

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Cabinet
<b>Date:</b>	29 November 2010
<b>Title:</b>	2010/11 Budget monitoring update
<b>Reference:</b>	2290
<b>Report From:</b>	County Treasurer

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#### 1. Executive Summary

- 1.1. This report reviews the budget monitoring position at the end of the first half year, based upon the latest budget monitoring reports submitted to Executive Members and subsequent budget monitoring at service level. The report also reviews the first half year's monitoring of high risk/demand led budgets, overall employee budgets, savings plans and financial health indicators to provide an overall corporate context to budget monitoring.
- 1.2. The previous report at the end of the first quarter indicated that substantial management action would be required in both Adults and Children's Services to continue to manage financial pressures in the current year, as well as in preparation for further reductions in Government grant from 2011/12. In both departments good progress has been made in the second quarter in containing budget pressures in the current year.
- 1.3. The Cabinet recognised in June that Children's Services were unlikely to be able to achieve cash savings in 2010/11 which would compensate in full for the in-year grant reductions, equivalent to 2.9% of the Children's Services budget. The priority was to achieve the required savings on a full year basis by 31 March 2011, seeking to delivery the required cash savings as far as possible in 2010/11. The latest projection of the savings achievable in 2010/11, indicates a potential in-year funding gap of £2m in 2010/11, as some of the savings being implemented in the current year will not be fully operative until the end of the financial year. This compares with an equivalent projection of £3.5m at the end of the first quarter. This position does not include the costs of the staffing reductions in response to the in year grant funding cuts. These will be reported in the next quarter.
- 1.4. Within Adult Services the projected overspending on demand led care budgets has reduced from £9.0m at the end of the first quarter to £7.8m, and after allowing for savings on non demand led budgets, higher income

and other savings from planned management action, the net budget pressure is projected at £3.2m at the end of the half year, compared with £4.9m at the end of the first quarter. Further management action is being taken to contain spending within the 2010/11 cash limit.

- 1.5. For other services, the recruitment controls introduced in September and other measures being taken to reduce spending in 2010/11, should enable underspendings to be achieved to assist in the implementation of the efficiencies and expenditure reduction programme.
- 1.6. As reported in September, savings of £3.2m are forecast as a result of lower capital financing charges in 2010/11, which should ensure that any in-year funding required to support Children's Services should be achievable without drawing on the Council's balances.

## **2. Service cash limited expenditure**

### **Adult Services**

- 2.1. The Executive member for Adult Services received a budget monitoring report in October based on data for the first four months of the financial year. This identified that further savings of £4.7m would need to be achieved to contain spending within the cash limit. Good progress is being made in achieving the savings and the net projected budget pressure has been reduced to £3.2m based on the first half year's data.
- 2.2. Higher spending on demand led care than budgeted is the main factor contributing to the pressures on the Adult Services budget, mainly as a result of increases in dependency and the ongoing impact of developments in the health sector.

### **Children's Services**

- 2.3. A budget monitoring report was submitted to the Executive Lead Member for Children's Services in November. This indicates that after allowing for the allocation of a central contingency of £1m for looked after children, that spending on the non schools budget is forecast at £2m higher than the cash limit in 2010/11. This compares with a projected in-year funding gap of £4.5m at the end of the first quarter, before allowing for the £1m contingency allocation. This position does not include the costs of the staffing reductions in response to the in year grant funding cuts. These will be reported in the next quarter.
- 2.4. As well as the effect of recruitment controls and other measures to avoid new spending commitments in the current year, there has also been a more favourable trend in the numbers of looked after children in the second quarter, which has had a beneficial impact on Children's Services' overall financial position.

### **Culture, Communities and Rural Affairs**

- 2.5. The budget monitoring report to the Executive Member for Culture and Recreation in October indicated that an underspending is anticipated in 2010/11 and that further savings are being sought in order to fund the one-

off costs associated with staff reductions and restructuring, either in 2010/11 or 2011/12. A bigger underspending would have been forecast but for the one-off costs of dealing with applications for Village Green status in Gosport associated with the Bus Rapid Transit scheme. These inquiries have cost approximately £63,000 in excess of normal budget provision.

### **Environment**

- 2.6. Decisions were taken in July in response to the in-year grant reductions, mainly affecting capital grants, to protect the funding already identified for Operation Restore. Expenditure is expected to be contained within the budget and further savings will be sought to support one-off costs associated with the efficiency and expenditure reduction programme.

### **Policy and Resources**

- 2.7. A monitoring report was submitted to the Executive Member for Policy and Resources in October. Spending is expected to be contained within the cash limit and further savings are being sought in 2010/11 to manage the impact of budget reductions in 2011/12.

### **Corporate budget monitoring**

- 2.8. In addition to service-based budget monitoring, a corporate monitoring process is undertaken across all services on a quarterly basis, focussing 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 budgets**

- 2.9. Appendix 1 summarises the first half year's monitoring of spending and activity on high risk/demand led budgets, which are mainly focussed on Adults and Children's services. Spending on these budgets is projected to be £10.1m (2.4%) higher than budgeted by £7.8m on Adult Services, by £2.2m on Children's Services (net of a saving of £0.6m within the Schools block) and £0.1m on the Coroners Service. This compares with a projected overspending of £13.5m at the end of the first quarter and indicates that management action in both Adults and Children's Services is having an impact on the latest spending projections.

### **Employee budgets**

- 2.10. The overall non-schools workforce, inclusive of business unit employees, fell by 67 FTEs between the 30 June and 30 September, spanning the period in which recruitment controls were first introduced in September 2010. The impact of revised vacancy assumptions has begun to be reflected in employee budget projections, with spending projected to be £4.8m (1.3%) lower than the budgeted level of £358.8m. Further savings can be expected as further unfilled vacancies are built into budget projections.

### **Savings plans**

- 2.11. The 2010/11 budget included planned savings of £21.5m to finance one-off and recurring budget pressures in 2010/11, that could not be accommodated within budget guidelines. This excludes savings achieved

by means of a carry forward of underspendings, the use of reserves or transfers from capital, which do not require monitoring. In addition further savings of £5.9m in Children's Services are required to compensate for in-year grant reductions.

- 2.12. Good progress has been made in implementing plans to achieve the budgeted savings with savings of £4.7m assessed as having been already achieved and with firm evidence of likely achievement being available for £19.6m (91%) of the planned savings, thus limiting the extent to which it will be necessary to identify alternative savings to meet budget targets. In addition Children's Services are anticipating achieving savings of £4.0m in 2010/11 to compensate for in year grant reductions.

#### **Financial Health indicators**

- 2.13. A set of Financial Health indicators were incorporated in the budget proposals approved by Cabinet in February 2010. 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 2010/11 and either the latest full year projections or data for the first half year.
- 2.14. Apart from the income collection indicator relating to the % of outstanding debt which is under 60 days old, which is slightly below the 60% target, none of the other indicators are currently outside or expected to be outside the target range, though the level of capital carry forwards this year could be affected by the uncertainty about in-year changes to Government grant funded schemes and by the policy of reviewing of new commitments.
- 2.15. No changes have been made during the quarter to the County Council's lending list agreed in accordance with the annual investment strategy.

#### **Non cash limited budgets**

- 2.16. Capital financing costs were forecast to be £3.2m lower than budgeted in 2010/11 in the previous budget monitoring report, subject to base rate continuing at 0.5% over the remainder of the financial year. There have been no changes to base rate subsequently.

### **3. Conclusion**

- 3.1. The budget monitoring data for the first half year indicates that though the demand trends facing both Children's and Adult Services in 2010/11 continue to be upwards, that management action is successfully being taken to manage this increased demand. Children's Services have also made good progress in achieving savings to compensate for the in year grant reductions. This is encouraging, as given the significant reductions in Government grant that can be expected over the next four years, it is vital to secure a solid base during 2010/11 on which to plan for further spending reductions.

### **4. Recommendation**

- 4.1. That the actions being taken to achieve planned savings and deal with the in-year grant reductions and other budget pressures be supported.

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

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

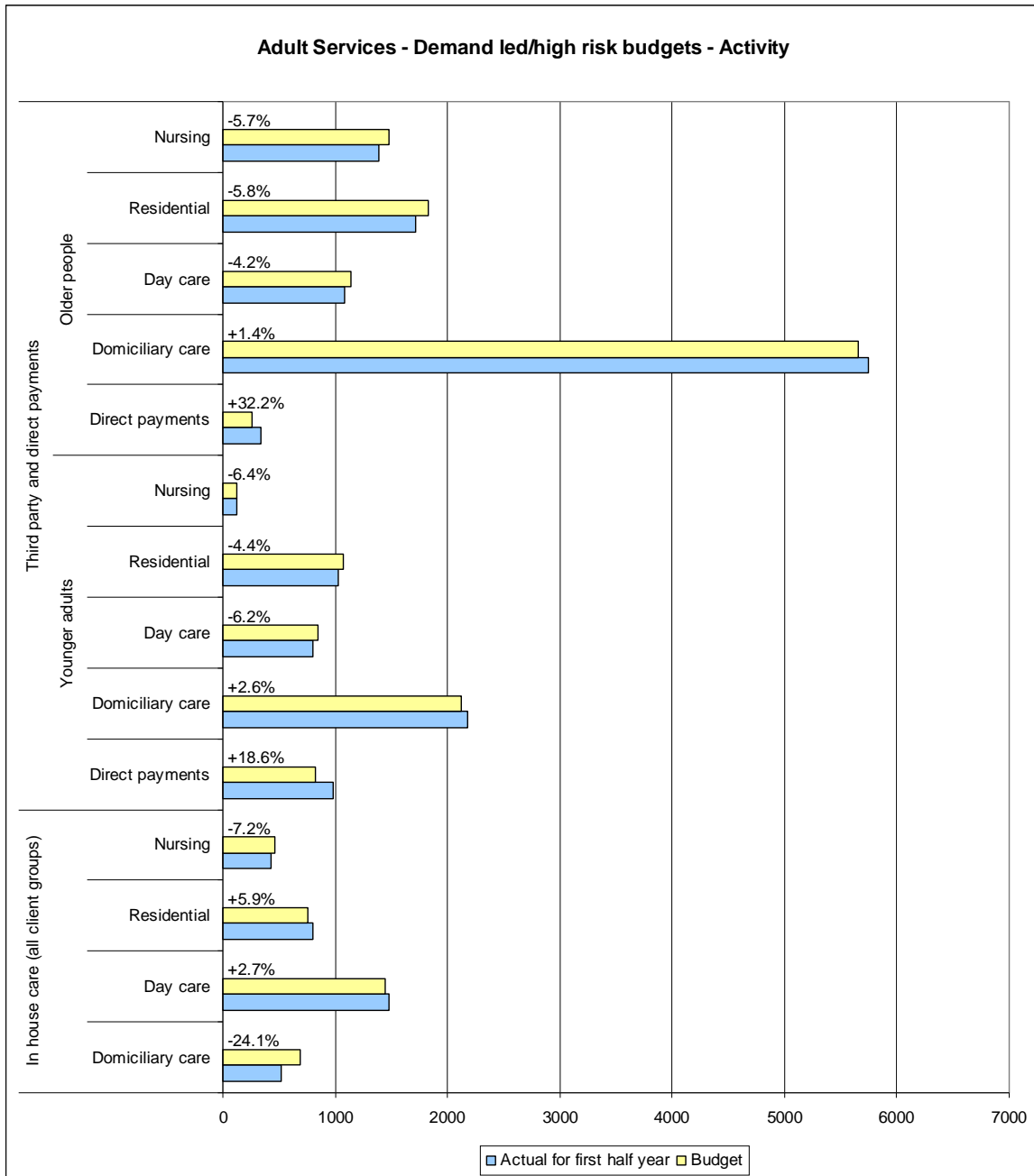
### **3. Climate Change:**

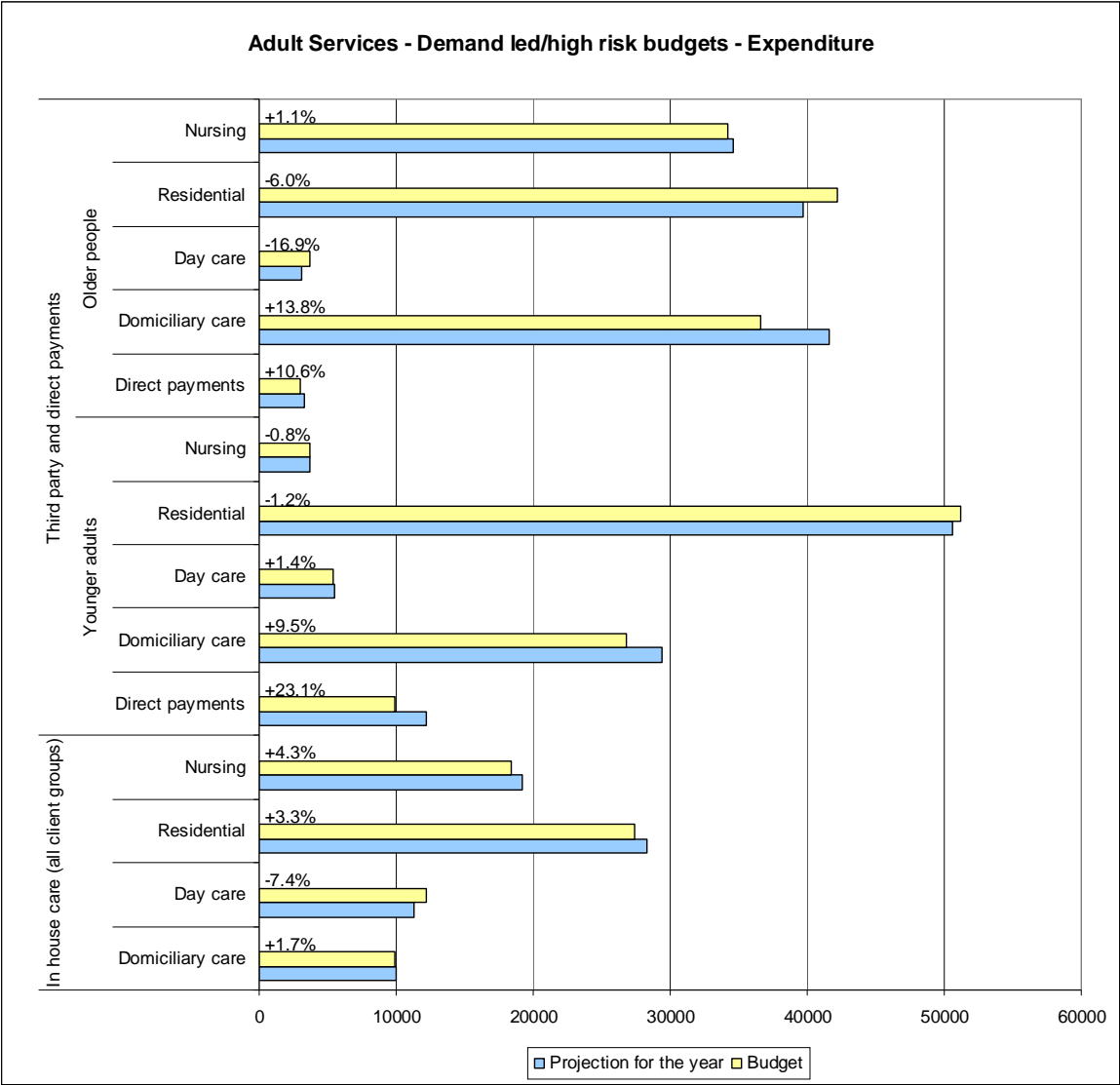
- a) How does what is being proposed impact on our carbon footprint / energy consumption?

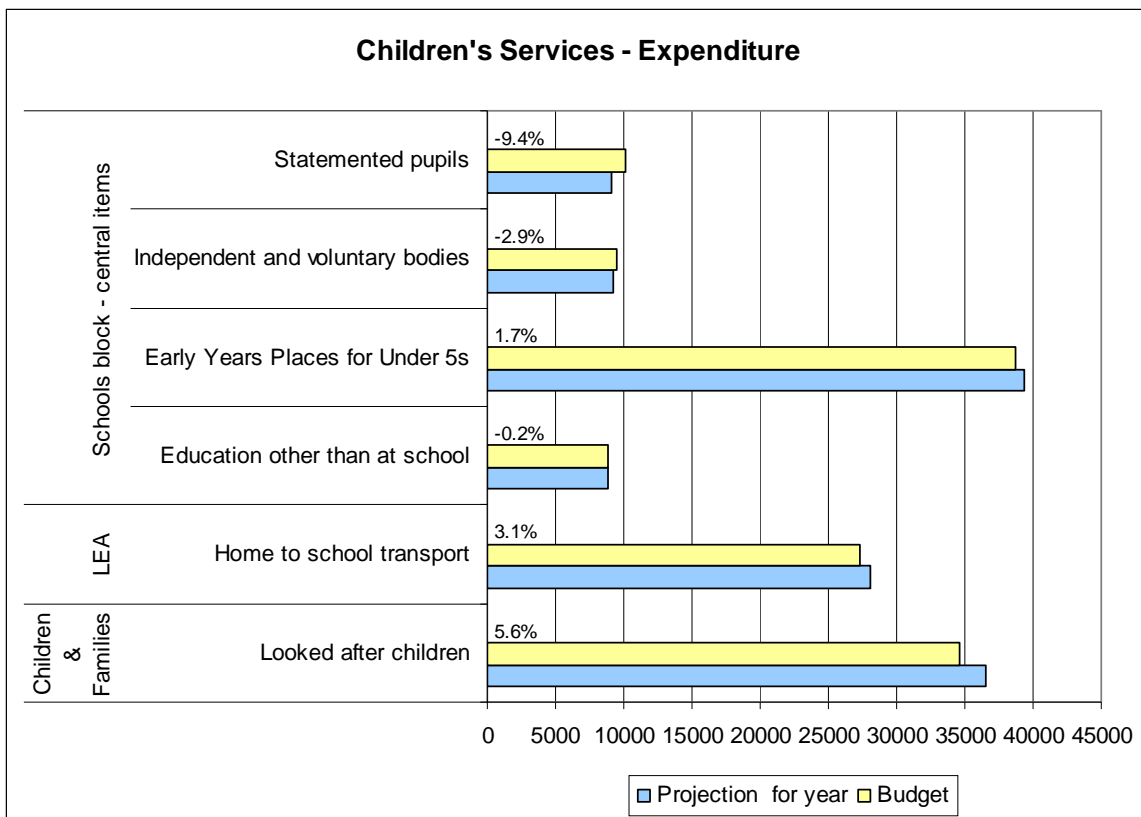
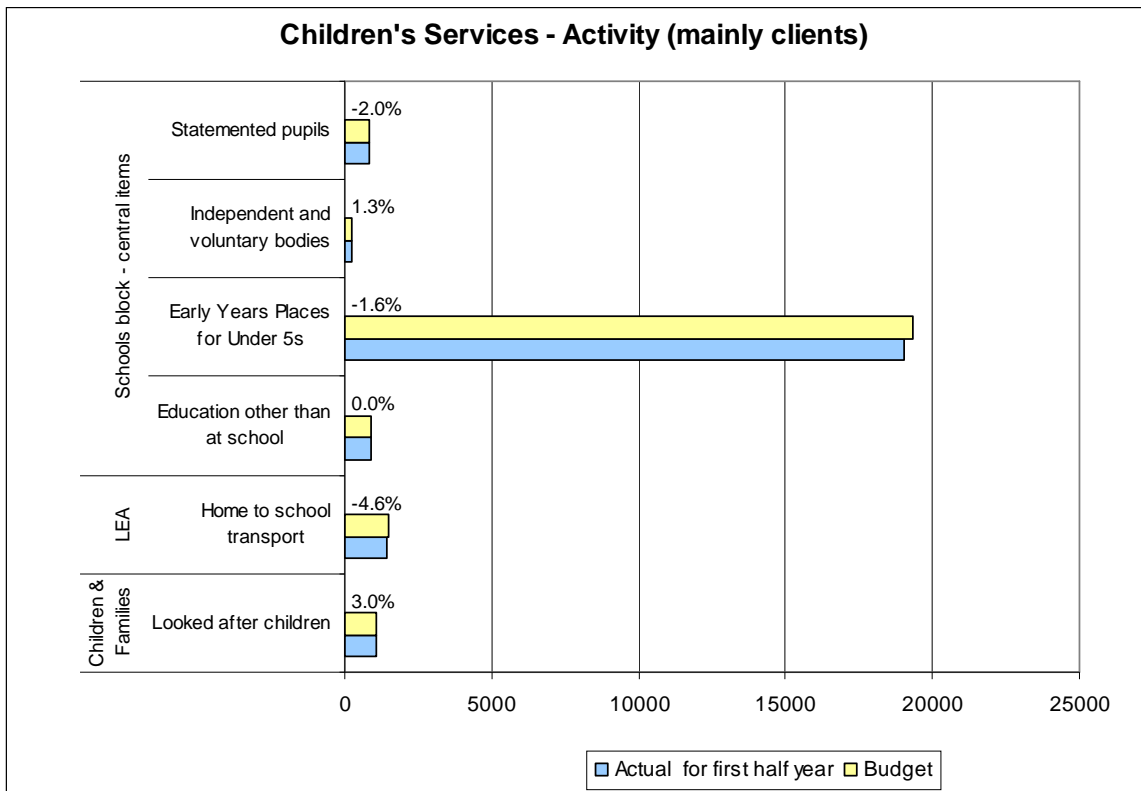
No specific proposals.

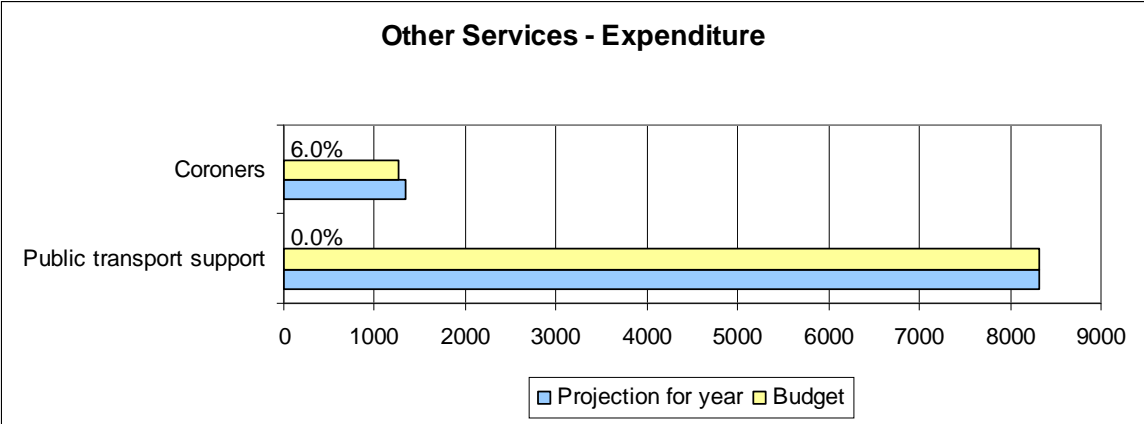
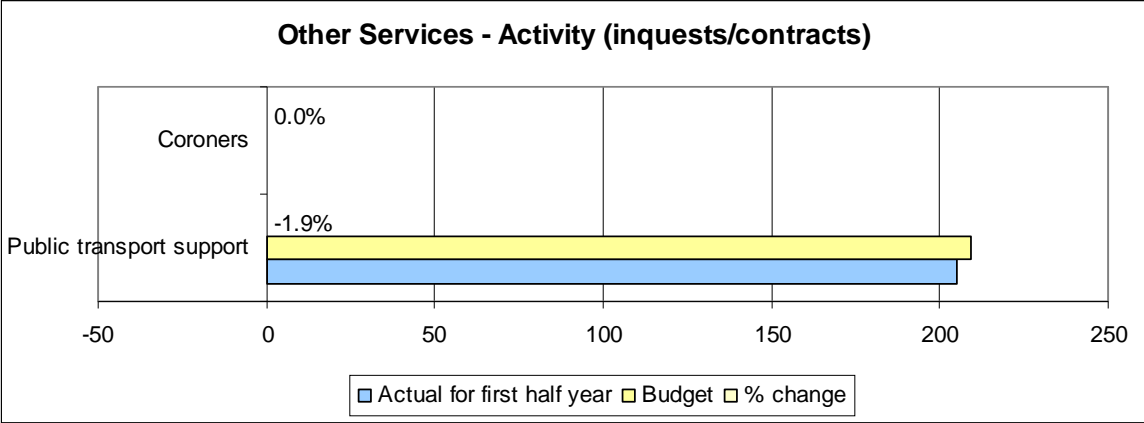
- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

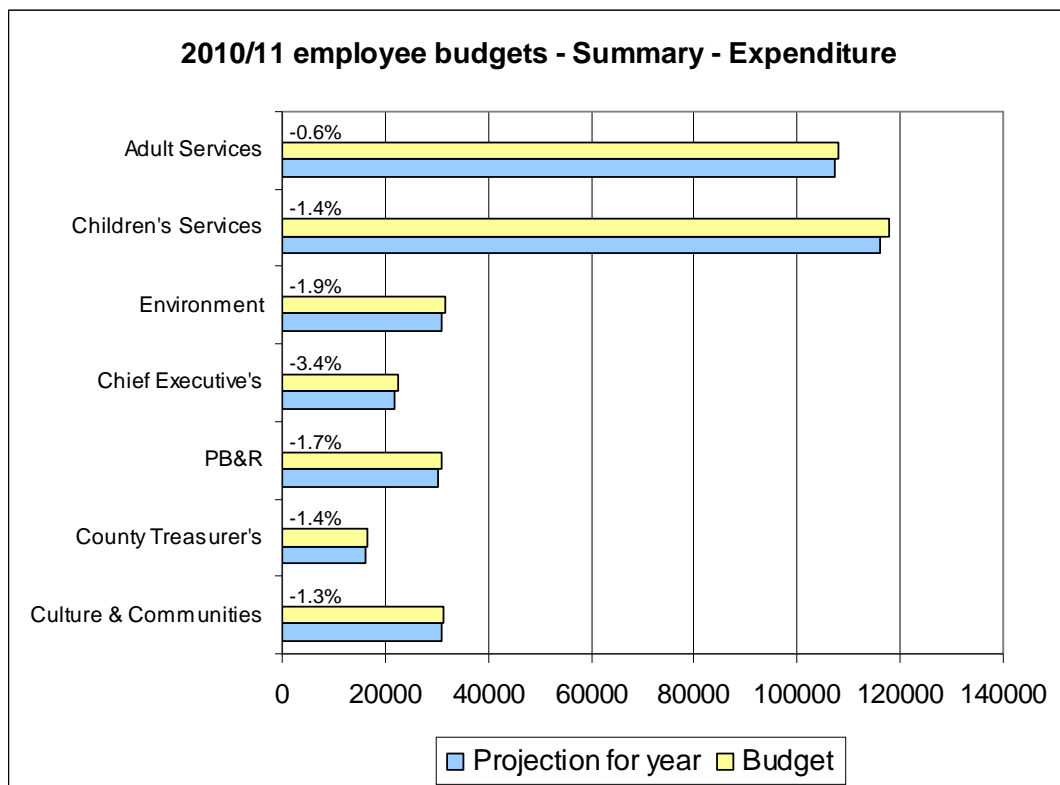
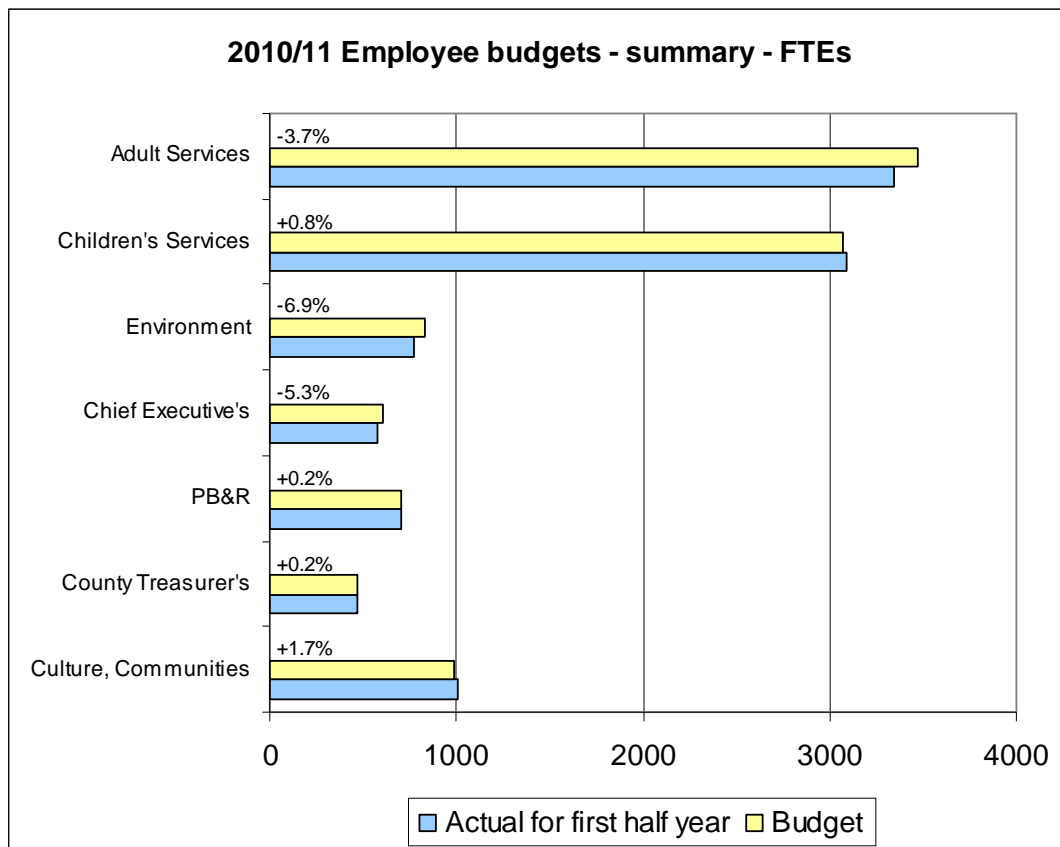
No specific proposals affecting adaptation to climate change.











**Financial Health Indicators**

	<b>2010/11 Target</b>	<b>2010/11 Projection</b>	
<b>Variance from budget</b>			
Net service spending (maximum % variation)	1.0	1.0	
Overall spending met from formula grant, council tax and balances (maximum % variation)	2.0	2.0	
Balances as a % of budget requirement	3.2	3.2	
<b>Capital Programme Management</b>			
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	
<b>Prudential indicators relating to borrowing</b>			
Capital financing requirement at 31 March 2011	743.3	743.3	
Maximum level of external debt:			
£m	772	573.0	Second quarter
As % of authorised limit	100.0	74.2	Second quarter
Upper limit on:			
Fixed rate borrowing	412.0	375.0	Second quarter
Variable rate borrowing	420.0	198.0	Second quarter
Ratio of financing costs to net revenue stream (%)	8.9	8.6	

	<b>2010/11 Target</b>	<b>2010/11 Projection</b>	
<b>Income Collection</b>			
% of outstanding debt more than 12 months old	17.5	11.2	Second quarter
% of outstanding debt more than 6 months old	20.0	16.8	Second quarter
% of outstanding debt under 60 days old	60.0	57.8	Second quarter