

**HAMPSHIRE COUNTY COUNCIL****Decision Report**

<b>Decision Maker:</b>	Cabinet
<b>Date:</b>	27 September 2010
<b>Title:</b>	2010/11 Budget monitoring update
<b>Reference:</b>	2022
<b>Report From:</b>	County Treasurer

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## **1. Executive Summary**

- 1.1. This report reviews the initial budget monitoring reports for 2010/11 submitted to Executive members, which deal with progress in achieving both savings built into the 2010/11 budget, further savings required as a result of the in-year grant reductions announced in June, and accommodating other budget pressures. The report also reviews the first quarter'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 initial indications are that for both Adults and Children's Services significant management action will be required to continue to manage financial pressures in the current year as well as in preparation for the anticipated further reductions in Government grant from 2011/12.
- 1.3. The Cabinet recognised in June that given the scale of the in-year grant reduction for Children's Services, equivalent to 2.9% of its budget, that the priority should be to achieve the required savings on full-year basis by 31 March 2011, seeking to deliver the required cash savings as far as possible in 2010/11. The latest projection of the savings achievable in 2010/11 reported to the Executive Member in July, indicated a potential in-year funding gap of £4.5m 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.
- 1.4. Within Adult Services the projected overspending on demand led care budgets at the end of the first quarter is more significant than in 2009/10. This reflects a changing balance of care packages, with increased emphasis on domiciliary care and direct payments, but overall an increase in the average cost of care packages. Though partly offset by savings on non demand led budgets, higher income from charges and

other savings from planned management action, sustained action will be required over the remainder of the year to contain spending within budget.

- 1.5. Savings of £3.5m are forecast as a result of lower capital financing charges in 2010/11, which would offset the majority of the projected in-year funding required to support the implementation of the in-year grant reductions in Children's Services in 2010/11, without drawing on the Council's balances.
- 1.6. Therefore, there is currently a projected in-year draw on reserves of circa £1m in line with the Cabinet's agreed approach in June to managing the in-year grant reductions. Significant efforts are being made across the Council to control all expenditure which should assist in managing this projected funding gap without drawing on balances.

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

### **Adult Services**

- 2.1. The initial budget monitoring report to the Executive member for Adult Services in July based on data for the first two months of the year, identified budget pressures of £4.9m in excess of the budget, before taking account of potential management action to maximize efficiencies and reduce budget pressures.
- 2.2. Personalisation and the trend of clients choosing to direct their own care and/or live at home as an alternative to residential care has resulted in a shift in spend to domiciliary care and direct payments. To take account of these changes in the pattern of demand a virement of £2.050m is proposed, redirecting some of the additional funding in the budget for demographic pressures affecting older people and physically disabled from nursing care (£380,000), Day Care (£130,000), Residential Care (£1,522,000) and other services (£18,000) to domiciliary care (£1,704,000), Direct payments (£146,000) and equipment and adaptations (£20,000).
- 2.3. The data at the end of the first quarter indicates identified budget pressures at the slightly higher level of £5.6m and therefore emphasises the need for continued management action to contain spending within the budget. The other factor which has made the budgetary position more challenging for Adult Services in 2010/11 is the reduction in Government grant of £676,000 announced in June, the majority of which comprises the 100% reduction (£615,000) in the grant for Supporting People Administration. In practice this reduction adds to pressure to achieve savings in the cost of the supporting people programme.

### **Children's Services**

- 2.4. Children's Services have been the most adversely affected of all services by the in-year grant reductions, with a 24% (£4.9m) reduction to its Area Based grants representing a 2.9% reduction in Children's Services overall cash limit. However in addition to the reported local authority grant reductions a number of other reductions mainly in capital grants originally

presented as being in Department for Education centrally managed programmes have also affected local authorities, of which Hampshire's share is about £4.1m.

- 2.5. In addition the upward trends in demand led home to school transport and looked after children's budget have continued in 2010/11. At the time the budget was set, there were some indications that the trend in numbers of looked after children may have reached a peak and the 2010/11 budget was set on the basis of average numbers of 1,043 in 2010/11, with provision made in the contingency for a further 23 looked after children. The average number in the first quarter was 1,106, 5.7% higher than allowed for. Numbers of home to school transport contracts are also 3.2% higher than budgeted.
- 2.6. As a result of in-year revenue grant reductions ( £6.2m) and spending pressures on home to school transport and looked after children's budgets (estimated at £3m) , savings of the order of £9.2m in 2010/11 will be required to contain spending within the cash limit. The Executive Member for Children's Services in July agreed proposals to achieve full-year savings of £8.9m, involving reductions in staffing levels equivalent to 132 FTES. However the staffing savings in particular will only be partially achieved in 2010/11, even allowing for invest to save funding being made available to Children's Services to cover any redundancy costs. The savings achievable in 2010/11 are assessed at £4.7m, resulting in a projected in-year funding gap of £4.5m in 2010/11. This will not represent a continuing budget pressure into 2011/12 , providing Children's Services are successful in implementing their savings plans in full prior to 31 March 2011.

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

- 2.7. Despite the underlying pressures affecting the Library Service, the latest budget monitoring report predicts that spending on Culture, Communities and Rural Affairs will be contained within the cash limit, after allowing for a potential invest to save contribution towards the one-off costs of library restructuring agreed by the Cabinet in May.
- 2.8. The service is not affected by any of the in-year reductions in mainstream local authority grants, but Government funding has been withdrawn from the Find Your Talent programmes and a moratorium on new play scheme capital commitments has been imposed by the Department of Education. The reduced funding is however expected to be sufficient to cover commitments incurred in 2010/11.

### **Environment**

- 2.9. The main impact of in-year grant reductions is on the capital programme and the Executive Member for Environment agreed a revised capital programme in July, allowing for grant reductions of £4m while protecting the funding already identified for Operation Restore. Reductions in road safety revenue grant of £0.5m have also been incurred, but adjustments have been made to the budgets for Village 30 enforcement and advertising and to the Safer Roads Partnership budget. The latest budget

monitoring report forecasts that revenue spending will be contained within the cash limit.

**Policy and Resources**

- 2.10. The Executive Member for Policy and Resources considered an initial 2010/11 budget monitoring report in July, which indicated that spending was expected to be contained within the cash limit.
- 2.11. The in-year grant reductions mainly affected the Area Based Grant for Safer and Stronger Communities, which was reduced by £83,000. The County Council has established the County Strategy Group for Crime and Disorder, a statutory partnership, which coordinates community safety activities at county level and supports the work of the statutory community safety partnerships in each of the district council areas. After allowing for the grant reduction of £83,000, and taking account of grant carried forward from 2009/10 of £144,000, the County Strategy Group has prepared a budget of £1.309m to support its development and implementation plan, allocated as follows:

	<b>£000</b>
Additional Domestic abuse services	218
Alcohol 10 point plan	20
Managing public crime information systems (CADDIE)	17
Wessex Youth offending youth inclusion and support programme	91
Support to victims of burglary by the Bobby Trust	9
Strategic review of Community Safety Services	32
Drug intervention programmes	73
Junior Communities Teams	15
Grants to district Community Safety Partnerships:	
Prolific and priority offender schemes	201
Local flexibilities grant	633
	1,309

**Corporate budget monitoring**

- 2.12. 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 budgets**

- 2.13. Appendix 1 summarises the first quarter'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 £13.5m (3.2%), higher than budgeted by £9.0m on Adult Services, £4.4m on Children's Services (net of a saving of £0.3m with the Schools Block), and £0.1m on the Coroner's Service. It is not uncommon for the first quarter's monitoring to reveal projected overspendings on demand led budgets, enabling management action to manage the overall service budget to be planned in good time. There are also offsetting savings on non demand led budgets, estimated at £3.4m for Adult Services. At the equivalent stage in 2009/10, the projected overspending was £8.4m (2.2%), so that the scale of management action required in 2010/11 to contain spending within cash limits is likely to be proportionally greater.

### **Employee budgets**

- 2.14. Overall spending against employee budgets excluding employee costs relating to schools and business units, is projected to be in line with the budget, at £359.2m compared with a budget of £359.3m. The overall reported non-schools workforce, inclusive of business unit employees, fell by about 2.2% between 31 March 2010 and 30 June 2010, to 11,182 FTE's at 30 June 2010. However this reduction partly reflects improvements to the methodology for counting FTEs and on a like-for-like basis the reduction is 0.4%. The recruitment controls introduced on 1 September can be expected to result in savings against employee budgets over the remainder of the year.

### **Savings plans**

- 2.15. 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 carry forward of underspendings, the use of reserves or transfers from capital, which do not require monitoring.
- 2.16. Good progress has been made in implementing plans to achieve the budgeted savings, with savings of £8.7m assessed as having been already achieved and with firm evidence of likely achievement being available for £18.1m (85%) of the planned savings, thus limiting the extent to which it may be necessary to identify alternative savings to meet budget targets. From the second quarter onwards it will also be critical to monitor progress in implementing further savings required as a result of the in-year grant reductions.

### **Financial Health indicators**

- 2.17. 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 quarter.

- 2.18. None of the indicators are currently outside or expected to be outside the target range. The reductions that have been made to Government supported capital programmes as part of the in-year grant reductions and the policy of reviewing new spending commitments may have an impact on the capital programme indicators in the current year.
- 2.19. No changes have been made during the quarter to the County Council's lending list agreed in accordance with the annual investment strategy. In accordance with the revised Treasury Management Code of Practice a half-yearly report will be submitted to the next meeting of the Cabinet prior to submission to the County Council. One technical amendment has been made to the prudential indicator data approved by the County Council in February to recognise the County Council's share of the liability relating to the investment in the Waste Management contract as part of its debt.

**Non cash-limited budgets**

- 2.20. There are a number of budgets which are outside service cash limits, the most significant of which are as follows:

	£m
Capital financing charges/interest on balances	42.5
Central contingency:	
Waste management contract	0.8
Interest rates	1.5
Corporate efficiency savings to be allocated – mileage and procurement	-1.7
Children looked after	1.0
Salt Bins	0.6

**Capital financing/interest on balances**

- 2.21. Capital financing budgets for 2010/11 were based on short-term interest rates of 0.5%, with provision made within the central contingency for the possibility that short-term rates might start to move upwards during 2010/11. Capital financing charges in 2010/11 were estimated on the basis of the capital financing plan agreed by the Cabinet in February 2010, which envisaged new borrowing for capital purposes of £61.4m in 2009/10. As a result of lower than planned capital expenditure in

2009/10, actual expenditure financed by borrowing was lower than forecast at £37.7m. The effect of lower borrowing in 2009/10 will be to reduce capital financing costs in 2010/11 by about £1.7m.

### Central contingency

- 2.22. A contingency of £0.8m was included within the budget to cover the impact of waste management contract price increases, changes to landfill tax rates and to volumes of waste occurring after November 2009. The contingency made allowance for waste volumes to increase by 1.2% on the previous year, following two years of falling waste volumes. However waste volumes fell by 0.4% in the first quarter of 2010/11 compared with the corresponding period in 2009/10, so that the trend in waste volumes has continued to be favourable so far in 2010/11.
- 2.23. Allowance was made within the contingency for short-term interest rates to increase to an average of 1% in 2010/11 but so far short term rates have not increased above the 0.5% base rate to which they fell in March 2009. If rates were to continue at the current level for the remainder of 2010/11, there would be a potential saving of £1.5m in the current financial year.
- 2.24. The majority of the £8.6m of corporate efficiency savings being achieved in advance in 2010/11 have already been built into 2010/11 service cash limits. However at the time the budget was approved, the proposals for reducing car mileage rates had not been finalised and the basis for allocating projected procurement savings between services was uncertain, so that those savings were built into the contingency to be allocated to services during the course of the year. The car mileage savings in 2010/11 reflect the decision to delay the introduction of the new Scheme until 1 May 2010, while the procurement savings are slightly higher in 2010/11 and lower in 2011/12 than originally assumed. The proposed allocation of the savings, reflecting the incidence of the potential savings, is as follows:

	<b>Car Mileage £000</b>	<b>Procurement £000</b>	<b>Total £000</b>
Adult Services	207	480	687
Children's Services	350	82	432
Culture, Communities and Rural Affairs	45	15	60
Environment	94	39	133
Policy and Resources	221	311	532
Waste Contract Contingency	-	15	15
<b>Total</b>	<b>917</b>	<b>942</b>	<b>1,859</b>

- 2.25. Contingency provision was also included within the budget in case the assumptions made in the Children's Services budget about the trend in numbers of looked after children proved to be optimistic. As indicated in paragraph 2.5 of the report, the number of looked after children is currently running at a higher level both than budgeted and allowed for in the contingency.
- 2.26. Allowance of £0.6m was also made within the contingency to support a new initiative to provide 4,000 additional grit bins to support local communities in adverse weather conditions. The Cabinet in July agreed a revised proposal that would involve the consolidation of funding of £0.5m set aside for salt barns with this contingency sum, for an overall programme involving increased provision of salt barns and salt bins.

### **3. Conclusion**

- 3.1. The budget monitoring data for the first quarter indicates that the demand trends facing both Children's and Adult Services in 2010/11 are challenging and have been overlaid, particularly for Children's Services, by in year Government grant reductions. In view of the anticipated more significant reductions in Government grant in 2011/12 it is vital to secure a solid base during 2010/11 on which to plan for the spending reductions in 2011/12 and management action is being taken to further this objective.

### **4. Recommendations**

- 4.1. That the action being taken to achieve planned savings and deal with in-year grant reductions and other budget pressures be supported.
- 4.2. That the virement of £2.05m within the Adult Services budget outlined in paragraph 2.2 be agreed.
- 4.3. That the allocation of the Safer and Stronger Communities programme, as set out in paragraph 2.11, be agreed.
- 4.4. That the allocation of mileage and procurement savings to services, as set out in paragraph 2.24, be agreed.

**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.)

Document

Location

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.

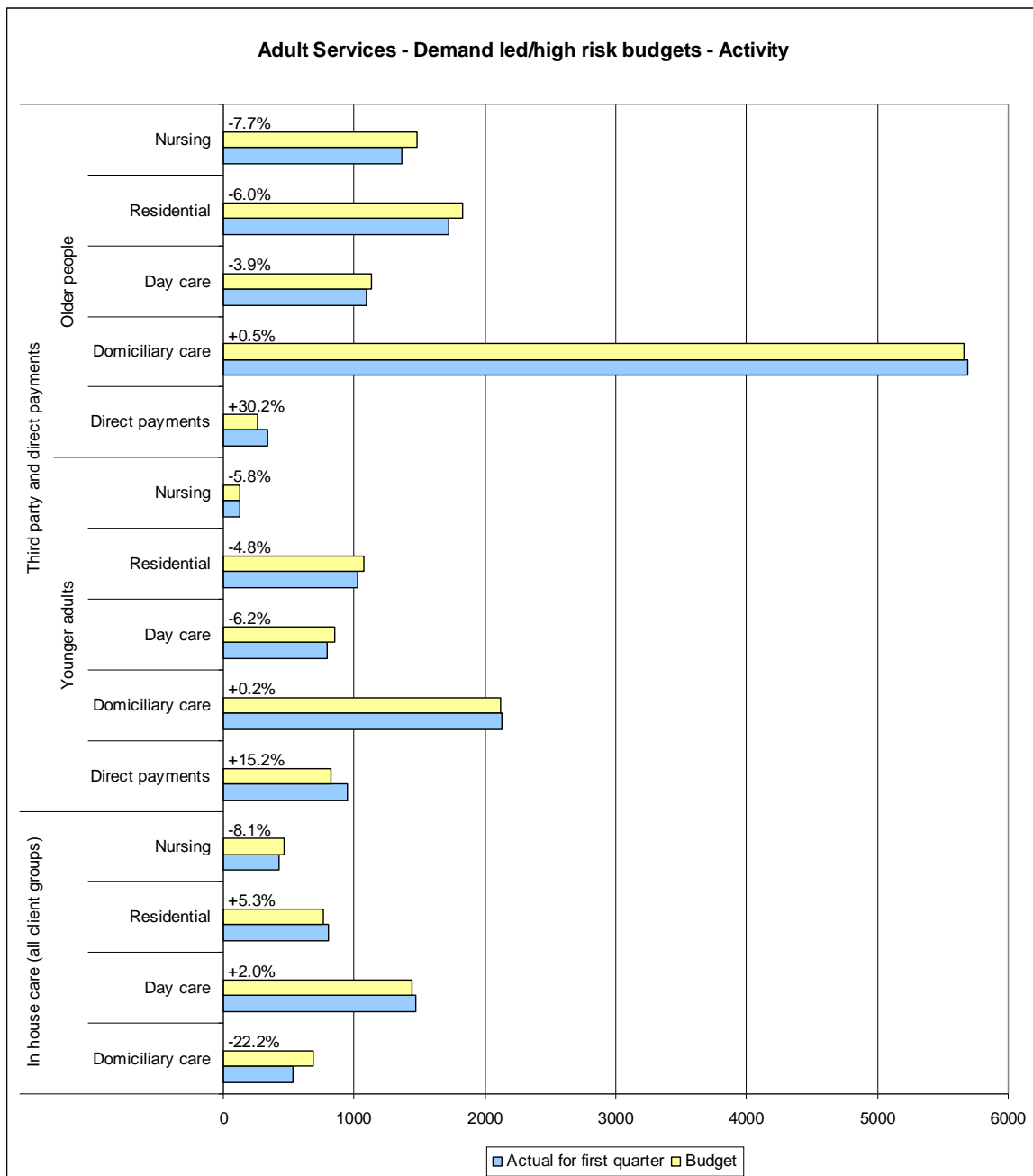
### **3. Climate Change:**

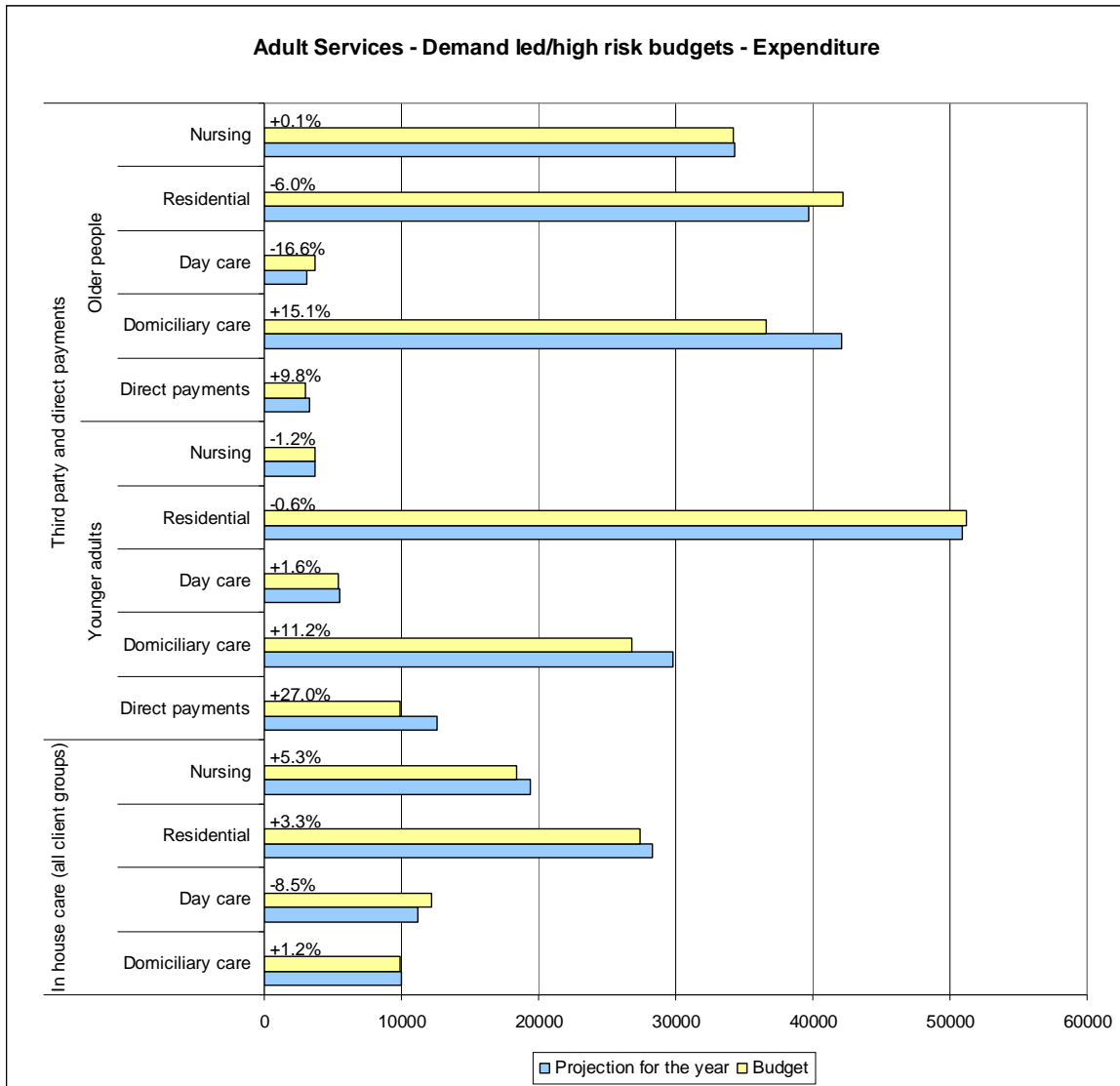
- a) How does what is being proposed impact on our carbon footprint / energy consumption?

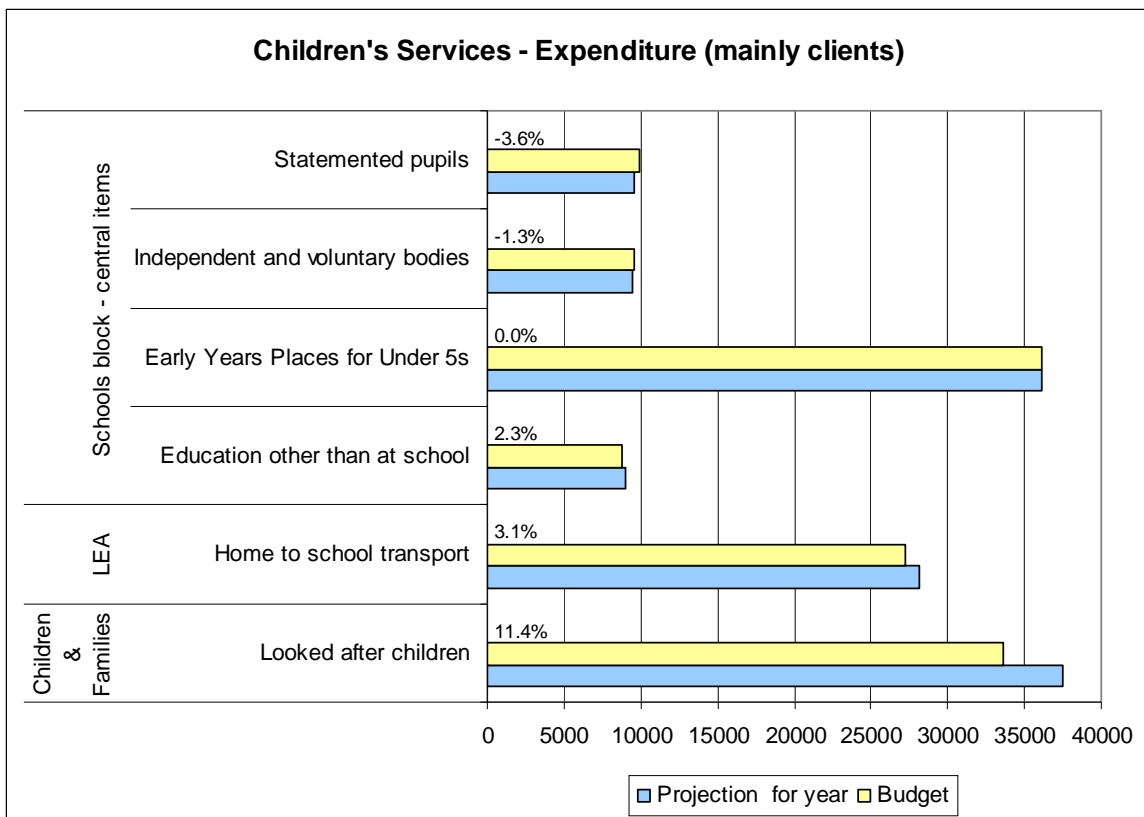
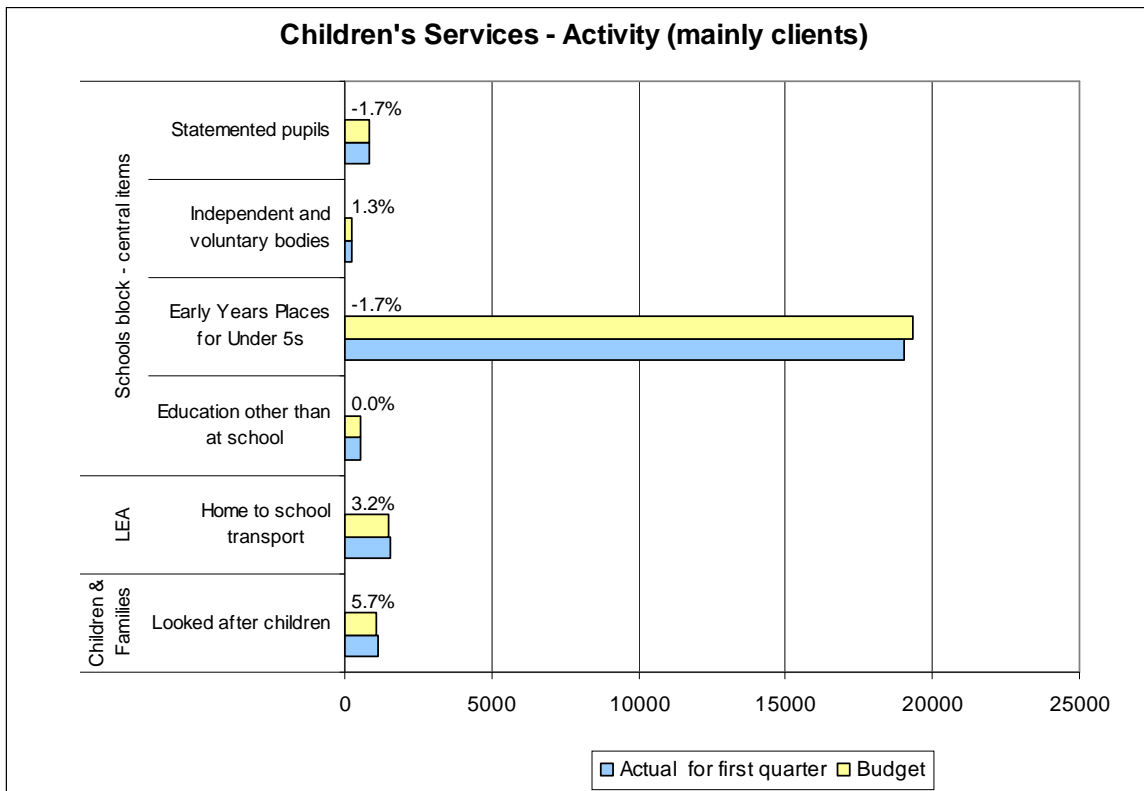
No specific proposals

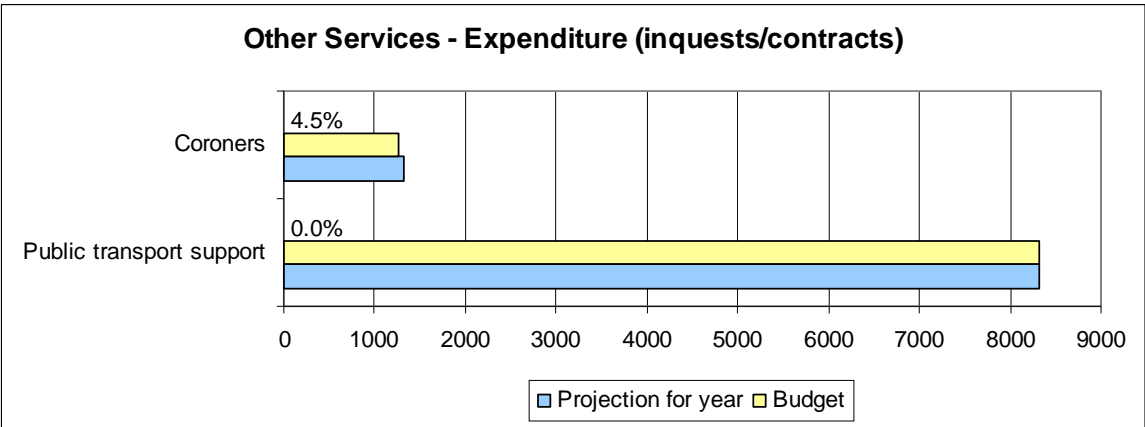
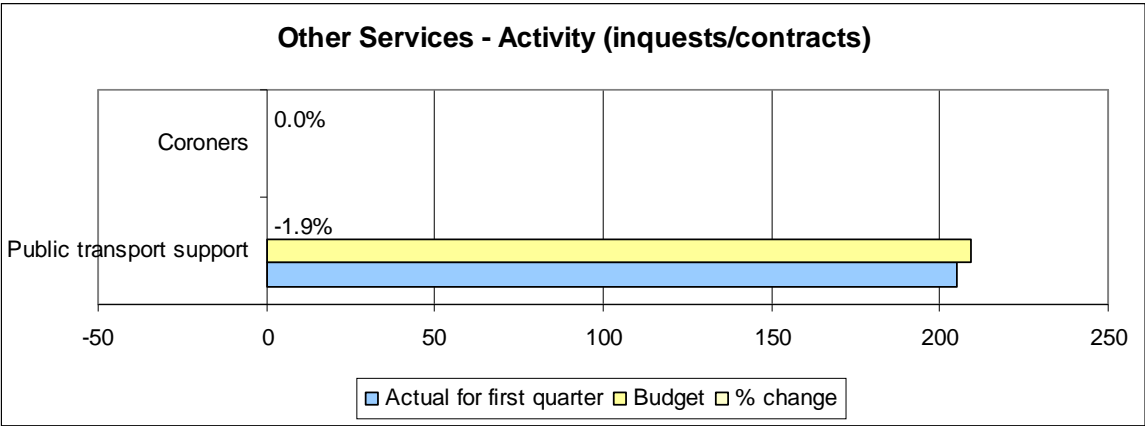
- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

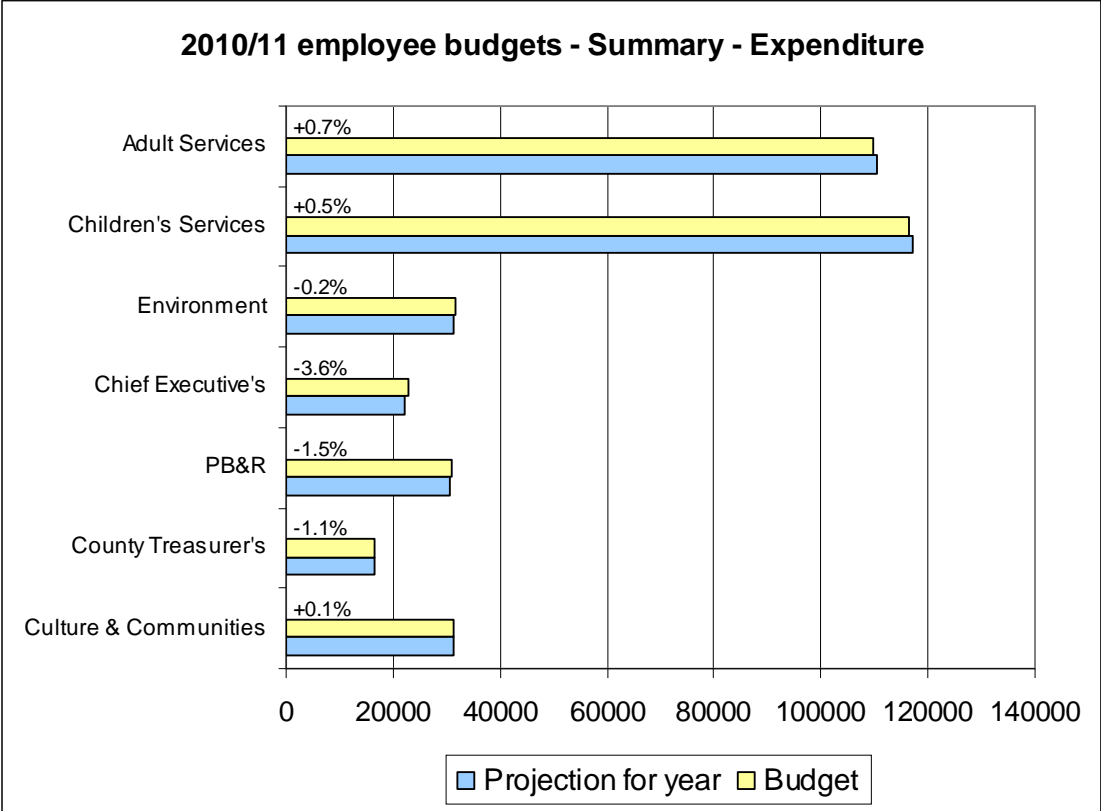
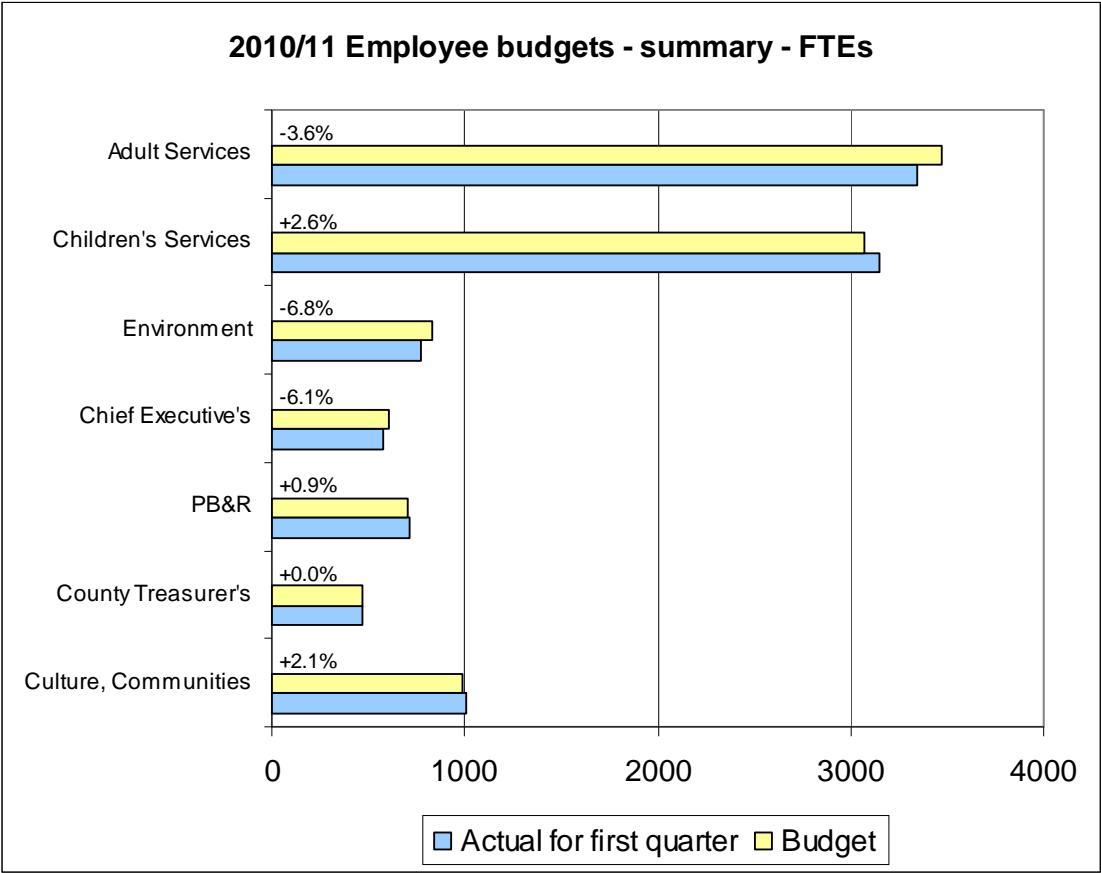
No specific proposals affecting adaptation to climate change.











**Financial Health Indicators**

	<b>2010/11 Target</b>	<b>2010/11 Projection</b>	
<b>Variance from budget</b>			
Net service spending (% variation)	1.0	1.0	
Overall spending met from formula grant, council tax and balances (% 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 requirements at 31 March 2011	743.3	743.3	
Maximum level of external debt:			
£m	772	556.0	First quarter
As % of authorised limit	100.0	72.0	First quarter
Upper limit on:			
Fixed rate borrowing	412.0	372.0	First quarter
Variable rate borrowing	420.0	184.0	First 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	9.8	First quarter
% of outstanding debt more than 6 months old	20.0	14.8	First quarter
% of outstanding debt under 60 days old	60.0	63.3	First quarter