

NORTH LINCOLNSHIRE COUNCIL

CABINET

SEPTEMBER BUDGET REVIEW 2011/12

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 Every year funding pressures emerge in service budgets. The report outlines these pressures and how they can be contained.
- 1.3 The main points of the report are:
- 1.3.1 Overall spending against the revenue budget for the day-to-day operation of services is on target. Pressures are being contained by services; increases in energy costs can be covered from the contingency set aside for the purpose.
 - 1.3.2 There are changes to parts of the capital programme, in particular costs and phasing for Building Schools for the Future (BSF) and Carlton Street car park.
 - 1.3.3 Cash balances and debt are reducing in line with the planned treasury strategy
 - 1.3.4 A further dividend has been received from the administrators of Heritable Bank. The Icelandic Supreme Court will shortly rule on the preferential status of local authorities with Landsbanki.

2. BACKGROUND INFORMATION

The purpose of the report

- 2.1 This report tracks council expenditure and income by service in the current financial year 2011/12. It considers the action services are taking to resolve problems and identifies where there are savings opportunities. Where appropriate the use of contingency funds is considered.

- 2.2 It also looks at progress of the council's capital investment programme. This includes major multi-year projects such as Building Schools for the Future, the Pods, the Baths Hall and road maintenance. Schemes like these 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 management against the criteria and targets set in the treasury management strategy for 2011/12.
- 2.4 Changes were made to the 2011/12 budget at Council in June to reflect changes of policy following the recent election. These included some new spending commitments funded by identified savings, and maintained a balanced budget for 2011/12. The report considers performance against the latest approved budget.

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 August has identified a number of pressures on spending. In most cases strategies have been identified to keep the budget in balance. The contingency provides funds to cover an increase in energy and fuel costs, and now is an opportunity to distribute this to services.
- 3.2 *Adult Services*
As last year the service faces potential additional costs in residential, home care and direct payments for people with long-term conditions (£1.1m), primarily the elderly. The planned move to personal budgets is expected to generate more cost effective solutions and care packages better tailored to individual needs. If this does not bring current year spending into line with budget the service has identified miscellaneous savings to cover part of the cost; and has unspent grant from 2010/11 which can be used to meet the difference.
- 3.3 *Corporate & Community Services*
There are additional staffing costs in customer services and other issues within the service which total up to £100k. The service is formulating an action plan to cover the shortfall.
- 3.4 *Corporate budgets & Levies*
Implementation of the carbon reduction strategy is taking longer than planned. There are delayed savings of £159k which cannot now be made in service budgets in 2011/12 and a shortfall on the carbon tax penalty budget of £100k. There is unallocated service support grant to cover these costs for one year

which is confirmed within this report. Similarly target savings of £322k held in the corporate budget need to be taken out of service budgets as Worksmart initiatives are implemented. The allocation of these savings to service budgets in 2011/12 is currently being determined based on the latest implementation plan.

There are two other potential cost pressures, but it is too early to be certain. One is the insurance budget which may face an increase in liabilities by the year end. The other is planning fee income. If income does not recover in line with budget expectations there is a recession contingency which could be applied.

3.5 *Infrastructure services*

The service has identified pressures on: street lighting costs due to unrealised savings and inflation; delayed income recovery at leisure and golf facilities and Normanby Hall; delayed reviews at sports facilities and IT services; higher office accommodation costs and lower design services income.

The inflation element of street lighting costs can be met from the energy contingency. Lower maintenance costs and higher income in the construction and technical services make a further contribution. This leaves a net pressure of £182k which the service is working to resolve.

3.6 *Neighbourhood & Environment*

Income from alcohol, entertainment & gambling licences is projected to fall short of budget and the service is making plans to contain it.

3.7 *Finance Service*

There are potential savings in two areas: the service is currently overachieving on recovery of benefit overpayments, partly offset by court costs; there will be additional subsidy income if council performance on local authority error is above target, but this is subject to audit.

3.8 *Energy costs*

An assessment has been made of increases in cost for each category of energy and fuel. Where costs are projected to exceed budget and last year's outturn position a budget allowance has been calculated. In total this equates to £361k, of which the largest elements are street lighting and gas. This is within the £400k contingency sum provided for the purpose.

Schools budget

- 3.9 Collectively schools are expected to spend in line with budget, with no net call on school reserves. The picture is different at individual school level. While all schools with deficit budgets have an action plan in place to repay the deficits, balances for secondary schools are predicted to reduce. However this is counterbalanced by schools converting to academies during the year for which the Young Peoples Learning Agency (YPLA) will repay any deficits.

Capital

3.10 The approved budget for 2011/12 is £72.4m, with a further £95m 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; the Pods and Baths Hall.

3.11 Schemes requiring cost adjustments:

- A government cost review earlier in the year reduced the overall BSF scheme cost by £4.261m to £89.601m;
- There is primary capital programme slippage of £1m against planned start dates for refurbishment of the amalgamated Riddings Infants & Junior School and for completion of work at Westcliff Primary School. Also slippage of £1m against the School & Children's Centres Investment programme;
- The Carbon Reduction programme allowed for a proportion of revenue savings to be reinvested in new schemes. Because fewer savings were delivered in 2010/11 than anticipated the capital budget for 2011/12 needs to be reduced by £202k;
- The report of the structural engineer indicates that the only feasible option for the recently closed Carlton Street Car Park is demolition. Although there is provision of £230k in the 2012/13 capital programme, an indicative estimate of around £675k will be required in 2011/12. Funding of £75k is available from the Scunthorpe Leisure Centre Demolition project.

	11/12	12/13	13/14	14/15
	£m	£m	£m	£m
Building Schools for the Future	21.098	17.578	13.469	5.460
	-1.751	-2.487	0.003	0.093
Revised	19.347	15.091	13.472	5.553
Primary Capital Programme	7.754	0	0	0
	-1.000	1.000	0	0
Revised	6.754	1.000	0	0
Schools & Children's Centre	3.195	4.622	4.574	4.524
	-1.000	1.000	0	0
Revised	2.195	5.622	0	0
Carbon Commitment	0.765	0.363	0.075	0.075
	-0.202			
Revised	0.563	0.363	0.075	0.075
Scunthorpe LC Demolition	0.232	0	0	0
	-0.075	0	0	0
Revised	0.157	0	0	0

Carlton Street car park		0.230			
	0.675	-0.230			
Revised	0.675	0.000	0.000	0.000	

Treasury

- 3.12 Cash balances were **£33.4m** at the end of August 2011. 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 return on investment is 0.6%, less than the 1% budgeted. A key factor is the bank base rate which is at the historically low level of 0.5%. An increase in base rate is not now expected until 2013. This means there will be a shortfall on interest earned (up to £100k), but this is offset by a saving on the minimum revenue provision for internally funded capital investment.
- 3.13 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 2011/12 budget was set. Scheduled debt repayments continue so that outstanding debt on previous capital investment will reduce by £5.5m to **£110.7m** at the end of September.
- 3.14 Recovery of funds placed with Icelandic banks before October 2008 is progressing well. Heritable Bank administrators paid an eighth dividend in July, and we expect to recover £3m of the original £3.5m investment. The priority status of local authority creditors in Landsbanki has been upheld in Icelandic courts, but is now subject to challenge by unprotected creditors. If the Supreme Court upholds the judgement a return of 95 pence in the pound is possible. The 2010/11 accounts provide for a £0.85m impairment in the value of the combined investments, the best estimate at this point. Should the final return be better the charge to revenue will reduce; there is cover in reserves should the loss be greater.

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 that is feasible in most areas of spending and is the preferred option.
- 4.2 An exception is energy costs where specific contingency provision was made to cover price rises. £361k is calculated to cover inflation on gas, electricity, street lighting, fuel and heating oil consumption. Appendix 1 allocates this to services.
- 4.3 It is too early to project accurately income shortfalls in leisure services, planning and elsewhere. For now services should endeavour to contain them. If necessary the position can be reconsidered at a later date with potential one-year support from the recession element of the contingency fund.

4.4 Changes to the BSF programme formalise the reduction in capital funding agreed with PfS earlier in the year, and brings the phasing up to date. The demolition of Carlton Street Car Park is necessary and the decision has been made.

4.5 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 2011/12.

5.2 The changes to the capital programme result in a net reduction in spending. The reduction in BSF costs is based on a respecification of project designs. The costs for demolition and reinstatement work at Carlton Street are the current best estimate.

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 approve revised service budgets at Appendix 1.

8.2 To agree changes to the capital programme at paragraph 3.11.

8.3 To note the latest position on treasury management.

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Background Papers used in the preparation of this report

Revenue Budget 2011/12

APPENDIX 1

	Approved Budget	Revised Budget	Fuel cost adjustment
Service	£000's	£000's	£000's
Adult Social Services	37,989	38,000	11
Capital financing and contingency	14,702	14,341	-361
Children & Young People's Services	26,048	26,063	15
Corporate & Community Services	10,525	10,529	4
Corporate Budgets & Levies	6,469	6,469	0
Finance Service	4,183	4,183	0
Infrastructure Services	16,976	17,278	302
Neighbourhood & Environment	17,548	17,577	29
Service Total	134,440	134,440	0
Financing			
Government Funding & Council Tax	132,621	132,621	0
Earmarked Reserves	1,819	1,819	0
			0
Financing Total	134,440	134,440	0