

NORTH LINCOLNSHIRE COUNCIL

Cabinet

SEPTEMBER 2013 BUDGET REVIEW

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 This is one of a series of reports to cabinet produced during the year to report progress on the council's revenue plan and capital programme 2013-17.
- 1.2 The report includes:
 - 1.2.1 The 2013-14 revenue and capital budget monitoring position
 - 1.2.2 A re-assessment of the council's future funding position following publication of a Department for Communities and Local Government (DCLG) technical consultation document.
 - 1.2.3 It also considers some potential approaches to meeting the funding gap 2014-16.

2. BACKGROUND INFORMATION

- 2.1 Regular budget review reports through the financial year provide cabinet with an update on spending in the year, and early warning of changes to the council's financial position. It provides an opportunity to review current budgets and make changes as necessary. This paper provides the usual report on revenue and capital spending in the current year 2013/14, but also new information from government about future funding.
- 2.2 The report considers the effect of this on the overall council funding for future years and the proposed strategy for closing the funding gap.

3. OPTIONS FOR CONSIDERATION

Revenue Budget 2013-14

- 3.1 Directorates deal with a range of spending pressures throughout the year which they are expected to accommodate within their cash limited budget. This is unless specific provision has been made in the

contingency fund as is the case for pay awards and energy cost increases. Monitoring at the end of August has identified a number of pressures on spending, and services have identified strategies to keep the budget in balance. These are considered in more detail below.

People Directorate

3.2 *Adult Services;*

The service has identified a £2m potential overspend, which it intends to contain. This includes:

- Learning Disability shows a net overspend of £0.7m. Additional agency payments are in part offset by underspends elsewhere; and by a one off additional allocation of £0.7m from NHS social care funding.
- A £1m overspend is projected in Older People's agency budgets, after use of health funding; and Older People's mental health services have also identified a pressure of £230k on residential care budgets mainly due to lower client income.

The service are reviewing their management plans to ensure a robust correlation between activity and financial data, and savings plans are being put in place to cover these pressures.

It is vital that that these issues are resolved given the prospects for future council funding and prior to the integration of social care and health budgets.

Schools;

There is a further issue of the costs of reinstatement at Westcliffe Primary School. A faulty sprinkler system caused extensive damage to the school earlier in the summer. The costs of reinstatement (estimated at £250k) are revenue in nature and are not covered by the council's insurance policies, and the manufacturer's warranty has also expired. In these circumstances it would be appropriate to meet these costs from the insurance reserve.

Places Directorate

3.3 At present the directorate is looking to contain pressures through compensating savings.

Pressures include the cost of casual staff to cover for long term sickness and to provide additional services particularly in sports and leisure facilities; shortfalls in income in building control, markets, the security centre, and car parking; and increased fleet costs.

The intention is to offset these pressures through savings on operational and home to school transport; from reduced waste volumes

and in catering and cleaning services; and through staff and vacancy savings and other income streams.

Policy & Resources Directorate:

- 3.4 The directorate is projecting a balanced budget position, with cost pressures offset by savings and additional schools income.

Corporate Services

- 3.5 Following a review of the minimum revenue provision (MRP) that the council is required to set aside to repay debt it is now projected that an £80k saving in 2013/14 should be possible.

Capital Programme 2013-14

- 3.6 The approved budget for 2013/14 is £69.4m. At the end of August there has been expenditure of £13.3m or 19.2% of the budget. That leaves £56m of planned expenditure to be delivered by the end of the financial year.
- 3.7 Directorates have reviewed the programme and have identified programme slippage of £5.8m on nine schemes;

People Directorate (£2.2m)

- Intermediate Care Unit £800k: The public consultation regarding location of replacement buildings has caused delays in project design, development and commencement on site.
- Devolved Formula Capital £400k: This is based on an assessment of schools spending intentions
- Access to Schools £136k; The demand for school alterations is below expectations.
- Schools Temporary Buildings Replacement £268k; There is an anticipated delay on the commencement of the project at New Holland.
- Schools & Children's Centres Investment Programme £0.6m: Work at Priory Lane has been delayed due to work over the summer holiday period not being fully completed.

Places Directorate (£3.6m)

- Regional Growth Fund £2.83m; There is a slower than anticipated draw down of approved grant. Grant conditions allow approved schemes' slippage.
- Managed Housing Schemes £90k; There is a projected underspend due to delays in the renovation of empty properties.
- Fleet Replacement Programme slippage of £527k; the vehicle tendering process has now been completed, however, slippage is anticipated due to the manufacturers lead time for production and delivery of vehicles.
- University Technical College £150k: It is now likely that this scheme may commence in the next financial year.

- 3.8 The June cabinet proposed that plans be worked up for a further £1 million of investment in children's educational facilities, proposals and costings to be brought to the next cabinet meeting. This work is in progress and when complete a report will be made in the first instance to the People cabinet member. In view of the forward financial projections it is proposed that these schemes are accommodated by reprioritising within existing approved investment programmes.
- 3.9 Airport access. There are several related proposals to improve access to Humberside Airport. This includes an upgrade to a roundabout junction at the entrance to the airport (for which £600k funding is provided in the 2013/14 programme); improvements to Caistor Road including widening; a new, improved access into the airport boundary for the new Search and Rescue facility that is planned to commence operations in April 2015; and improvements to Barnetby Top to assist traffic flow. A bid for 'Pinch Point' funding for the whole package was unsuccessful; and a bid for Majors funding through the Humber Local Transport Board cannot happen before 2015. The cabinet member has approved a proposal to proceed with the scheme for a roundabout at Barnetby Top. The service has proposed that the necessary funding of £400k to £500k is identified by reprioritising the existing programme.

Financial Plan 2014/18

Settlement projection

- 3.10 On 26th June 2013 the Government published the results of its Comprehensive Spending Review (CSR) 2013, setting out revised spending plans for 2014/15 and, for the first time, their public expenditure plans for 2015-16. A 1% additional cut in government funding for 2014/15 was expected; a headline 10% reduction in grant funding for 2015/16 confirmed that local government would take a greater share of spending reductions to allow for the continued protection of School and NHS spending.
- 3.11 Since then DCLG has published a consultation document on an indicative local government financial settlement 2014-15 and 2015-16. It provides illustrative figures for the two years authority by authority. While the level of support indicated for 2014-15 is close to expectations, it is clear that general funding reductions in 2015-16 are closer to 15%. This is because government has top sliced over £1bn of general funding and other grants such as New Homes Bonus to provide earmarked funding for various national initiatives.
- 3.12 These initiatives include funding for: a Collaboration and Efficiency Fund; a Fire Transformation fund; to meet Social Care New Burdens (Dilnot); Independent living fund; Troubled Families and other initiatives, around £800m in total. Further funding is also to be withheld so that a proportion of new homes bonus will go to LEPs, 25% of Education Support Grant will be redirected to schools and more funding will be set aside for the business rate retention safety net.

- 3.13 Taking into account the information provided in the recent consultation document it is possible to make a revised assessment of the council's future funding gap (*Appendix 1*). This is after the proposed top slicing of funding.
- 3.14 The appendix compares the latest consultation figures with the financial plan approved at council in February, and shows the scale of additional savings which are now required:
- A £0.7m funding gap in 2014/15
 - A gap of £7.7m in 2015/16 increasing to £10.7m by 2016/17.
 - This equates to a 10.6% reduction in total resources in cash terms between 2013/14 and 2016/17.
- 3.15 The government has made an offer of freeze grant for 2014/15 and 2015/16 equivalent to a 1% council tax increase. If this were taken the funding gap would increase from £0.7m to £1m in 2014/15 and from £7.7m to £9.2m in 2016/17.

Closing the Funding Gap

- 3.16 The delivery of the 2013-14 and 2014-15 budget plans including efficiency and transformation savings are not currently seen as being problematic. This should therefore allow time to start a strategic review to determine how the council can meet the funding gap in later years.
- 3.17 There are a number of possibilities to consider which includes additional income from the NHS and from local taxation.

Health Funding for Social Care

- 3.18 The spending round 2013 confirmed the decision to increase funding through the NHS in order to deliver better outcomes and greater efficiencies for older people and the disabled, and integration of health and social care services. At a national level this totals £3.8bn, an increase on the current £0.9bn.
- 3.19 The planned increase from 2015-16 could bring substantial sums which can be used to support existing community based services, such as reablement, to address current pressures and future demographic changes. The use of these funds to replace withdrawn general funds will be crucial to financial sustainability, as well as to enhance services and enable people to remain in the community.

Business Rates and Council Tax

- 3.20 Localised Business rates are a new though volatile source of local funding which is subject to economic growth and decline and the effect of business appeals against rating decisions. The latest estimates suggest that the council is likely to overachieve on income in 2013-14 by £0.14m due to a lower impact of appeals. It is possible the area will

see greater economic growth than currently assumed in the financial plan and the potential will be reviewed as part of the budget exercise.

- 3.21 Similarly economic growth could also increase the local council tax base through the construction of new housing. The population, and council tax base of North Lincolnshire has been steadily growing and current assumptions project the long-run average.

Capital Programme Internal Funding Review

- 3.22 One area with the potential to contribute savings is the capital programme. Where borrowing is used as a source of funding this has an impact on the revenue budget from which the loan plus interest has to be repaid. This brings long term costs typically for 20 to 25 years. For the future the council will need to consider the overall affordability of the forward capital programme in the context of likely revenue resources. Increased grant income and capital receipts from asset sales will need to be sought.
- 3.23 A review has been undertaken which has identified £12.8m of uncommitted spend within the 2013/14 capital programme of £69.4m. Cabinet may wish to consider making reductions to uncommitted spend in order to generate savings in 2014/15 and beyond, £90k of debt financing costs are saved for each £1m reduction in capital spend.

4. ANALYSIS OF OPTIONS

- 4.1 The 2013-14 monitoring position suggests that Directorates are at present able to contain potential revenue overspends. For the capital programme rephasing is required for the five schemes identified.
- 4.2 To balance the budget for 2014-15, services would need to meet the commitments in the current financial plan. The extra £0.7m additional savings projected in *Appendix 1* can potentially be met from savings in capital financing costs and through the integration of public health funding.
- 4.3 However the indicative consultation figures also make clear the substantial scale of further reductions in funding, £7.8m by 2015/16, and the council can start to prepare for that now. Some of the options were identified in section 3 of the report above. They include making best use of funding for social care routed through the NHS, maximising council tax and business rate growth, and reviewing the capital programme.
- 4.4 The financial benefits of the integration of health and social care services remain to be established, as does the potential offered by the health funding transfer to replace the loss of general funds.

4.5 The additional income that potentially could be achieved from an increase in business rates could be significant. However the volatility of this funding can also present significant draw backs. Growth in the council tax base is also influenced by wider economic development.

4.6 The overall revenue cost of the capital programme will need to be reconsidered in the context of the pressures on revenue spending that are likely in 2015/16 and beyond. Further efforts will need to be made to increase grant contributions towards schemes and to increase capital receipts in order to reduce the demands on internal resources.

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

5.1 Discussed above

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

6.1 Not applicable

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

7.1 Not applicable

8. RECOMMENDATIONS

8.1 To note the revenue and capital budget position 2013-14 and to approve the rephrasing of the capital schemes identified at 3.7.

8.2 To note the implications of the government's indicative funding settlement for 2014-16

DIRECTOR OF POLICY & RESOURCES

Civic Centre
Ashby Road
SCUNTHORPE
DN16 1AB

Author: Mike Pollard/Peter Fijalkowski

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Background Papers used in the preparation of this report

DCLG Local Government Finance Settlement 2014-15 and 2015-16.

APPENDIX 1

SETTLEMENT PROJECTIONS

<u>Budget</u>	13-14 £000's	14-15 £000's	15-16 £000's	16-17 £000's
Total Net Budget : (19th February 2013)	147,178	143,140	141,481	140,947
Start-Up Funding Assessment	72,536	65,715	62,396	59,277
Local Resources	74,642	77,425	79,085	81,670
Total Funding	147,178	143,140	141,481	140,947
Funding Gap: 19th February 2013	0	0	0	0
 <u>DCLG Consultation</u>				
Total Net Budget : (19th February 2013)	147,178	143,140	141,481	140,947
Single State Pension 2016 extra NI cost				1,313
Total Net Budget	147,178	143,140	141,481	142,260
Start-Up Funding Assessment	72,536	65,011	56,196	51,700 *
Local Resources	74,642	77,425	77,521	79,881
Total Funding	147,178	142,436	133,717	131,581
Funding Gap: After Consultation	0	-704	-7,764	-10,679

*Latest projection