

## **NORTH LINCOLNSHIRE COUNCIL**

### **CABINET**

## **SEPTEMBER BUDGET REVIEW 2010-11**

### **1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 The council monitors spending against budget month by month through the year, with a formal report to cabinet at regular intervals. The report is an opportunity to take stock of the spending position and to take corrective action where necessary.
- 1.2 As usual at this stage of the year funding pressures have emerged in service budgets. The report outlines these pressures and savings proposals to contain these.
- 1.3 The context is more challenging than usual. In July Cabinet made reductions of £1.2m in 2010-11 revenue budgets and £1.8m in the capital programme following cuts in government grant. Further government cuts in specific grant have followed reducing revenue by an additional £0.9m and capital by £0.1m. Achieving further reductions in service spending to offset additional spending pressures becomes more difficult. The report however shows a balanced budget position on revenue spending overall.
- 1.4 The report also reports on two other financial measures: National Indicator (NI) 179 on the level of efficiency savings; and borrowing and investment decisions taken so far this year to manage the council's cash flow and associated risks, and the budgetary implications.

### **2. BACKGROUND INFORMATION**

#### **The purpose of the report**

- 2.1 This report tracks expenditure and income for council services in the current financial year 2010/11. It is an opportunity to consider where services have difficulties containing expenditure within budget or compensating for a fall in income. It considers the action they are taking to resolve problems and identifies where there are savings opportunities.
- 2.2 It also looks at progress on the capital investment programme. Typically, capital schemes have a long lead-time and for larger schemes implementation usually takes place over more than one financial year. This means that in

practice the council regularly has to review the phasing of scheme spending from one year to the next.

- 2.3 The report reviews the management of the council's cash flow against the criteria and targets set in the treasury management strategy.
- 2.4 Finally it reports on progress in meeting the council's efficiency savings target. There is a requirement to confirm the target for 2010/11. While the coalition government has suspended the Comprehensive Area Assessment and is reducing the range of performance measures it requires of local government the need to account for efficiency savings remains.

### **The context**

- 2.5 In July cabinet reviewed the budget for 2010-11. It considered the impact of grant cuts made by the new coalition government. Cuts of this nature in grant funding during a budget year were unprecedented and required an urgent reappraisal of service plans. At that point the key reductions were:
- A £1.2m cut in Area Based Grant
  - A £1.3m cut in Highways capital
- 2.6 Cabinet agreed proposals to reduce 2010-11 revenue and capital budgets to this value. In addition it took the view that discretionary funds of £0.2m carried forward from 2009-10 should now be returned to balances and that discretionary spending of £0.5m in the capital programme should also be withdrawn. Steps have been taken by services to deliver the required savings, but these have not been easy.
- 2.7 Further government cuts in specific grants followed which at the end of August 2010 totalled £0.9m revenue and £0.1m capital. As reported to July cabinet these cover a range of government initiatives affecting front-line services. The affected services are making proposals through the normal virement process to reduce spending and activity in line with these reductions.
- 2.8 In total therefore there have been reductions in revenue spending of £2.1m and capital spending of £1.9m compared to what was approved by council in February.

## **3. OPTIONS FOR CONSIDERATION**

### **Revenue**

- 3.1 Services also have to deal with a range of spending pressures which typically arise during the year and which need to be contained within existing resources. Within the financial monitoring at the end of August Services have indicated a number of specific pressures and savings which will impact within the financial year. These are summarised by service in appendix 1 and discussed in detail at paragraph 3.2. It shows a balanced budget position across services overall.

### 3.2 Specific pressures and savings highlighted by services are:

#### *Pressures*

- Neighbourhood Services (£330k); Reduced trade waste income, additional waste contract costs and loss of the North Lincolnshire Housing grounds maintenance contract, partially offset by vacancy management and other general savings
  - Waste Procurement Project (£240k); Additional cost of managing technical aspects of the waste procurement project. To be met from an earmarked reserve put aside to support major revenue projects.

#### *Commercial Units*

- Property Trading Account (£150k); Additional maintenance costs at Normanby Enterprise Park due to no Yorkshire Forward grant, and reduced income on commercial properties and associated additional costs relating to void properties. The position on the Property Trading Account will be subject to formal review shortly.

#### *Savings*

- Finance (-£160k); Housing Benefit subsidy is now expected to deliver an additional income following a recent audit review due to the council meeting error rate and overpayment targets.
- Central / Corporate Budgets (-£560k); Reduced capital financing costs by temporary use of cash balances to fund capital spend while-short term interest rates remain substantially below long term rates (see Treasury Section). Partially offset by gypsy liaison and other staff related costs.

### 3.3 Further emerging pressures were highlighted in the financial monitoring at the end of August which are currently being resolved by services but potentially pose additional pressures:

- Increased Commissioning costs in adult residential, home care and direct payments
- Income shortfalls at sports facilities and cultural venues
- A rise in the number of children in care has led to an increase in the use of agency foster care and external residential placements. The service are holding front-line preventative service vacancies to cover the costs

### 3.4 Although the spending pressures identified to date can be contained in 2010/11 the prospect is that government grants will fall substantially in the 2011/15 period. Permanent solutions, therefore, must be found now to the pressures in service base budgets. This will allow savings from cash flow management to be used in future to decrease the level of service reductions required to offset government grant cuts. Services with projected overspends or emerging pressures should therefore identify measures to reduce spend this year which can be considered by cabinet in the December Budget Review.

- 3.5 The period ahead will require a fundamental rethink of what public services deliver and how. The transformation programme aims to position the council to manage the change agenda so that the council can deliver local priorities on its own terms. A substantial amount of effort is being invested to realise this longer-term vision.

### **Capital**

- 3.6 The August monitoring is projecting an underspend of £7.8m in the first year of the 2010/14 capital programme. This is predominantly an issue of the timing of expenditure on Building Schools for the Future, the primary capital programme, schools devolved capital, Messingham primary school and a number of other projects where scheme starts are now later than first anticipated. In addition there are two schemes where programme costs have been reduced. The details are shown in Appendix 2. Cabinet In July approved reductions of £1.8m in the programme following government grant cuts; and the Corporate Services Cabinet Member has approved a number of virements under delegated powers. This gives planned spending of £86.3m in the first year of the 2010/14 capital programme, before the further changes proposed in this report.

### **Treasury**

- 3.7 Within the parameters set by the approved strategy for 2010-11, investments have been made in a narrow range of UK institutions and for periods of one month or less. This includes UK banks, the Nationwide building society and governmental bodies including the Debt Management Office and other local authorities. Outstanding investments at the end of August 2010 were £36.2m, including £7.3m with the council's own bankers (see appendix 3).
- 3.8 As for the past two years cash balances are being managed down to reduce exposure to financial markets by deferring borrowing to support the capital programme. The differential between short and long term interest rates continues to justify this approach. To date borrowing of £6.3m and £13.5m to fund the 2008/09 and 2009/10 capital programme has been deferred substituted by 'internal borrowing' from council cash balances. Similarly planned borrowing of £30.6m for the 2010/11 programme will be deferred for the time being. At this point it is estimated that this will save a net £0.8m after deducting interest foregone on cash investments.
- 3.9 Joint action through the LGA continues to recover funds invested with Icelandic banks. Latest advice is to expect a return of 85 pence in the pound for Heritable Bank, and 95 pence in the pound from Landsbanki. Heritable paid a fourth interim dividend of 6.27p (£220,761 for North Lincolnshire Council) in July 2010. The amount received to date by the Council is now £1.451m on our claim totalling £3.518m. The next interim dividend is expected in October 2010. Action to defend the priority creditor status of local authority deposits in Landsbanki is about to start in the Icelandic courts.

## **Efficiency**

- 3.10 For the period 2008/11 the previous government set an ambitious target of 10% cash-releasing efficiency savings for public sector bodies. These are savings which have no adverse impact on services and which are lasting. For North Lincolnshire Council the 10% target equates to £15.3m. The coalition government has not withdrawn this requirement and cabinet must therefore agree an in-year efficiency target for the final year 2010/11.
- 3.11 The council's previous track record is good and the council comfortably achieved its savings target for the 2005/08 period. However it identified only modest savings of £2.4m in the first year of the new target regime which covers the period 2008/11. This was in part because not all savings generated outside the budget-setting process were being captured; efficiencies become harder to find over time; and in part because the council's transformation programme is still in its early stages. A Performance Improvement Panel was held in November 2009 and an action plan agreed. This increased to £8m the identified cash-releasing savings made by 31 March 2010, a substantial step forward.
- 3.12 So far in 2010/11 £1.6m of further savings have been identified largely through the budget process (see appendix 4). In previous years this mid-year figure has been taken as the target figure for the year. It would leave a shortfall of £5.9m against the three year target of £15.3m.
- 3.13 None of the budget cuts made to match grant reductions count towards this figure, but the action services take to contain in-year pressures may generate further efficiencies which have yet to be quantified. This should help the council to achieve more than £1.6m, but it is unlikely that the full £15.3m can be delivered at this stage of the council's transformation programme. For now therefore it is proposed that £1.6m is set as an interim target, but that a further exercise is initiated to capture other service efficiencies which have been generated during 2010/11.

## **4. ANALYSIS OF OPTIONS**

- 4.1 These are outlined in section 3.

## **5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)**

- 5.1 The council must set a balanced revenue budget at the start of each financial year. For 2010/11 this was reduced by July cabinet to match revenue grant cuts. The additional cost pressures and savings identified in this report keep forecast service costs within the revised cash limit.
- 5.2 The established vacancy freeze will continue to manage down workforce costs and contribute to in-year savings.

6. **OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)**

6.1 No direct implications

7. **OUTCOMES OF CONSULTATION**

7.1 Not required

8. **RECOMMENDATIONS**

8.1 That cabinet notes that the 2010/11 forecast spending is within budget overall, but requires that cabinet members in conjunction with service directors propose initiatives to contain forecast overspends and emerging pressures within approved service budgets. Progress can be considered in the December Budget Review.

8.2 That cabinet approves changes to the capital programme (appendix 2)

8.3 That cabinet approves an efficiency target of £1.6m for 2010/11 with a further exercise to capture other service efficiencies generated during 2010/11.

8.4 That cabinet notes the performance against the approved treasury strategy.

**SERVICE DIRECTOR FINANCE**

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**Background Papers used in the preparation of this report - Nil**

## APPENDIX 1

### Revenue Budget Forecast 2010-11

Service	Annual Budget £000's	Forecast £000's	Variance £000's	%
Adult Social Care	38,628	38,628	0	0.0%
Asset Management & Culture	8,902	8,902	0	0.0%
Central / Corporate Budgets	22,568	22,008	-560	-2.5%
Children & Young Peoples Service	28,799	28,799	0	0.0%
Community Planning & Resources	6,068	6,068	0	0.0%
Finance	4,173	4,013	-160	-3.8%
Highways & Planning	9,477	9,477	0	0.0%
Human Resources	1,979	1,979	0	0.0%
Legal & Democratic	2,845	2,845	0	0.0%
Neighbourhood & Environment	17,622	17,952	330	1.9%
- Waste Procurement Project	254	494	240	94.5%
<i>Commercial Units</i>				
Building Control	0	0	0	0.0%
Property Trading Account	-1,695	-1545	150	-8.8%
<b>Service Total</b>	<b>139,620</b>	<b>139,620</b>	<b>0</b>	<b>0.0%</b>
<b>Financing</b>				
Government Funding & Council Tax	-140,378	-140,378	0	0.0%
Use of Contingency	0	0	0	0.0%
Earmarked Reserves	758	758	0	0.0%
<b>Financing Total</b>	<b>-139,620</b>	<b>-139,620</b>	<b>0</b>	<b>0.0%</b>
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>
<b>Non-General Fund</b>				
Pooled Budgets (included in Adults)	6,953	6,953	0	0.0%
Schools Block	0	0	0	0.0%

## APPENDIX 2

### Capital Programme Changes 2010-11

Scheme	Amount £000's	Funding	
		Grant £000's	Internal £000's
<b>Rephasing To 2011-12</b>			
Devolved Formula Capital	1,456	1,456	
Messingham Primary School	1,000	500	500
Oakfield Primary School	100		100
Primary Capital Programme	2,500	2,500	
BSF - Construction	2,675	2,440	235
<b>Sub-total</b>	<b>7,731</b>	<b>6,896</b>	<b>835</b>
<b>Reduction in Budget 2010-11</b>			
Sandfield Phase 3	52		52
Local Transport Plan	50		50
<b>Sub-total</b>	<b>102</b>	<b>0</b>	<b>102</b>
<b>Total Change</b>	<b>7,833</b>	<b>6,896</b>	<b>937</b>



## APPENDIX 3

### Investment Position 31<sup>st</sup> August 2010

<b>CALL ACCOUNT BALANCES</b>	<b>£</b>	
Bank of Scotland plc	4,928,821	On call
Barclays Bank plc	5,000,000	On call
HSBC Bank plc	5,005,295	On call
NatWest Special Interest Bearing Account	7,272,351	On call
Santander UK plc	4,741	On call
<b>OTHER INVESTMENTS</b>		
Blaenau Gwent Borough Council	2,000,000	Repayment at term
Heritable bank Limited	2,056,280	In administration
Landsbanki Islands	2,000,000	In receivership
Nationwide Building Society	5,000,000	Repayment at term
Thurrock Borough Council	3,000,000	Repayment at term
<b>TOTAL</b>	<b>36,267,488</b>	

## APPENDIX 4

### Efficiency Target 2008-11

Service Area	Efficiency Target	Ongoing Cash Releasing Efficiency Gains Achieved Between	Estimated Value of Additional Efficiency Gains to be Achieved in	Estimated Total Value of Ongoing Efficiency Gains
	2008-11 £000's	2008-10 £000's	2010-11 £000's	2008-11 £000's
Adult Social Care	4,235	1,511	728	2,239
Asset Management & Culture	927	211	160	371
Children & Young People	3,426	1,754	12	1,766
Community Planning & Resources	635	545	288	833
Corporate Budgets	422	85	34	119
Finance	478	513	34	546
Highways & Planning	1,313	802	227	1,030
Human Resources	201	479	12	491
Legal & Democratic	262	4	60	64
Neighbourhood & Environment	2,060	1,018	0	1,018
General Cross Cutting Efficiencies	1,430	1,053	0	1,053
<b>Total</b>	<b>15,390</b>	<b>7,976</b>	<b>1,554</b>	<b>9,530</b>
<b>Percentage</b>	<b>10%</b>	<b>5%</b>	<b>1%</b>	<b>6%</b>