

**NORTH LINCOLNSHIRE COUNCIL**

**COUNCIL**

**BUDGET REVIEW 2011/12**

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

- 1.1 To report the current budget position to consider if any changes are required.
- 1.2 The key messages are
- Outturn spending for 2010/11 is within budget, a robust financial position
  - There are some revisions which can be made to budget assumptions for 2011/12
  - Delivery of most agreed budget savings is on track
  - Budget adjustments are required for a number of policy changes made following the recent election
- 1.3 There is scope to consider further budget changes within the resource envelope for 2011/12.

**2. BACKGROUND INFORMATION**

***Outturn 2010/11***

- 2.1 The outturn spending position for 2010/11 is covered in more detail in a separate report. It confirms that revenue spending was within the approved budget and that some capital spending did not take place as expected in 2010/11. The key points are:
- Service spending on day to day costs was £0.514m or 0.4% below the net revenue budget
  - Schools drew £0.453m from their reserves to supplement the in-year budget
  - General balances were maintained and the revenue support reserve increased to £8.489m, including a planned contribution of £1.008m for future Worksmart costs
  - Capital investment in schools, roads and other local facilities was £62.880m, 6.2% lower than planned

- 2.2 Most of the revenue and capital underspends reflect timing issues, and services have requested carry forward.

### ***Budget Assumptions***

- 2.3 When setting the budget for 2011/12 at Council in February a range of forecasts were made on key budgets and variables. These forecasts were based on the best available information about funding and prevailing economic factors. It is now possible to make an assessment of where those assumptions still hold and where a new estimate can be made.

#### **Inflation**

- 2.4 The budget provided inflation on major contracts and firm commitments of 2.0% (CPI) or (3.5%) RPI, but no inflation was provided for other non-staff elements of the budget. This was in line with the general government target for inflation or contract terms. The latest Bank of England Inflation Report (11.05.11) now forecasts CPI at 5% for 2011/12. If general costs are 3% higher the value of services real budgets will be reduced. Services will be expected to contain these costs within their approved cash limits. There is a specific contingency provision of £0.4m for energy and fuel price increases. It is not certain at this time if this will be sufficient to meet cost increases in full, but it can be allocated to services when contract prices are known.

#### **Pay**

- 2.5 The budget provided for a £250 increase for those earning less than £21k (£0.513m) in line with stated government policy, and a pay freeze for other employees. However, Local Government Employers have now confirmed a pay freeze for all staff in 2011/12. The £0.513m is therefore available to restore general balances to their previous level at the end of 2011/12, should it not be required to support other budget pressures in-year.

#### **Interest rates**

- 2.6 As planned the council can continue to use short-term cashflow surpluses to support capital spending for 2011/12. This minimises the risks of exposure by reducing cash balances and avoids the relatively high costs of longer-term borrowing while short and long term rates continue to diverge widely.

#### **Income budgets and recession**

- 2.7 After two years of reduced income targets, the budget assumes some recovery in fees and charges during 2011/12. This includes car parking, planning and leisure centre income. Moderate increases were assumed, but it may still be an issue if the economic up-turn is subdued.

#### Waste contract costs

- 2.8 The council is in the process of procuring a 25 year waste solution as an alternative to landfill. Since the budget was set the council has confirmed preferred bidder status for WRG. However contract negotiations are not complete and to offset this uncertainty the waste to landfill contract has been retendered for an interim period of up to 5 years. This will generate a saving of £700k in the first year, but not beyond, as landfill tax penalties increase year on year.
- 2.9 A separate tendering exercise for green waste recycling has produced a saving against the cost of the current contract. It would add £76k to the base budget in 2011/12, £89k in a full year. The consequence of not accepting this contract and continuing with current green waste arrangements would bring additional costs, perhaps over £150k in 2011/12.
- 2.10 The approved budget for waste disposal in 2011/12 was not increased because of uncertainty over the outcome of contract negotiations. Instead £5m was set aside in the revenue support reserve to cover the costs of an interim solution over four years should the current 25 year exercise not conclude, including the costs of a new procurement exercise. Following the retender of the landfill contract it is now estimated that the required reserve can be reduced to £3m.

#### Adult Services

- 2.11 In 2010/11 there was additional spending of £1.257m on residential, home care and direct payments for older people. These were covered by vacancy savings and time-limited Supporting People grant.
- 2.12 For 2011/12 the service is undertaking a review of spending commitments and available grant resources to deal with this pressure. It will also make proposals to bring the new social care grant into the budget, allocated in agreement with the PCT on measures to improve health and avoid admissions to hospitals.
- 2.13 The ruling group has made clear its intention to revisit the proposed home closures included in the 2011/12 budget. The budget assumed closure from October 2011, subject to consultation. The reduction in direct service provision would also facilitate reductions in operational and service management. Taken together £269k of expected savings will not be realised if the closures do not proceed in 2011/12 and £1,262k in a full year. These savings are net of the costs of re-provision, which would otherwise be needed, and net of redundancy costs.
- 2.14 As the Adult 'Transformation Plan' is fundamental to achieving the council's four year strategy, alternative proposals to replace these savings and

rebalance the financial plan will be needed. Given the overall financial position presented here the cost of not implementing in 2011/12 can be offset; the implications for 2012/13 and later can be considered during the preparation of the 2012/16 financial plan due for approval in February 2012.

### ***Agreed policy changes***

#### Members Allowances

- 2.15 At the annual general meeting of council member allowances were set for the coming year. A 10% reduction was agreed in basic and special responsibility allowances; a reduction in mileage rates with a limit of 5,000 miles for travel; and the ending of the subsistence allowance. This is estimated to deliver £100k savings from the budget of £864k.

#### Student travel

- 2.16 The cabinet member for Adult and Children's services has taken a decision to reduce in the cost of post-16 travel passes from an average of £190 to £30 at a cost of £220k for a full year - funding to be determined by Council. With implementation from September 2011 the cost in the financial year 2011/12 is estimated to be £165k.

### ***Progress on agreed budget savings 2011/12***

- 2.17 Early monitoring shows that good progress is being made. Savings of £6.5m are projected against the original target of £7.8m. This does not indicate a likely budget overspend, as services will need to consider alternative ways of meeting their cash limits. As indicated in paragraph 2.10 £269k of savings are, however, at risk in Adult services if the position on planned home closures is reviewed.

## **3. OPTIONS FOR CONSIDERATION**

- 3.1 Appendix 1 summarises the financial impact of contract negotiations and policy choices identified in this report.
- 3.2 It is for council to determine appropriate adjustments to budgets.

## **4. ANALYSIS OF OPTIONS**

- 4.1 The appendix also identifies the potential long-term costs of the issues discussed in this report. The figures show that there is scope for additional spending in 2011/12 but not in 2012/13.

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

- 5.1 The financial position is explained in sections 2 to 4 of the report and at Appendix 1.

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

6.1 The report presents the financial implications of agreed or potential policy changes.

7. **OUTCOMES OF CONSULTATION**

7.1 Not applicable.

8. **RECOMMENDATIONS**

8.1 That council consider amendments to the budget for the items detailed at Appendix 1.

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

**Effect of changes to approved budget 2011/12****APPENDIX 1**

|   | Cost/<br>Saving<br>2011/12 | Cost/ Saving<br>Full year<br>effect |
|---|----------------------------|-------------------------------------|
|   | £000                       | £000                                |
| <i>Waste budget</i>                                       |                            |                                     |
| Savings on landfill, new interim contract                 | -700                       | -                                   |
| Addition to base budget for green waste contract          | 76                         | 89                                  |
| <i>Policy changes</i>                                     |                            |                                     |
| Member Allowances   | -100                       | -100                                |
| Student travel passes                                     | 165                        | 220                                 |
| Impact if planned home closures do not proceed in 2011/12 | 269                        | 1,262                               |
| Total   | <hr/> -290                 | <hr/> 1,471                         |