

# Shetland Islands Council



## 2012-13 Financial Review

The Council's Draft Outturn Position

*Securing the Best for Shetland*

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## Executive Summary

- 1.01 The 2012-13 draft outturn report sets out the actual spending position for the Council.
- 1.02 The draft outturn position has exceeded the target in the Medium Term Financial Plan and therefore has contributed towards the strategic aim of realigning spending within available resources in order to preserve a minimum level of £125m in the Council's reserves. By achieving this, the Council will eradicate the organisation's structural deficit and become financially sustainable.
- 1.03 The total draw on reserves required to balance the budget in 2012-13 was £21.445m (unaudited figure) which is significantly lower than the £35.6m required in 2011-12. Despite this progress the Council's current reliance on reserves to balance its budget is still unsustainable and large reductions in spending will be required to ensure that the Council can become financially sustainable.

### 2012-13 Draft Draw on Reserves Summary

- 1.04 The table shows that the draft draw on reserves is £21.445m against a target of £26.331m resulting in a reduction in the draw on reserves against the revised budget of £4.886m:

Spending Area	2012-13 Revised Budget £m	2012-13 Actual £m	2012-13 Variance £m
General Fund	23.940	20.691	3.249
Harbour Account	(3.040)	(3.401)	0.361
Housing Revenue Account	1.174	2.058	(0.884)
Asset Investment Plan (Capital Programme)	3.342	1.359	1.983
Spend to Save (Capital and Revenue)	0.915	0.738	0.177
<b>TOTAL DRAW ON RESERVES</b>	<b>26.331</b>	<b>21.445</b>	<b>4.886</b>
Split between:			
Recurring Draw on Reserves	21.925	16.655	5.270
Non- Recurring Draw on Reserves	4.406	4.790	(0.384)

1.05 It is important to recognise the difference between the recurring draw on reserves, which represents the underlying need to use reserves year on year, and the non-recurring draw on reserves, which is a one-off use of reserves. The scale of the recurring draw on reserves can lead us to conclude that the Council is operating a structural deficit whereby expenditure levels do not reflect the income levels received by the Council. Therefore, it is encouraging to see that against a budgeted recurring draw on reserves of £21.925m, the draft actual spending figure was £5.270m less than budget at £16.655m, indicating that the Council is making good progress to tackle the structural deficit.

1.06 The table below sets out the budget and actual non-recurring draw on reserves for 2012-13:

Type of Expenditure Non-Recurring Costs	2012-13 Revised Budget £m	2012-13 Actual £m	2012-13 Variance £m
Budget Carry Forwards from 2012-13 (Revenue)	1.263	0.940	0.323
Spend to Save (Revenue & Capital)	0.915	0.738	0.177
Unsustainable Draw on Housing Repairs & Renewals Fund	1.174	2.058	(0.884)
Hjaltland Housing Association Grant	1.054	1.054	0
<b>TOTAL</b>	<b>4.406</b>	<b>4.790</b>	<b>(0.384)</b>

#### Reserves health check

1.07 The value of the externally invested reserves stood at £205.730m on 31 March 2013 (£193.170m 31 March 2012). The increase in their value is attributable to the 14.6% return achieved during the financial year which was driven by strong growth in the FTSE100 since the turn of the calendar year. This level of return is considerably higher than the long term average and we do not anticipate that level of growth is sustainable in the longer term. Therefore, we continue to estimate a long-term average of 5.75% less the inflation rate.

1.08 The higher than anticipated level of reserves at 31 March 2013, achieved by a smaller draw on reserves and a large investment return, will be reflected in the updated Medium Term Financial Plan. However, it is important to recognise that stock market values will fluctuate from year to year, and this should not form a basis for altering the current course if the Council still wishes to become financially sustainable by 2017.

## 2012-13 Detailed Spending

### The 2012-13 General Fund

2.01 The 2012-13 General Fund budget and actual comparison is set out in the table below:

Line No.	Description	2012-13 Revised Budget £000s	2012-13 Actual £000s	2013-14 Variance £000s
1	Chief Executive & Cost of Democracy	1,861	1,900	(39)
2	Children's Services	44,729	43,761	968
3	Community Care Services	23,040	24,029	(989)
4	Corporate Services	12,128	10,805	1,323
5	Development Services	18,659	16,638	2,021
6	Infrastructure Services	23,338	22,910	428
7	Police	1,630	1,698	(68)
8	Fire	2,054	2,196	(142)
9	Fund Manager Fees	755	896	(141)
<b>10</b>	<b>GENERAL FUND SERVICES NET EXPENDITURE (equals lines 1-9)</b>	<b>128,194</b>	<b>124,833</b>	<b>3,361</b>
11	Recharges Out (to Other Funds/External Bodies)	(3,772)	(3,417)	(355)
<b>12</b>	<b>TOTAL NET GENERAL FUND EXPENDITURE (equals line 10 plus line 11)</b>	<b>124,422</b>	<b>121,416</b>	<b>3,006</b>
13	Funded by:			
14	GRG/NNDR (Scottish Government Allocation)	(90,851)	(91,143)	292
15	Council Tax	(8,036)	(8,865)	829
16	DLO	(595)	(717)	122
17	SDT Contribution	(1,000)	0	(1,000)
<b>18</b>	<b>TOTAL CORE FUNDING (equals lines 14-17)</b>	<b>(100,482)</b>	<b>(100,725)</b>	<b>243</b>
<b>19</b>	<b>Deficit to be funded from Reserves</b>			
20	Draw on Reserves – General Fund	(9,878)	(10,317)	439
21	Draw on Reserves – Repairs & Renewals	(7,937)	(6,631)	(1,306)
22	Draw on Reserves – Reserve Fund	(6,125)	(3,703)	(2,422)
23	Draw on Reserves – Efficiency Fund	0	(40)	40
<b>23</b>	<b>TOTAL FUNDING FROM RESERVES (equals lines 20-22)</b>	<b>(23,940)</b>	<b>(20,691)</b>	<b>(3,249)</b>
<b>24</b>	<b>TOTAL FUNDING (equals line 18 plus line 23)</b>	<b>(124,422)</b>	<b>(121,416)</b>	<b>(3,006)</b>
<b>25</b>	<b>Balanced budget (line 10 plus line 21)</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Expenditure

- 2.02 The General Fund Services Net Expenditure was budgeted to be £128.194m in 2012-13 as shown at Line 9 in the table above. This expenditure represents the spending on day to day Council services.
- 2.03 Chief Executive & Cost of Democracy (**£0.039m or 2.1% overspend**)
- The overspend was fully attributable to the costs of an exit package to a former employee. Without this cost, the area would have achieved an underspend against budget.
- 2.04 Children's Services (**£0.968m or 2.2% underspend**)
- The net underspend is mainly due to savings/underspends on Directorate (£0.1m), Children & Families (£0.1m), Quality Improvement/Schools (£0.4), there was also £0.3m transferred to capital in relation to works on Sound School and the Halls of Residence which was originally budgeted under revenue. Sports and Leisure were overspent due to actual energy and water usage being higher than budgeted for (£0.021m).
- 2.05 Community Care Services (**£0.989m or 4.3% overspend**)
- The net overspend was a combination of shortfalls against budgeted savings in Community Care Resources (£1.2m) and Mental Health (£0.5m) and self funders income (£0.2m); offset by underspending mainly on training (£0.3m), vacancies in Adult Services (£0.3m) and Occupational Therapy (£0.2m).
- 2.06 Corporate Services (**£1.323m or 7% underspend**)
- The underspend is a combination of vacancies and savings/underspends on Capital Programmes (£0.3m), Human Resources (£0.2m), Governance and Law (£0.3m), ICT (£0.4m) and Finance (£0.1m).
- 2.07 Development Services (**£2.021m or 10.8% underspend**)
- The net underspend is a combination of unbudgeted Council wide savings to be identified (£0.3m) and non achievement of rural transport savings (£0.3m); offset by overbudgeting for Schools Transport indexation (£0.3m), additional savings/underspends mainly on Development with the non-payment of the NAFC grant which was met from the SDT surpluses instead (£1.2m) and additional income from unexpected investments recovered (£0.2m). Expenditure on Planning for the Town Centre Regeneration was transferred to capital (£0.1m). Underspending on Community Planning & Development relates mainly to grants not being approved by the Council (£0.1m), Housing underspend on salary savings offset by non achievement of savings on Housing Support Workers

review (£0.2m) and Train Shetland reduced costs in relation to the apprentice scheme and vacancies (£0.2m).

#### 2.08 Infrastructure Services (**£0.428m or 1.8% underspend**)

- The net underspend was a combination of shortfalls against budgeted savings in Ferries (£0.2m) and Fleet Management Unit (£0.038m); offset by additional income from waste and burial services and other savings/underspends in Environment Services (£0.5m), vacancies and maintenance underspends on Roads (£0.2m) and the Directorate (£0.1m).

#### 2.09 Fund Managers Fees (**£0.141m or 18.7% overspend**)

- The Fund Manager Fees figure was overspend because the savings target of £150,000 was not achieved during the year. The outcome of the Investment Strategy review will be reported to Council at the end of June with proposals to reduce fees. However, it should be noted that the payment of “active” management fees did result in the Council achieving a £28.1m return during the year which was more than if the investments were “passively” managed, so overall the performance of the fund managers covered the additional cost of the fees themselves.

### **Funding**

2.10 The Scottish Government allocations is the Council’s General Revenue Grant and the level of income that the Council will receive from the National Non-Domestic Rates Pool. There was additional income received of £0.292m which had not been budgeted. This related to late allocations of additional funding such as for support with welfare reform costs.

2.11 The increase in Council Tax collected is due to a combination of increased properties and previous outstanding Council Tax income which has been collected this year.

2.12 The remainder of the funding required to balance the General Fund has to come from the Council’s reserves. This was £20.691m in 2012-13 (Line 23 in the table at 2.01) against a budgeted draw of £23.940m. The reason for this was because of the overall reductions in expenditure as explained in the previous section.

## The 2012-13 Harbour Account

3.01 The 2012-13 Harbour Account budget and actual comparison is set out in the table below:

Line No.	Description	2012-13 Revised Budget £000s	2012-13 Actual £000s	2013-14 Variance £000s
1	Ports Management	51	51	0
2	Sullom Voe	12,307	11,312	995
3	Scalloway	693	613	80
4	Other Piers	395	444	(49)
5	Jetties & Spur Booms	1,794	2,820	(1,026)
<b>6</b>	<b>HARBOUR ACCOUNT SERVICES EXPENDITURE (equals lines 1-5)</b>	<b>15,240</b>	<b>15,240</b>	<b>(0)</b>
7	Funded by:			
8	Income Generated from Harbours	(16,486)	(15,821)	(665)
9	Income Jetties & Spur Booms	(1,794)	(2,820)	1,026
<b>10</b>	<b>TOTAL CORE FUNDING (equals lines 8-9)</b>	<b>(18,280)</b>	<b>(18,641)</b>	<b>361</b>
<b>11</b>	<b>TOTAL HARBOUR ACCOUNT NET INCOME (equals line 6 plus line 10)</b>	<b>(3,040)</b>	<b>(3,401)</b>	<b>361</b>
<b>12</b>	<b>Contributions (from)/to Reserves</b>			
13	Draw on Reserves – Marine Fund	(127)	(253)	126
14	Contribution to Reserves – Reserve Fund	3,167	3,654	(487)
<b>15</b>	<b>TOTAL FUNDING FROM/(TO) RESERVES (equals lines 13-14)</b>	<b>3,040</b>	<b>3,401</b>	<b>(361)</b>
<b>16</b>	<b>Balanced budget (line 10 plus line 15)</b>	<b>0</b>	<b>0</b>	<b>0</b>

3.02 The Harbour Account budgeted for a surplus of £3.040m in 2012-13 and exceeded this to achieve £3.401m. This was as a result of additional cost savings which exceeded the reduced level of income from harbours against the budget.

3.03 The better than budgeted surplus includes a contribution of £2m to the Pension Fund for Towage Pension shortfall on transfer to the Council.

3.04 There has been a significant reduction in the throughput of oil at Sullom Voe as a result of the temporary suspension of production at the Schiehallion field. This will mean that surpluses will not be much greater than a breakeven position for the next 2 to 3 years.



## The 2012-13 Housing Revenue Account Budget

4.01 The 2012-13 Housing Revenue Account budget and actual comparison is set out in the table below:

Line No.	Description	2012-13 Revised Budget £000s	2012-13 Actual £000s	2012-13 Variance £000s
	<u>Expenditure</u>			
1	Supervision & Management	667	731	(64)
2	Repairs & Maintenance	2,437	2,363	74
3	Void Rents & Charges	137	101	36
4	Garages	46	38	8
5	Capital Funded from Current Revenue	1,993	2,761	(768)
6	Capital Charges - Dwellings	2,817	2,887	(70)
<b>7</b>	<b>TOTAL EXPENDITURE (equals lines 1-6)</b>	<b>8,097</b>	<b>8,881</b>	<b>(784)</b>
	<u>Income</u>			
8	HSG - General	(761)	(761)	0
9	Interest on Revenue Balances	(19)	(2)	(17)
10	Rents - Dwellings	(5,839)	(5,892)	53
11	Rents - Other ie garages/sites etc	(120)	(131)	11
12	Contribution from Housing Repairs & Renewals Fund (Reserves)	(1,174)	(2,058)	884
13	DLO	(184)	(37)	(147)
<b>14</b>	<b>TOTAL FUNDING (equals lines 8-12)</b>	<b>(8,097)</b>	<b>(8,881)</b>	<b>784</b>
<b>15</b>	<b>Balanced HRA budget (line 7 plus line 14)</b>	<b>0</b>	<b>0</b>	<b>0</b>

4.02 The Housing Revenue Account (HRA) failed to deliver against its 2012-13 budget. The main reason is that the Capital Funded from Current Revenue (CFCR) was overspent by £0.768m. This happened because the HRA capital programme was set at a level which required £2.2m of borrowing to balance the budget despite the debt already being unsustainably high. Therefore, CFCR was used instead to minimise the amount of new debt required.

4.03 Therefore, when the impact of the unsustainably high capital expenditure on the HRA is removed, the HRA revenue budget virtually achieved its budget.

## The Asset Investment Plan (Capital Programme) Budget

5.01 The 2012-13 Asset Investment Plan budget and actual comparison is set out in the table below:

Description	2012-13 Revised Budget £000s	2012-13 Actual £000s	2012-13 Variance £000s
<u>Expenditure</u>			
New Developments - Contractually Committed Projects	4,958	5,405	(447)
New Developments	487	224	263
Maintenance of Existing Assets	3,276	3,237	39
Spend to Save Projects	727	584	143
Housing Revenue Account Projects	5,060	4,610	450
<b>TOTAL EXPENDITURE</b>	<b>14,508</b>	<b>14,060</b>	<b>448</b>
<u>Income</u>			
Capital Grants/External Funding	(4,907)	(6,887)	1,980
Capital Funded from Current Revenue (GF, Harbour and HRA)	(3,054)	(3,615)	561
Capital Receipts (General Fund and HRA)	0	(938)	938
<b>TOTAL INCOME</b>	<b>(7,961)</b>	<b>(11,440)</b>	<b>3,479</b>
Spend to Save – Draw on Reserves	(727)	(584)	(143)
Draw on Reserves	(3,342)	(1,359)	(1,983)
Borrowing – Harbour Account	(265)	(61)	(204)
Borrowing - HRA	(2,213)	(616)	(1,597)
<b>TOTAL DEFICIT FUNDING REQUIRED</b>	<b>(6,547)</b>	<b>(2,620)</b>	<b>(3,927)</b>
<b>TOTAL FINANCING</b>	<b>(14,508)</b>	<b>(14,060)</b>	<b>(448)</b>
<b>Balanced Asset Investment Plan</b>	<b>0</b>	<b>0</b>	<b>0</b>

5.02 The Asset Investment Plan under-spent against its revised budget for 2012-13 by £0.448m. The most significant variances were as follows –

- New Developments Contractually Committed - the College Phase 3 has spent more than budget (£0.5m) but external income was received to offset this from government grants and ERDF;
- New Developments – the AHS project has underspent due to the initial submission delayed until 2013/14;
- Housing Revenue Account Projects - the Housing Quality Standards project has not progressed as quickly as originally anticipated (£0.331m).

## Spend to Save Budget

6.01 The 2012-13 Spend to Save budget and actual comparison is set out in the table below:

Description	2012-13 Revised Budget £000s	2012-13 Actual £000s	2012-13 Variance £000s
Expenditure:			
Revenue Projects	188	154	34
Capital Projects	727	584	143
<b>TOTAL EXPENDITURE</b>	<b>915</b>	<b>738</b>	<b>177</b>
Funded by:			
Draw on Reserves – Spend to Save	(915)	(738)	(177)
<b>TOTAL FUNDING</b>	<b>(915)</b>	<b>(738)</b>	<b>(177)</b>
<b>Balanced Spend to Save</b>	<b>0</b>	<b>0</b>	<b>0</b>

6.02 The 2012-13 Spend to Save is underspent mainly on one capital project, the purchase of the Biomass Boiler for Sellaness was delayed until 2013/14 (£0.120m).

## 2012-13 Carry Forwards into 2013-14

7.01 The 2013-14 budget included all known carry-forward money. However, as a result of late notification from the Scottish Government and late notification of Hjalmland Housing Association with regard to spending levels on their grant there is a requirement to carry-additional money into the new financial year. The table below sets these items out:

Description	2013-14 Budget Request £000s
<b>Expenditure:</b>	
Purchase and implement CHRIS21 EMP21 Module to record Employee Review and Development.	12
Redetermination of General Revenue Grant received in March 2013 to implement Welfare Reform.	115
Redetermination of General Revenue Grant received in March 2013 for Early Years Change Fund for supporting development of co-ordinated and integrated family support for 0-8 year olds received in March 2013.	24
Committed grant funding for Hjalmland Housing Association	176
Specific Grant for PE Support from Sports Scotland	1
<b>TOTAL EXPENDITURE</b>	<b>328</b>
Funded by:	
General Fund - Draw on Reserves in 2013-14	(328)
<b>TOTAL FUNDING</b>	<b>(328)</b>
<b>Balanced Carry Forwards</b>	<b>0</b>

7.02 The 2012-13 budget has been adjusted so that the results in this report exclude the items above so that they are budgeted for in the correct year.