervention	330	-	(330)
Ormiston Bowling Club (Community Intervention)	-	130	130
Support for Business - Town Centre Regeneration	550	155	(395)
Haddington IS / St Mary's RCPS - New shared Campus	210	159	(51)
Sandersons Wynd PS - additional Classrooms	35	7	(28)
Secondary School Communication Provision	50	-	(50)
Dirleton Classroom Extension	13	7	(6)
Dunbar Primary - Phase 2 Comms Unit	-	18	18
Macmerry PS Extension	12	7	(5)
Pinkie St Peter's PS Extension/Levenhall Nursery reversion	1,100	402	(698)
Law Primary School	5	-	(5)
Windygoul PS additional Classrooms	750	88	(662)
Wallyford PS - New PS/Pro-rata ELC share	50	-	(50)
Replacement Vehicles	2,200	56	(2,144)
Pavilions	358	82	(276)
East Lothian Legacy Project - Meadowmill Alterations	59	-	(59)
Sports Centres - refurbishment & Equipment	200	87	(113)
Musselburgh Tennis Court Upgrade	60	-	(60)
Expansion of 3G pitch provision	305	196	(109)
Schools IT	764	445	(319)
Corporate IT Program	316	315	(1)
Server Room Upgrade	130	-	(130)
Core Path Plan Implementation	137	11	(126)
Cuthill Park	79	-	(79)
Amenity Services Machinery & Equipment - replacement	124	128	4
Coastal Car Parks/Toilets	790	334	(456)
Peppercraig Depot Haddington	558	567	9
Coastal Protection/Flood	466	423	(43)
Promenade Improvements - Fisherrow	50	5	(45)
Pencaitland Paths/Community Car Park	200	23	(177)
Cycling Walking Safer Streets (Ring-fenced grant funded)	153	-	(153)
Roads	5,250	3,509	(1,741)
Parking Improvements	300	-	(300)
Purchase of New Bins/Food Waste Collection	475	118	(357)
	21,510	10,123	(11,387)