

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	22 February 2010
Title:	Budget monitoring – 2009/10 Quarter three
Reference:	1348
Report From:	County Treasurer

Contact name: Nick Gibbins

Tel: 01962 847544

Email: nick.gibbins@hants.gov.uk

1. Executive Summary

- 1.1. This report reviews the 2009/10 budget monitoring position based on data at the end of the third quarter on high risk demand led budgets, overall employee budgets, savings plans and financial health indicators and also reflects the revised budgets for 2009/10 reported to Executive members in January alongside the 2010/11 budget proposals.
- 1.2. Adult Services, Environment and Policy and Resources have identified potential planned savings of £4.6m in 2009/10 for which approval is being sought to carry forward to 2010/11 or 2011/12. However underlying demand trends affecting both Adult and Children's Services continue to be challenging, and will continue to require concerted management action, particularly in the context of an anticipated much tougher overall budgetary position from 2011/12 onwards. The 2010/11 budget strategy for children's services assumed that the various strategies being developed by the department to reduce the numbers of looked after children will be successful in reducing average numbers below the level in the current year, but this remains a significant risk.
- 1.3. The adverse weather conditions in December 2009 and January 2010 have resulted in expenditure on winter maintenance running well ahead of the current budget which is based on average winter conditions over the last four years. An overspending of around £2m currently projected which will be met either from underspendings on other non cash-limited budgets or from balances. However unless there is a significant reversal of trends in waste management volumes in the second half of the year, the remaining £2m within the 2009/10 waste management contract contingency should not be required in full.

2. Contextual information

Adult Services

- 2.1. The projected overspending on demand led budgets at the end of the third quarter had increased from £4.7m at the end of the second quarter to £7.4m. Overall Adult Services client numbers for the first three quarters are 4.6% higher than budgeted, compared with 4.0% at the end of the second quarter. The increase in spending in the third quarter mainly reflects an increase in the number and average size of domiciliary care packages.
- 2.2. Additional income from client contributions, savings on non-demand led budgets, further management action and the expectation that the winter contingency will not be fully required, however enable a planned underspending of £1m in 2009/10 to be targeted for carry forward to 2010/11, as reflected in the 2010/11 budget.

Children's Services

- 2.3. Spending pressures on the Children's Services budget are also mainly associated with the demand led budgets for Looked after Children and Home to School Transport. The projected overspending on the non-schools demand led budgets has increased from £3.6m at the end of the second quarter to £4.7m at the end of quarter 3. £3.5m of this projected overspending relates to Looked after Children.
- 2.4. The revised budget reported to Cabinet on 4 February however forecast an overspending against the Children's Services cash limit of £2.5m in 2009/10 as a result of projected underspendings of £1.3m on non demand led budgets, together with further management action to achieve additional savings.
- 2.5. Activity levels for Looked after Children steadily increased over the latter part of 2008/09, from 1,023 as at 31 March 2008 to 1,084 at 31 March 2009 (an increase of 6.0%). Since the beginning of the current financial year (2009/10) activity levels remained relatively stable at around 1,084 until November. However, during November the number of children has increased, and as at the end of November, 1,094 children were looked after by the County Council.
- 2.6. There have been a number of drivers for these developing pressures but the two most prominent factors have been the public and professional reaction to the Baby P tragedy in Haringey and the impact of the recession. Further possible factors include changes in the legal process (the 'public law outline'), the improved early identification of risk and need in relation to children, and the fact that these are national issues meaning that, on occasions, demand for placements far outstrips supply. This latter point adds an inflationary factor to the costs of placements on top of the simple quantitative pressure.
- 2.7. The Executive Lead member for Children's Services will be receiving a budget monitoring report at his 10 March meeting setting out the position as at 31 December 2009, along with a more detailed breakdown of the issues.

The Cabinet have agreed to write off an overspending of up to £1.25m at the year end recognising that the management action required in 2010/11 and in subsequent years will be difficult to achieve if the whole of any overspending in 2009/10 had to be carried forward.

Culture, Communities and Rural Affairs

- 2.8. Previous reports have identified that the trend towards lower income in the Library and Information Service has continued in 2009/10. However it is anticipated that a balanced budget position can be achieved in 2009/10, as a result of management action already or about to be undertaken.

Environment

- 2.9. Environment are proposing to carry forward a planned underspending of £1m to 2009/10, mainly as a result of lower transitional costs associated with the Street Lighting PFI contract and savings on public transport support.

Corporate budget monitoring

- 2.10. In addition to service-based budget monitoring, a corporate monitoring process is undertaken across all services on a quarterly basis, focusing on high risk/demand led budgets, overall employment trends, the achievement of budget savings and the monitoring of financial health indicators.

High risk/demand led budget

- 2.11. Appendix 1 summarises the monitoring of spending and activity on high risk/demand led budgets, which are mainly focused on Adult and Children's Services. Spending on these budgets is projected to be £11.4m (2.9%) higher than budgeted, by £7.4m on Adult Services, £3.7m on Children's Services, and £0.3m on Coroners. Within Children's Services there is a projected saving of £1.0m on the demand led budgets within the Schools budget, so that the net projected overspending on the non-schools budget is £12.4m, compared with £8.6m at the end of the second quarter. The increase is mainly the result of the latest spending projections for 2009/10 on looked-after Children and domiciliary care. However the majority of this projected overspending can be accommodated within the 2009/10 budget as a result of savings on non-demand led budgets and further management action.

Employee budgets

- 2.12. Overall spending on employee budgets is projected to be slightly lower than budgeted at £0.9m (0.3%) below the budget of £358.4m, though there are some variations between services. This includes the effect of the saving, estimated at £0.5m, arising from the settlement of the 2009 pay award at just over 1%. Actual employee numbers (excluding school based and business unit employees) for the first three quarters averaged 9,985 full time staff members (FTE), just over 2% lower than budgeted, but slightly higher than the 9,918 (FTE) in the previous quarter, reflecting additional posts included in the 2009/10 budget. With lower staff turnover and with some posts proving easier to recruit to than in the past, robust

employee budget management arrangements have needed to be put in place.

Savings Plans

- 2.13. The 2009/10 budget included planned savings of £15.2m to finance one-off and recurring budget pressures in 2009/10 that could not be accommodated within the budget guidelines. This excludes savings achieved by means of carry forward of underspendings, the use of reserves or transfers from capital, which do not require monitoring.
- 2.14. Good progress has been made in implementing plans to achieve the budgeted savings, with savings of £8.0m assessed as having been already achieved and with firm evidence of likely achievement being available for £14.4m of the planned savings, thus limiting the extent to which it may have been necessary to identify alternative savings to meet budget targets.

Financial Health indicators

- 2.15. A set of Financial Health indicators were incorporated in the budget proposals approved by Cabinet in February 2009. They are designed to provide an early warning of when action may be required to protect the County Council's financial health. Appendix 3 contains a summary of the targets for 2009/10 and either the latest full-year projection or data for the second quarter.
- 2.16. All of the indicators are expected to be within or very close to the target range or have favourable variances. Because forecast capital receipts and third party capital contributions for 2009/10 are only £26.1m, the risk to achieving lower capital receipts and third party contributions than budgeted is lower than usual.
- 2.17. The proportions of debt outstanding which is below 60 days old and the proportion more than twelve months old at the end of the third quarter are both inside the target range, and exhibit an improvement on the position at the end of quarter two.
- 2.18. The annual investment strategy approved by the County Council in February indicated that changes in the Council's lending list would be reported to the Cabinet on a quarterly basis. No rating changes have occurred since December which affect the Council's lending list, though a fourth AAA rated money market fund, Prime Rate Sterling Fund, has been added to the lending list.

3. Non cash-limited budgets

- 3.1. As a result of the cold winter and the two periods of snowfall in December 2009 and January 2010, spending on winter maintenance is already in excess of the budget of £3.2m. The budget is set on a formula basis calculated in accordance with average expenditure over the previous four years adjusted for inflation: Any variation in the budget from year to year is accommodated within the overall budget for highway maintenance, but higher or lower spending than the budget is met from or adds to balances. An overspending of around £2m is projected in 2009/10, which will be met

either from underspendings on other non cash-limited budgets or from balances. The latest projections indicate that there will be a significant underspending against the balance of £2m retained within the waste management contract contingency.

4. Conclusion

- 4.1. Action is continuing to be taken to manage the pressures within the 2009/10 budget, consistent with supporting corporate priorities and preparing for a greater squeeze on budgets from 2011/12.
- 4.2. Trends in activity levels on demand led services however pose a risk to the current strategy of seeking to manage reduced Government funding by efficiency measures in 2011/12 and 2012/13.

5. Recommendation

- 5.1. That the action being taken to deal with budget pressures in 2009/10, particularly those arising from higher social care activity levels, be endorsed.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	yes
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes
Corporate Improvement plan link number (if appropriate):	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. Equality objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

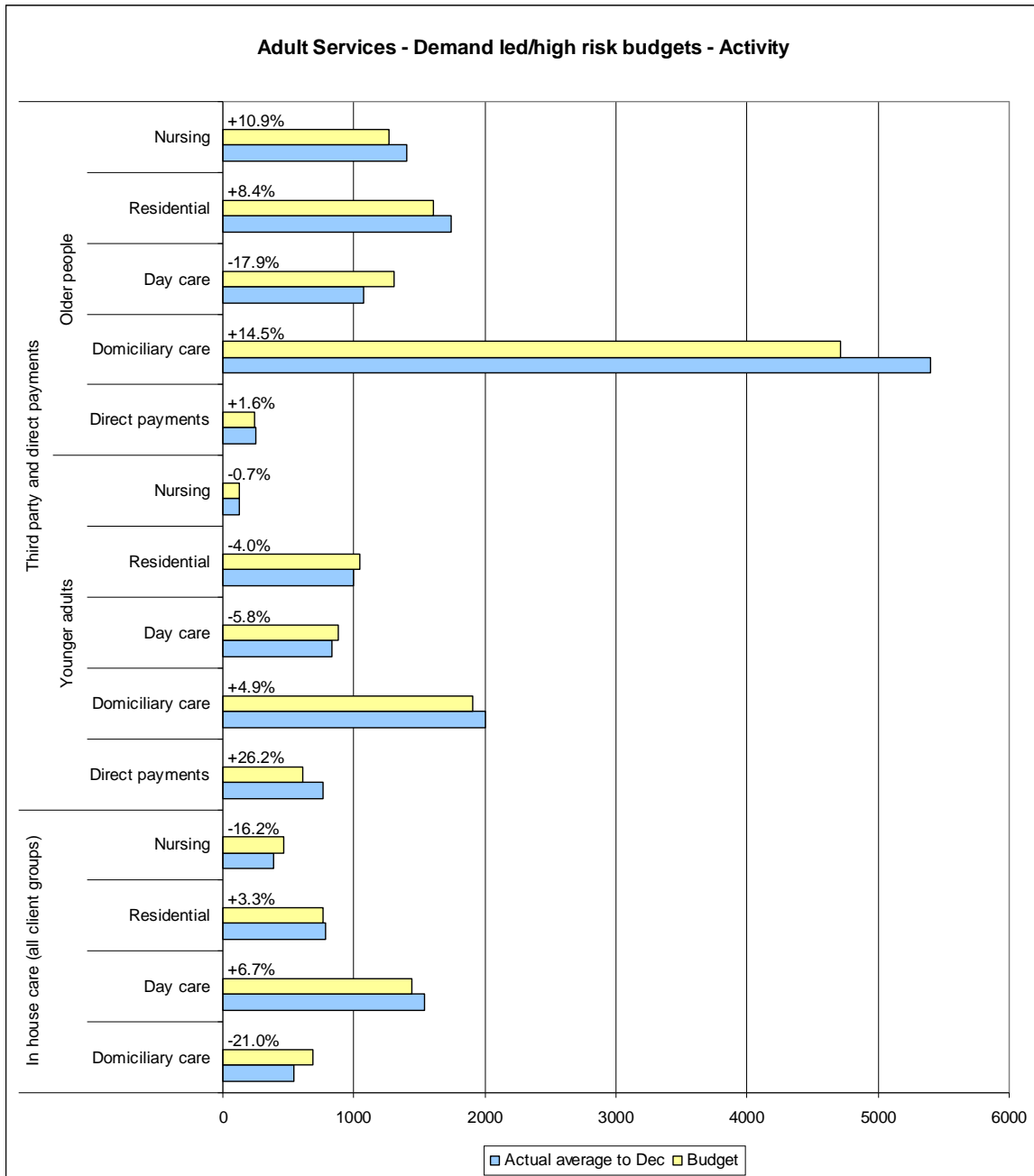
3. Climate Change:

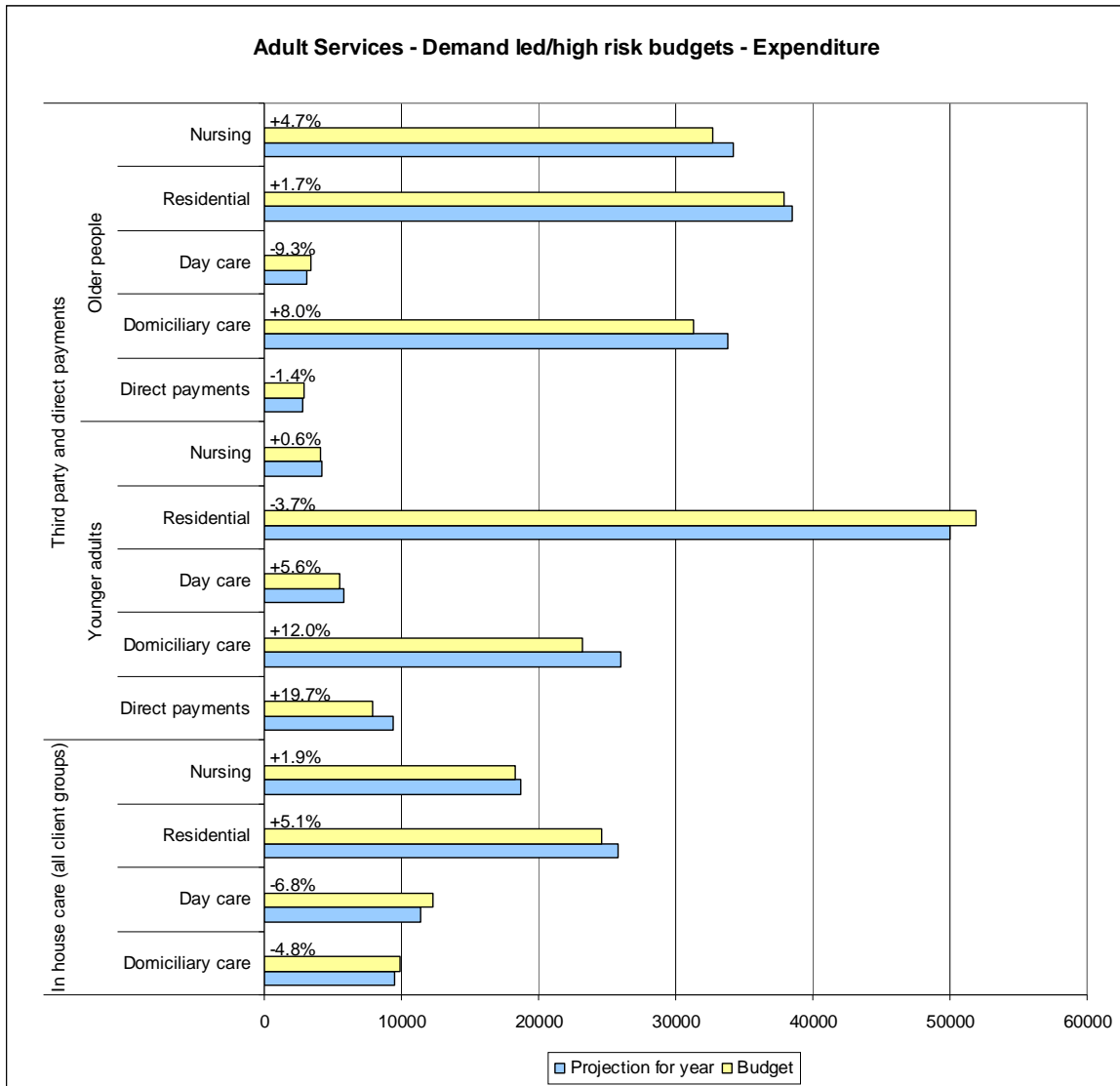
- a) How does what is being proposed impact on our carbon footprint / energy consumption?

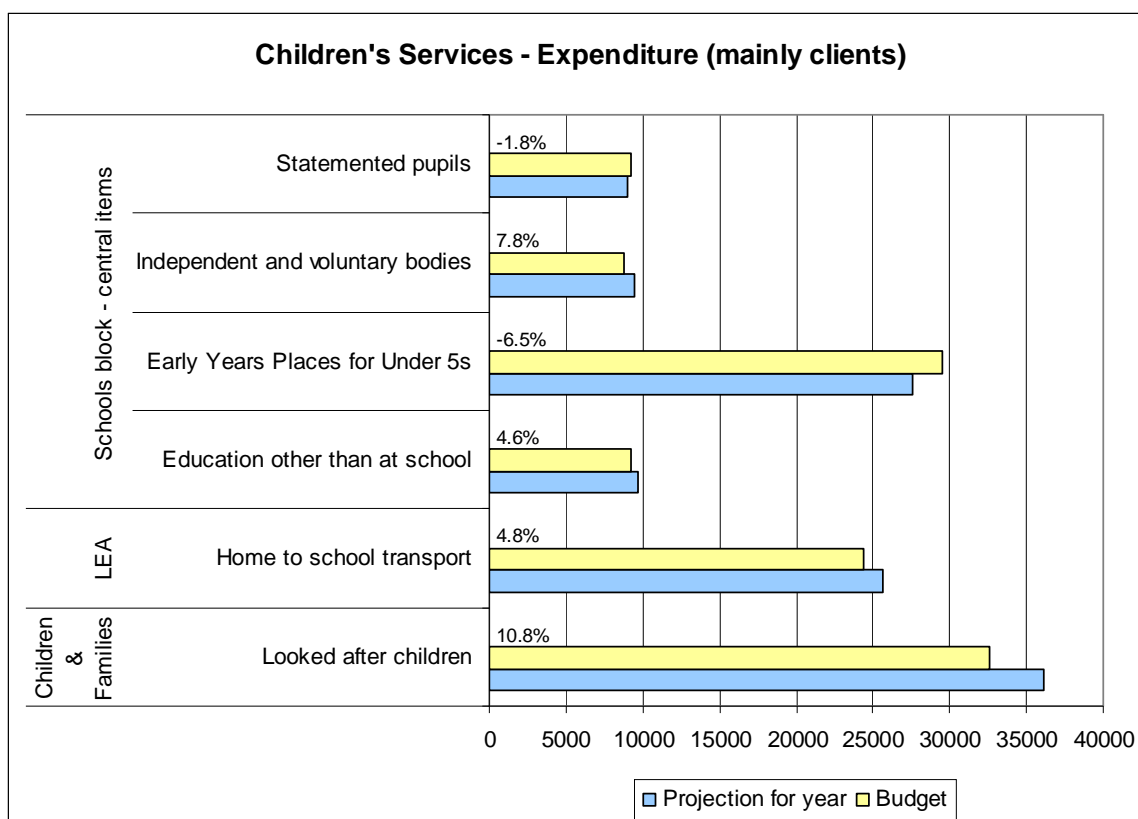
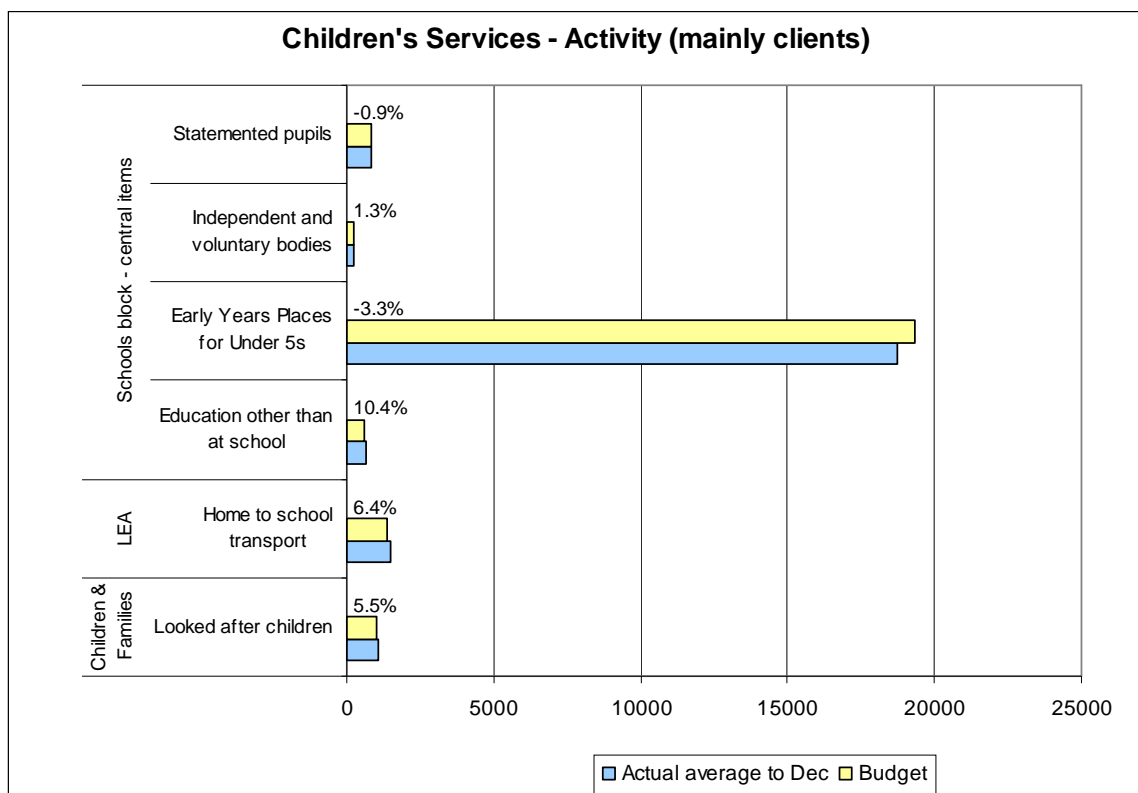
No specific proposals.

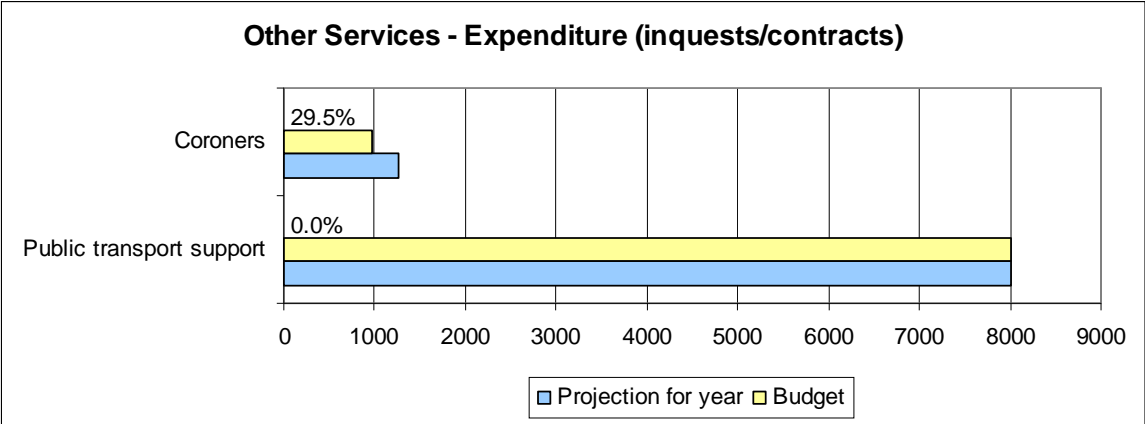
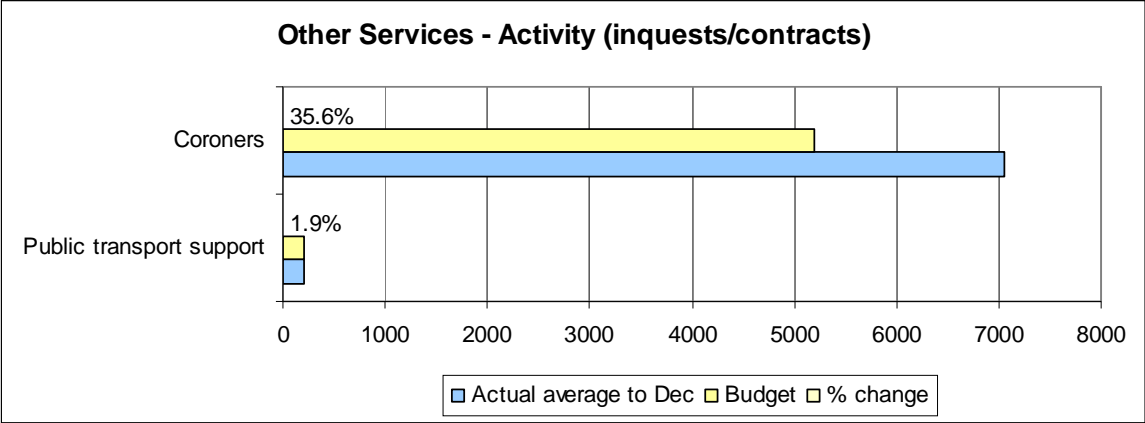
- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

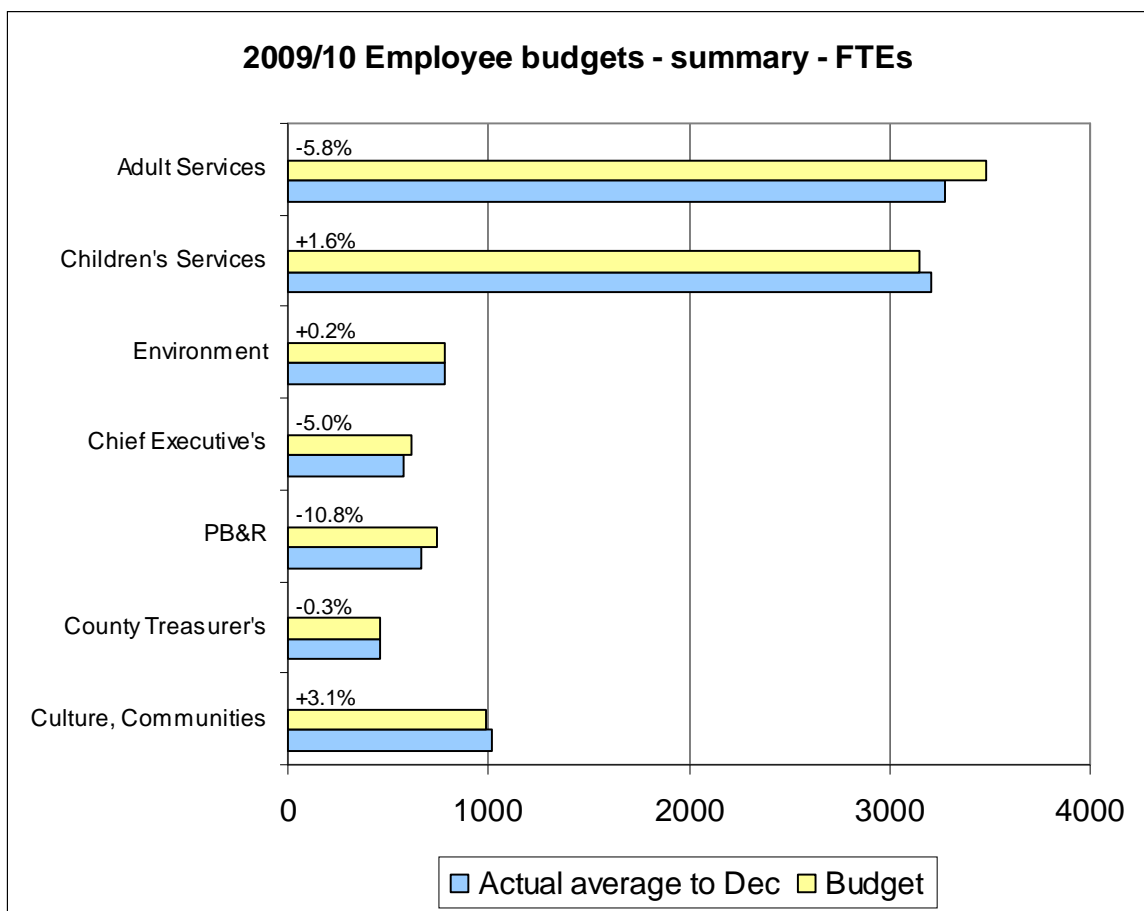
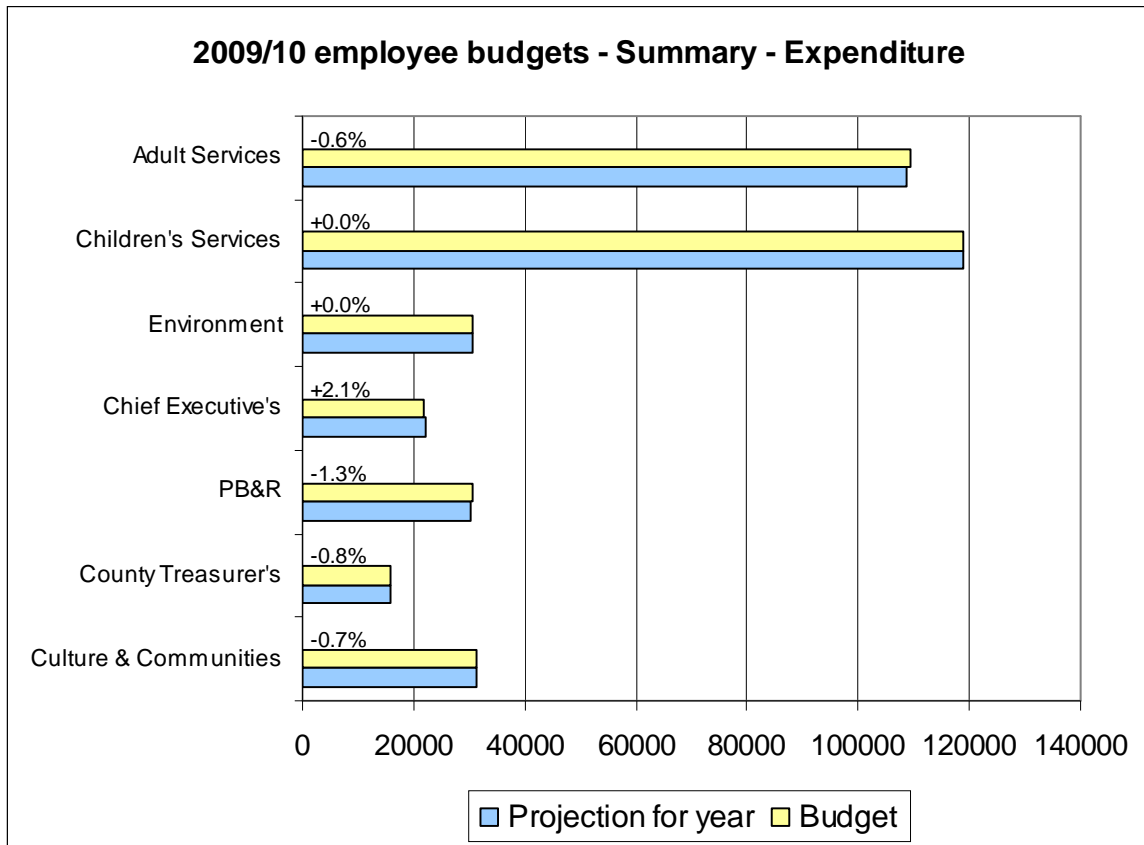
No specific proposals affecting adaptation to climate change.











Financial Health Indicators

	2009/10 Target	2009/10 Projection	
Variance from budget			
	+or-		
Net Service spending (%)	1.0	-0.3	
	+or-		
Overall spending met from formula grant, council tax and balances (%)	2.0	-0.7	
Balances as a % of budget requirement	3.7	4.5	
Capital programme management			
Carry forward of capital schemes (% by value)	20.0	20.0	
Actual capital expenditure compared with estimate (% variation)	10.0	10.0	
Capital receipts and other third party contributions (% variation on financing plan)	10.0	10.0	
Prudential indicators relating to borrowing			
Capital financing requirement at 31 March 2010 (£m)	687.7	653.5	
Maximum level of external debt:			
£m	690.0	469.0	Third Quarter
As % of authorised limit	100.0	68.0	Third Quarter
Upper limit on:			
Fixed rate borrowing (£m)	320.0	274.0	Third Quarter
Variable rate borrowing (£m)	440.0	195.0	Third Quarter
Ratio of financing costs to net revenue stream (%)	7.6	6.2	
Income collection			
% of outstanding debt more than 12 months old	17.5	10.5	Third

	2009/10 Target	2009/10 Projection	
% of outstanding debt more than 6 months old	20.0	20.0	Quarter Third Quarter
% of outstanding debt under 60 days old	60.0	65.4	Quarter Third Quarter