•EDINBVRGH•
THE CITY OF EDINBURGH COUNCIL

Item no 8
Report no E/384/06-07/F

Revenue Monitoring 2006/07 - Six Month Position

Executive of the Council

12th December 2006

1 Purpose of Report

This report sets out the overall position of the Council's revenue budget at the six month stage and the projected outturn for the year. The purpose of the report is to draw Member's attention to the continued projected overspends shown in departmental budgets.

2 Background

2.1 The Executive of the Council considered the half-year revenue position (based on period five) at their meeting on 14th November, 2006. The report showed an adverse variance of £1.222m, arising in the following areas:

	Projected Variance (Half-Year Report)	
Departmental Variances	**£m**	**£m**
Children and Families	3.643	
City Development (including FFF)	2.144	
Culture and Leisure	0.195	
Health and Social Care	0.898	
Corporate Services - STOs	0.134	
Services for Communities	(1.450)	
Services for Communities - STOs	1.450	
		7.014
Corporate Variances		
Single Status	(4.500)	
Dividend Income	1.708	
Loan Charges	(3.000)	
		(5.792)
Total		1.222

2.2 The Directors of Children and Families, Culture and Leisure, Corporate Services and Health and Social Care were instructed to report measures to contain projected overspends within budget to the Executive within one cycle. These reports were also considered by the Executive at its meeting on 14th November 2006.

2.3 The Executive approved a virement of £1.708m from loan charges to dividend income. Figures quoted in this report from the half-year report have been updated to reflect this virement.

AH442(1)/AG

2.4 The Executive called for a further report, updating the half-year position, within one cycle.

2.5 The Executive at its meeting on 14th November accepted the recommendation to instruct all Service Directors to exercise control over expenditure and ensure that expenditure remains in line with the approved budget, with the exception of any reductions in respect of school-based budgets and budgets where there is a direct impact on front-line services for vulnerable children or on the Council's ability to meet delayed discharge targets in partnership with Lothian Health.

3 Financial Performance

3.1 As in previous years, where departments identify areas of expenditure which may result in additional costs, Service Directors are required to identify appropriate measures to contain these within approved budgets for inclusion in the budget monitoring report within one cycle.

3.2 The position at month six shows a projected deficit of £1.922m, a further deterioration of £0.7m from the £1.222m projected at period five. The table below summarises the variances projected by departments.

	Period 6 Projected Variance Adverse/ (Favourable)		**Movement from Period 5 Adverse/ (Favourable)**
Departmental Variances	**£m**	**£m**	**£m**
Children and Families	3.000		(0.643)
City Development	1.493		(0.651)
Corporate Services	(0.118)		(0.118)
Culture and Leisure	0.292		0.097
Health and Social Care	1.297		0.399
Services for Communities	0.246		1.696
Corporate Services - STOs	0.118		(0.016)
Services for Communities - STOs	1.386		(0.064)
		7.714	0.700
Single Status	(4.500)		-
Loan Charges	(1.292)		-
		(5.792)	
Total		**1.922**	**0.700**

Children and Families - £3m adverse

3.3 The half-year monitoring report indicated a projected net pressure of £3.6m for the Children and Families Department in the current year. As part of the on-going monitoring exercise and based on analysis of the ledger position as at October, a number of additional pressures have been identified. As a result of deployment of School Fund monies, the revised net pressure is £3.0m.

3.4 The movement in pressures include a reduction in income from secure unit placements made by other local authorities (£0.4m) and an adverse variance forecast in respect of out of other authority placements for children with special needs (£0.2m). These budget pressures are offset by savings in the teaching budget following confirmation of the September school census (£0.3m) and a reduced forecast budget pressure in respect of staff costs arising from previous year's early retirement decisions (£0.2m)

3.5 Detailed analysis of the budget for Early Years' Service has identified a potential pressure in the budget for private nursery providers attributable to places in Edinburgh's early years and nursery centres being allocated to children from other authorities (£0.5m). It is proposed to recharge £0.5m of the projected costs to other local authorities. There is a risk associated with this proposal, as there is likely to be a negative reaction to the imposition of a charge part way through the financial year.

3.6 Increased pressures (£0.35m) are also forecast in the Home to School transport budget, resulting in a revised forecast net pressure of £0.6m.

3.7 Further adverse variances (£0.2m) are also forecast in respect of unachievable income within the Children's Services budget.

3.8 However, approval has now been received from the Scottish Executive to the application of an additional £1.2m funding from the Schools Fund grant monies, in line with national policy objectives for the improvement of the schools estate.

3.9 Potential additional costs associated with the development of the Council's PPP2 project are also anticipated. Further work is required to quantify these costs.

3.10 The above pressures will continue to be monitored as part of the on-going monitoring exercise.

3.11 The Education Minister, Hugh Henry, announced £60m of additional funding for schools on 27th November. The Directors of Finance and Children and Families are currently reviewing the conditions relating to these monies. Therefore any potential impact from these has been excluded in this report.

City Development - £1.493 adverse

3.12 At month six, the department is projecting an adverse variance of £1.493 relating to Building Design Services (BDS). A report is to be submitted to the Executive, identifying the options available to address the issues identified in relation to:

(i) budget income targets and current recharge levels;

(ii) constraints on fee earning capacity; and

(iii) the anticipated reduction in the work programme in financial year 2008/09.

3.13 At month six, the department has identified further pressures of £1.093m relating to the FFF project and non-achievement of property related efficiency savings, partially offset by additional parking income and other departmental savings. The Director has identified the following measures:

(i) recovery of property development costs in relation to the Morrison Street sale - £0.1m;

(ii) reduction in the building overlap costs in the FFF project due to savings in rental arising from the delayed handover of the new headquarters - £0.1m;

(iii) capitalisation of works to the Old Council Chamber under the FFF programme - £0.495m;

(iv) deferment of planning and building control (electronic forms) phase 2 to 2007-08 - £0.135m;

(v) additional income in building control and property conservation - £0.097m;

(vi) recharge to HRA for the additional costs of the move to the new campus - £0.16m.

Corporate Services - £0.118m favourable

Significant Trading Operations - £0.118m adverse

3.14 The period five revenue monitoring for the School and Welfare Catering STO projected a contribution shortfall of £0.134m. As a result of the continuing decline in meal uptake figures beyond forecast, this shortfall increased to £0.198m in period 6.

3.15 The Director of Corporate Services has identified the following actions to address the shortfall. These are anticipated to bring the department's expenditure back into line with budget.

(i) continued dialogue with the client in pursuance of adequate compensation for the loss of income arising from the Hungry for Success programme;

(ii) increased contribution from the Direct Cleaning STO, as a result of curtailing expenditure on operational equipment and materials - £0.06m;

(iii) increased contribution from the City Fleet Maintenance Services STO through increased income - £0.02m;

(iv) savings arising within the Corporate Transport Unit.

Culture and Leisure - £0.292m adverse

3.16 Culture and Leisure previously reported a projected overspend of £0.195m, consisting of:

(i) Ratho Adventure Centre - £0.103m

(ii) Reduction in income at Port Edgar - £0.057m

(iii) Employee Costs - £0.068m.

These were partially offset by £0.033m of savings achieved.

3.17 In his report to the Executive on 14th November, the Director of Culture and Leisure indicated actions that were being taken to rectify the situation. These included bans on all discretionary expenditure other than Health and Safety, restrictions on who could approve expenditure, ceasing to fill non frontline posts and a ban on rechargeable overtime.

3.18 The period six figures indicated that the position had deteriorated and the overspend was now projected to be £0.303m, an increase of £0.108m. This was due to an increased projection in employee costs of £0.104m and a shortfall in income of £0.02m, partially offset by further savings achieved of £0.016m.

3.19 Further monitoring indicates that the actions taken are having an effect, notably on employee costs, where the projection has now reduced by £0.08m. However, this is offset by increased repairs and maintenance charges which are now estimated to be £0.073m over budget. The net effect is an increase in the overspend position to £0.292m.

3.20 In his report, the Director of Culture and Leisure commented that there is little likelihood of costs relating to Ratho or Port Edgar being recovered. While the actions taken in the department are having a positive effect, the indications are that they will not be enough to claw back sufficient sums to fund the overspends caused by these two items, particularly if maintenance costs continue to increase.

Health and Social Care - £1.297m adverse

3.21 The projected outturn at period 6 is an overspend of £1.297m, an increase of £0.4m on the previous period. These figures include the management actions agreed by the Executive on 12th September. The movement of £0.4m between period five and period six relates to £0.1m for the e-Assess IT system and £0.3m for supported accommodation costs that were understated in the period five statement.

3.22 Expenditure pressures remain relatively unchanged from last month, the main areas being in employee costs (principally older peoples' homes £0.971m and learning disabilities £1.047m), utilities £0.327m and payments to individuals £0.469m.

Services for Communities - £0.246 adverse/
Significant Trading Operations - £1.386m adverse

3.23 At months four and five, Services for Communities projected a breakeven position. Within this, waste management forecast an overspend of £1.45m to be offset by savings in Edinburgh Building Services and other parts of the department. The main contributors to the overspend in waste management were:

(i) refuse collection employees - £0.48m, largely as a result of postponement in rationalising recycling and domestic collections to reconsider the best approach for this;

(ii) refuse collection transport - £0.272m, from operating the service with excess vehicles and high fuel costs;

(iii) trade waste income - £0.4m, in line with income shortfall in 2005/06.

3.24 At month six new pressures have been identified, leading to a projected overspend of £1.632m. The main factors contributing to this are:

(i) Strategic Waste Fund/Waste Disposal - £0.65m. Savings in waste disposal budgets from the diversion of waste from landfill are forecast to be insufficient to fund the Council's contribution to Strategic Waste Fund recycling schemes;

(ii) Housing and Regeneration Rent Arrears/Bed and Breakfast - £0.62m. A rise in the number of homeless presentations and incomplete housing benefit claims is placing pressure on bed and breakfast and rent arrears budgets; and

(iii) Central Support Recharges - £0.29m. A rise of £0.29m has been forecast in central recharges against Services for Communities' non general fund services compared with 2005/06.

3.25 Offsetting this, Heads of Service accept that in some areas, projections are based on fairly cautious assumptions.

3.26 Services for Communities' senior management team has agreed the following actions to address the shortfall:

(i) the Head of Environment is to review the Strategic Waste Fund schemes and waste disposal to examine scope to contain this pressure within waste revenue or capital budgets;

(ii) the Head of Housing and Regeneration is to review the arrears / housing benefits position with the Head of Revenues and Benefits;

(iii) Financial Services are investigating the rise in central recharges to assess whether the forecast increase is justified;

(iv) All Heads of Service are to review areas of controllable expenditure and bring forward savings options for the month seven monitoring report; and

(v) All Heads of Service are to review forecast assumptions and amend any forecasts that are unnecessarily cautious.

3.27 Progress on the above is as follows:

(i) Significant elements of the 2006/07 Strategic Waste Fund programme could be funded from capital. Work is ongoing to confirm the level of headroom within Services for Communities' capital programme and whether the Council making a contribution from capital rather than revenue would have any impact on the level of grant received. It is currently anticipated that it would not, and therefore that Services for Communities will be able to contain this pressure.

(ii) In the last month further pressures have been identified within homelessness amounting to £0.9m on the General Fund and £1.7m on the HRA. The Director of Services for Communities met with members of Housing & Regeneration Management Team and Finance on Friday 24th November. A follow up meeting will be arranged in the next week. The following measures were agreed

<u>To reduce the level of failed housing benefit claims</u>

- Hold meetings with Revenues & Benefits to get the same relaxation for temporary accommodation (TA) and B&B that applies for hostel together with any other concessions which will increase housing benefit income.
- Hold discussions with Housing Benefits and the Department of Work and Pensions to find way of obtaining the required documentation electronically or some other way around the problem.
- Should the above fail, develop a management proposal so that nobody is admitted to B&B or TA without a valid housing benefit claim having been made. If necessary this to include accompanied transportation to the benefit office.
- Review whether decentralisation of TA booking needs to be reversed or changed in some way.

<u>To reduce the use of temporary accommodation and Bed & Breakfast</u>

- Investigate scope to use Private Sector Leasing (PSL) as TA rather than semi-permanent and also scope to extend PSL.
- Investigate use some of cleared homes under demolition programme as TA.
- Liaise with Registered Social Landlords with a view to them allocating a greater % of lets to statutorily homeless people
- Prepare model showing the impact of the above on B&B and what other resources would be needed to eliminate its use. This to include private sector purchase for TA, more purpose built units and use of mainstream tenancies.

Review of rents / service charges to balance TA budgets

- Investigate the increase needed to achieve original net budget for 06/07 during the remainder of this year.

- Investigate what increase would be needed to generate additional annual income of £1m.

Other ideas

- The Director instructed the immediate slow down on repairs budget expenditure.

- Work continues to identify any other measures to address the pressure.

- Clarification also sought on the areas where savings are currently forecast leading to a much improved overall projection for Housing & Regeneration

(iii) At month 6 additional provision of £0.185m was made for an increase in central recharges in relation to the cost of the Procure to Pay team. Analysis of the basis for this charge has led Financial Services to conclude that the forecast increase was unjustified as the recharge model had omitted an adjustment, applied in 2005/06, to reflect the work undertaken by EBS & Roads staff on feeder systems. As a result for month 7 this provision has been reversed.

(iv) Review of assumptions in month 7 has resulted in some savings primarily across services within the Environment Division. However this has been offset by pressures in other areas.

3.28 It is anticipated that the actual deficit for Services for Communities will be less than reported at month six and a verbal update will be given to the Executive.

Single Status/Equal Pay

3.29 As noted in the half-year report to the Executive, delays in the project mean that there is a projected underspend of £4.5m in the current financial year. This funding is of a one-off nature and available in the current year only.

Council Tax

3.30 Members will recall from previous outturn reports to the Executive that a backdated review of exemptions was to be undertaken in 2006/07. This review is progressing, and early indications are that there will be a reduction in the number of exemptions from Council Tax. Experience from previous years shows that there is always a significant uplift in exemptions in the last quarter of the financial year. Further work will be undertaken to identify the likely impact for the nine-month report.

Loan Charges

3.31 Members will recall that the five month report projected a favourable variance of £3m. Members approved a virement of £1.708m from loan charges to manage the deferment of dividend income from New Edinburgh Limited. Further reductions in loan charges are likely to arise from slippage in the capital programme and determination of the pooled interest rate. This will assist in delivering a balanced budget across all Council activity

Housing Revenue Account

3.32 The Housing Revenue Account is projecting a balanced outturn position. At month four, pressures amounting to around £1.4m were identified against Housing repairs and measures to contain these were agreed. At present it is forecast that the agreed measures will ensure a balanced position on repairs, but the situation continues to be closely monitored.

4 Conclusions

4.1 The six-month position shows a projected overspend of £1.922m, a deterioration of £0.7m from the position reported in the half-year report (based on period five data). Within this, the projected overspend in departments has increased to £7.714m. Revisions to budgets for loan charges and Council Tax product are expected to assist in delivering a balanced budget across all Council activity.

4.2 Members are again reminded that the requirement to set a balanced budget is established in the Local Government (Scotland) Act 1973 and the Local Government Finance Act 1992. Effective management action needs to be taken to contain expenditure within approved budgets. Where overspends are anticipated, specific and costed measures must be identified to address them, either through management action or, where necessary, by presenting options to elected members for their consideration and decision. Should these require the approval of elected members, this should be provided at the earliest opportunity. If proposals are not approved, guidance should be provided regarding acceptable actions.

4.3 Whilst recognising the efforts being made by management teams to address the severe financial pressures faced by the Council, due to the scale of pressures the review of the impact of the range of management actions above demonstrates that these are being largely ineffective. Steps are being taken to undertake a budget realignment exercise which, together with further training for budget managers will seek to assist in the cultural shift towards greater budget responsibility and control.

4.4 The 2005/06 audit report to elected members highlights a concern over the management actions reported and the risk that corrective action is not effective in addressing significant adverse variances or in recovering previous budget deficits under the budget flexibility scheme.

5 Recommendations

The Executive is requested to:

i) note that the Chief Executive has instructed all service directors to exercise control over expenditure and ensure that expenditure remains in line with the approved budget, other than the exceptions approved by the Executive at its meeting on 14th November 2006, as detailed at 2.5 above;

ii) instruct all service directors to monitor management action being implemented and its actual impact on expenditure;

iii) note the projected overspend of £1.922m;

iv) consider the comments outlined above in paragraphs 4.3 and 4.4 of this report.

D. McGougan
Donald McGougan
Director of Finance
4th December 2006.

Appendices	-
Contact/Tel:	Alison Henry: 0131 469 3172
Wards affected	All
Background papers	Departmental monitoring statements

Agenda item:

Report title: Revenue Monitoring 2006/07 - Six Month Position

In accordance with the Council's Standing Orders, the contents of this report have been noted by the appropriate Executive Member.

Without prejudice to the integrity of the report, and the recommendations contained within it, the Executive Member expresses his/her own views as follows:

Signed: Maureen M. Child **Date:** 5/12/06

For information – Standing Order 57(1) states:

"Heads of Department will prepare reports, with professional advice and recommendations, on matters requiring decisions by the Executive:

- a report seeking decisions on matters of corporate strategy, corporate policy and corporate projects will be submitted direct to the Executive
- a report seeking decisions on matters relating to the special responsibilities allocated to an individual member of the Executive will be submitted, in the first instance, to that member. The member will add his or her own recommendation to it before submission to the Executive. Where the Executive member disagrees with the advice and the recommendation of the officers, the Executive member will also state his or her reasons."