

**NORTH LINCOLNSHIRE COUNCIL**

**CABINET**

**SEPTEMBER BUDGET REVIEW 2012/13**

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

- 1.1 Spending is tracked month by month against the budget which the council set for the financial year. At intervals cabinet receives a formal report on the position. It is an opportunity to take stock of how plans are progressing and to take corrective action if necessary.
- 1.2 The main points of the report are:
- 1.2.1 Overall spending against the revenue budget is on target. Where budgeted savings cannot be delivered in full services have identified alternative funding or are currently looking to contain pressures within their cash-limited budgets.
  - 1.2.2 Consideration is given to the use of contingency to cover shortfalls in corporate savings and to meet inflationary cost increases.
  - 1.2.3 There are changes to the capital programme
  - 1.2.4 Cash balances and debt are reducing in line with the planned treasury strategy
  - 1.2.5 The council continues to receive periodic payments from Landsbanki and Heritable banks as the original investments are returned. The council now expects to recover 91% of the original investment.

**2. BACKGROUND INFORMATION**

**The purpose of the report**

- 2.1 This report tracks council expenditure and income by service in the current financial year 2012/13 compared to budget. It considers the action services are taking to resolve problems and identifies where there are savings opportunities.
- 2.2 It also looks at progress of the council's capital investment programme. Capital schemes can have a long lead-time and implementation usually takes place over more than one financial year, which is why council approves a four or five year programme. A range of factors can affect delivery on the ground or the availability of external funding. This makes a regular review of the programme necessary.

- 2.3 The report also reviews the management of the council's cash investments and debt against the criteria and targets set in the treasury management strategy for 2012/13.

### 3. **OPTIONS FOR CONSIDERATION**

#### **Revenue**

- 3.1 Services deal with a range of spending pressures during the year. They are expected to adjust their spending plans to accommodate these pressures within the approved cash limit; unless specific provision has been made in the contingency fund. Monitoring at the end of July 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 division are facing significant pressures relating to the transformation of older people and learning disability day care services. It is now unlikely that budgeted savings of £1.2m will be achieved in year. In addition the service have further pressures of over £2m on externally commissioned services resulting from increased client numbers and the conversion to personalised services. The mental health services are projecting a £135k pressure on income recovery from residential care clients.

At present the service is looking to contain these pressures through a combination of vacancy management, use of earmarked reserves and the redirection of grant funding.

- 3.3 Specialist children's services have identified pressures of £213k on social care residential agency placements, £162k on the assessed needs of disabled children and over £100k due to growth in special guardianship orders. The service is currently looking at ways of containing these pressures within budget.

#### ***Places Directorate***

- 3.4 Due to changes in the phasing of the Building Schools for the Future project an in year saving of £262k will be achieved. This will however be required to meet programme costs within 2013-14 and it is proposed that an adjustment be made in the use of reserves to reflect this saving.

- 3.5 Increased expenditure on the waste procurement contract of £115k is anticipated in year and it is proposed that funding should be taken from earmarked reserves to meet this shortfall.

- 3.6 A pressure on Street lighting energy of £273k is projected. Energy efficiency trials on street lighting have currently proved inconclusive and it appears unlikely that budgeted savings of £102k will be achieved. In addition the service is currently anticipating higher energy costs. Other service pressures have also been identified.

- 3.7 The directorate have identified a number of service areas where income recovery is projected to be below target; £122k shortfall in fee income on design services, £429k reduction in planning application income, £100k from building control income, reduced rental income of £88k from the Waters Edge & Markets, car parking £83k, golf and leisure facilities income £71k and Normanby Hall £40k. Income recovery in a number of these areas can be volatile and shortfalls at this stage are often recovered later in the year. These areas will continue to be monitored and consideration will be given to meeting

recession related income pressures from contingency as part of the 2013 January review.

- 3.8 At present the directorate are looking to contain pressures within budget. To date vacancy management savings of £158k and public transport savings of £205k have been identified.

***Policy and Resources Directorate***

- 3.9 Subject to a successful outcome of the audit of the 2011-12 council tax and housing benefit grant claim the council should achieve additional benefit subsidy income of £116k.

***Contingency and Reserves***

- 3.10 As is normal practice the approved budget includes a contingency fund. This was intended to cover potential pay awards in 2012-13, recession effects, redundancy costs and rising energy costs. The latest approved contingency budget is £2.48m.

In addition the 2011-12 contingency funded a repayment of VAT liability on memorials. This repayment was challenged with HMRC and subsequently the council has received a reimbursement of £125k which has been paid back to the contingency increasing the available funds by this amount.

We now know that the employer's side has made no pay offer to local government employees in 2012/13, and therefore there is scope to use some of the contingency fund for other requirements. In reviewing the budget position members are asked to consider the use of the contingency to cover a number of issues, as detailed below;

- Increases in electricity costs £144k. This includes £92k for street lighting.
  - A savings shortfall of £98k across the directorates relating to the later implementation of the car allowance review.
  - The redundancy of a member of staff who could not be placed under redeployment. The service are seeking a contribution from the contingency redundancy provision of £28k
  - The retention of senior management staff for a transitional period, to undertake specialist project work, which creates a budget pressure of £95k. It is proposed that as a one off cost this should be met from the contingency provision.
  - Funding for a programme of drainage works to address problems highlighted by the recent spell of wet weather in June and July £325,000
- 3.11 In addition, the use of £2.941m of council reserves was approved in the 2012-13 revenue budgets. The adjustments proposed at 3.4 and 3.5 would reduce this call to £2.794m with the balance retained in the revenue support reserve.
- 3.12 Overall the council is still able to contain its spending within the budget set. The revised budget is set out in Appendix 1 for approval.

**Capital**

- 3.13 The approved budget for 2012/13 is £51.9m, with a further £72.7m planned in the following three years. This substantial four year programme includes major investment projects which span several years: secondary schools (Building Schools for the Future); primary school projects; the highways programme.

- 3.14 Peoples Directorate have identified programme slippage of £1m on the Schools & Children's Centre Investment programme (SCCIP). This follows a successful funding bid through the government's 'Priority Schools Building Programme' for six council schools (and one academy) in North Lincolnshire, which has allowed the existing programme funding to be redirected. Schools also have modest allocations of devolved formula capital and now expect to carry forward £0.5m. The 2012/13 capital programme provision needs to be reduced by that amount, and the 2013/14 provision increased. Additionally formula capital funding of £413k from the completed Oakfield Primary and Messingham Primary school schemes has also been earmarked for transfer to the priority schools building programme. It is proposed that these changes be formally included in the capital programme. Revised totals for each service are shown in appendix 2.

### **Treasury**

- 3.15 Cash balances were £29.3m at the end of August 2012. To maximise security and liquidity cash is being held in a range of call accounts with UK banks or as short-term investments with other local authorities and the Debt Management Office. The bank base rate remains at the historically low level of 0.5% and this is reflected in the level of return that has been achieved on cash balances.
- 3.16 The policy of financing capital investment from surplus cash rather than from more expensive external borrowing continues to be cost effective. It also reduces the amount of council cash at risk in financial markets. This is the basis on which the 2012/13 budget was set. Scheduled debt repayments continue so that outstanding debt on previous capital investment will reduce to £108.9m by March 2013.
- 3.17 Recovery of funds placed with Icelandic banks before October 2008 is progressing well. So far the council has received repayment of £3.24m which is just over 58% of the councils claim. Total recovery is currently estimated to be £5.03m which represents 90.6%.

## **4. ANALYSIS OF OPTIONS**

- 4.1 There are two options for the revenue budget: to require services to keep spending within the approved service cash-limit or to fund budget pressures from elsewhere. It is important to maintain budget discipline and at this stage of the year it is important that the council directorates seek to maintain spending within their cash-limited budgets.
- 4.2 The analysis identifies a number of service pressures which have resulted from corporate issues. These include the timing of the car allowance review, a redundancy and revised management savings. These represent one year cost pressures and it is proposed to fund them from the contingency provision. There is provision for energy inflation in contingency and it is proposed to allocate appropriate sums now to cover price increases for electricity. This approach represents good financial management and no other option is proposed.
- 4.3 Changes to the People's Service capital budget are required to, take account of other available resources and rephase existing programme funding for future use and to enable proper management and maintenance of the capital programme.

- 4.4 There are no decisions to be made on treasury policy which follows the agreed strategy for the year.
5. **RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)**
- 5.1 The council must set a balanced revenue budget for each financial year. The recommendations made in this report maintain a balanced budget position in 2012/13 and add £166k to council reserves.
- 5.2 The changes to the capital programme mean that slippage of £1m will be required on the SCCIP scheme and budget reduction of £75k on the Oakfield Primary School Scheme and £338k on the Messingham Primary school scheme, both of which have now been completed.
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 To note the revenue budget position.
- 8.2 To agree the revised directorate budgets in appendix 1, including £325k for drainage works
- 8.2 To agree the changes to the capital programme set out in appendix 2.
- 8.3 To note the latest position on treasury management.

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**Background Papers used in the preparation of this report**  
Budget Monitoring Summary Report Period 4

## Revenue Budget 2012-13

	Approved Budget 2012/13	Revised Budget 2012/13	Adjustment
	£000's	£000's	£000's
<b><u>PEOPLE SERVICES</u></b>			
School Improvement	3,453	3,483	30
Commissioning & Localities	5,994	6,003	9
Specialist Services	15,811	15,830	19
Adult Services	35,974	36,126	152
<b>Total People services</b>	<b>61,232</b>	<b>61,442</b>	<b>210</b>
<b><u>PLACES</u></b>			
Customer Services	6,354	6,373	19
Community Services	21,332	21,906	574
Technical and Environmental Services	5,226	5,298	72
Planning & Regeneration	4,085	3,872	-213
<b>Total Places</b>	<b>36,997</b>	<b>37,450</b>	<b>453</b>
<b><u>POLICY &amp; RESOURCES</u></b>			
Human Resources	1,993	1,994	1
Legal Services	3,411	3,411	0
Financial Services	3,730	3,732	2
Business Support	3,795	3,797	2
<b>Total Policy &amp; Resources</b>	<b>12,929</b>	<b>12,934</b>	<b>5</b>
<b><u>CENTRAL BUDGETS</u></b>			
Corporate Budgets & Levies	4,592	4,467	-125
Capital Financing	13,674	13,674	0
Contingency	2,476	1,786	-690
Use of Reserves	-2,941	-2,794	147
	<b>17,801</b>	<b>17,133</b>	<b>-668</b>
<b>Total Net Budget</b>	<b>128,959</b>	<b>128,959</b>	<b>0</b>

**Capital Programme 2012-16**

	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
People Service	25,728	24,769	10,098	5,882
Policy & Resources	450	185	50	50
Place Service	24,227	12,027	10,877	10,270
<b>Total</b>	<b>50,405</b>	<b>36,981</b>	<b>21,025</b>	<b>16,202</b>

**Funding Analysis**

Grant Funding	30,806	26,652	9,322	9,316
External Funding	75	0	0	0
Property Trading Account	807	0	0	0
Capital Receipts	1,965	1,919	1,873	1,873
Internal/External Borrowing	16,556	8,210	9,680	4,869
Revenue Funding	197	200	150	144
<b>Total</b>	<b>50,405</b>	<b>36,981</b>	<b>21,025</b>	<b>16,202</b>