

SCRUTINY COMMISSION - 27TH JANUARY 2003

REPORT OF THE DIRECTOR OF RESOURCES

REVISED ESTIMATE 2002/03 AND REVENUE BUDGET 2003/04

Purpose of Report

1. This report provides information on the revised estimate for 2002/03 and the proposed revenue budget for 2003/04.

Background

2. The Director of Resources presented background information to the budget and Revenue Support Grant settlement to Members on the 16th December. This presentation highlighted the changes that have been made to the system for allocating resources to Local Government and the impact on Leicestershire.
3. Reports setting out the 2002/03 budget position and proposed 2003/4 budget are being presented to the relevant Scrutiny Committees. The results of this process will be considered by this Scrutiny Commission. Cabinet will consider the results of the Scrutiny process on the 4th February before recommending a budget to the County Council on 19th February 2003.

Revised Estimate 2002/03

4. The report to Resources Scrutiny Committee on 24th October 2002 explained the different status of the revised estimate for the 2002/03 financial year. The revised estimate is now defined as a forecast of the level of net expenditure at the year end rather than a formal amendment to the approved budget.
5. The Cabinet has been kept informed of the budget position with regular budget monitoring reports
6. The revised estimate is compared with the updated budget to determine if there is an under or overspend. The updated budget is the original budget, updated for the inflation contingency, approved changes and carry forwards. Table one below shows that carry forwards from 2001/02 are the only change that impacts on total available resources.

Table One – Changes made to original budgets

	<u>£000</u>
Total spending (original budget)	446,658
Carry forwards from 2002/03	<u>989</u>
Total spending (updated budget)	<u>447,647</u>

7. The table below shows the anticipated year end expenditure (revised estimate) against the updated budget.

Table Two – Summary 2002/03 Budget Position

	<u>Updated Budget</u> <u>£000</u>	<u>Revised Estimate</u> <u>£000</u>	<u>(Under)/ Overspend</u> <u>£000</u>
Total Services	407,630	407,456	(174)
Central Items	<u>40,017</u>	<u>40,285</u>	<u>268</u>
TOTAL	<u>447,647</u>	<u>447,741</u>	<u>94</u>

8. Table two above indicates that there will be a net overspend of £94,000 at the year end.
9. The summary position is set out in Appendix A. The revised estimate is shown in the post reorganisation format and includes the full year impact of the reorganisation transfers. Members should note that there may be further minor reorganisation transfers.
10. The most significant variances are:-

Education (£390,000 overspend)

- A net overspend of £0.8m is projected on the SEN statementing budget, arising from increased numbers of statements both in 2001-02 and in the current year. The overspend is net of a £300,000 underspend on out-county placements/recoupment. The introduction of the new SEN code of practice and the policy to place out-county pupils in mainstream schools has contributed to the increase in the current year.
- The overspends are offset by underspends on other budgets, particularly mainstream transport (£300,000) and a delay in implementing some growth mainly common admissions policy and early years provision.

Social Services (£210,000 underspend)

- Underspends of £750,000 have been identified. The main components are:-
 - ◆ Net underspending on Residential Care (£0.13m);
 - ◆ Lower than expected growth in demand for Home Care (£0.28m); and
 - ◆ Continuing difficulties in recruiting specialist staff (£0.33m).
- These underspends are partly offset by excess inflation costs of £0.54m, primarily resulting from Home Care retendering.

Highways and Transport (£478,000 underspend)

- The underspend is principally due to underspending of £525,000 on concessionary travel as a result of the revision to the scheme in 2001/02. The full budget provision for the previous scheme was retained in the current budget to meet the potential use of the token backlog but some of the tokens were used in 2001/02 resulting in an overspending in that year. This underspend is increased by higher than forecast statutory undertakings income (£100,000).
- The underspend is partially offset by a forecast overspend on bus contracts of £120,000. This is due to increased prices and contractual changes, in part due to the revised service commitments following the recent Best Value review within public transport.

Waste Disposal (£164,000 underspend)

- The underspend is principally due to the government's allocation of £375,000 specific grant to meet the disposal costs of fridges and freezers. The forecast cost of disposal is anticipated to be £600,000. This will show a £75,000 saving on the £675,000 budget for this year (£375,000 grant and £300,000 growth). This underspend is increased by savings on disposal costs (£180,000) as tonnage is lower than anticipated and higher than forecast trade waste income (£25,000).
- The underspend is partially offset by a £120,000 overspend on recycling and household waste sites due to increased haulage costs.

Community Services (£19,000 overspend)

- The overspend is principally due to legal costs for a public enquiry into a mineral planning application (£50,000) as well as a reduction in environmental planning income. Both these overspends were previously contained within the budget for Planning and Transportation.
- The underspend is partially offset by two factors. Firstly, an underspend of £45,000 is forecast on Trading Standards as a result of difficulties recruiting new posts funded by growth and other posts falling vacant during the year. Secondly museums are anticipating an underspend of £24,000.

Chief Executives (£285,000 overspend)

- This reflects the decision to withdraw from the contract with the Learning and Skills Council for Youth Training. The overspend is due to transitional costs and loss of income from the phased withdrawal.

Resources (£16,000 underspend)

- The main underspend on ICT is principally due to higher than anticipated income from network charges, particularly for the use of the internet. This is increased by slippage on 2002/03 growth for itinerant sites. These underspends are partially offset by a loss of property income as a result of lower levels of work for external organisations.

Central Items (£268,000 overspend)

- Income from bank and other interest is £100,000 more than expected, as cash balances are higher than anticipated.
- The contribution to the Combined Fire Authority is expected to increase by £155,000 principally as a result of higher than anticipated retirements. The year end position will depend on the outcome to the current industrial dispute.
- Capital financing costs are £300,000 higher, mainly due to a higher than anticipated transportation capital expenditure in 2001/02 and the commutation of Magistrates Courts debt.

11. The impact on the County Fund is set out in table three below.

Table Three – Forecast County Fund Balance at 31st March 2003

	<u>£000</u>
Free balance at 1 st April 2002	6,180
Add approved carry forwards (now included in revised estimate)	989
Adjusted free balance	7,169
Less withdrawal - Carry Forward	(989)
Less withdrawal - Budget	(2,181)
Estimated free balance at 31 st March 2003	3,999

Revenue Budget 2003/04

Revenue Support Grant Settlement

12. A report to the Cabinet in September and Resources Scrutiny in August, considered the County Council's response to the proposed changes to the revenue support grant system.
13. The government has now had the opportunity to consider all responses and on 5th December it informed the County Council of its proposed changes to the system. These were presented to Members on 16th December.
14. The government has introduced Formula Spending Shares (FSS) to replace the previous system of Standard Spending Assessments (SSA). As a result of this methodology change, it is not appropriate to compare FSS to expenditure levels as the government has made it clear that the aim of the FSS is only to allocate resources to authorities. It is not intended to be an assessment of required spending levels.

15. The actual increase in central government funding is 6.6%. The increase would have been significantly higher if the government had not introduced a new system of resource equalisation. The grant system now takes account of differences in council tax resources at the level of actual spend, rather than at the level of expenditure provided for in the Government settlement. Authorities such as the County Council lose out from this change as this has the impact of shifting resources from high tax base to low tax base authorities.
16. Overall, prior to resource equalisation the formula provided increases in funding for Social Services, Highways and Environmental and Cultural Services that were higher than the average for other counties. The increase in Education funding is commented on below.

Proposed Budget

17. A summary proposed budget is set out in detail in Appendix B.

Volume Standstill Budget and Central Items 2003/04

18. A volume standstill budget has been produced for 2003/04 which provides a neutral starting point for the production of the budget. The volume standstill budget updates the 2002/03 original budget for:
- Inflation to estimated 2003/04 outturn prices;
 - Full year effect of growth and savings arising from previous budget decisions;
 - Transfers of responsibilities, and
 - Other known changes.
19. A summary table is shown below:-

	<u>£000</u>
Updated Original Budget 2002/03 (excluding Schools and Central items)	208,087
Add - Inflation	10,968
- Full Year effect of Growth	2,426
Less - Full Year effect of Savings	(1,119)
- Other changes	<u>(1,498)</u>
Volume Standstill Budget 2003/04	<u>218,864</u>

Inflation

20. The volume standstill budgets include £11.0m for the estimated effects of inflation (excluding schools). Following a change in the budget process to convert detailed volume standstill budgets from a November price base to forecast outturn, inflation has been calculated in two stages:
- 1) Actual inflation to November 2002 prices has been included; and
 - 2) The resulting budgets have been further updated to include estimated inflation from November 2002 to outturn

Previously stage two was carried out centrally and a separate inflation contingency provision was made in the budget. The contingency has effectively been included in detailed budgets and consequently there is not a separate contingency provision in the 2003/04 budget.

21. The major variations between 2002/03 contingency assumptions and actual inflation to November 2002 prices are set out below:-

- Pay - 4% actual; 3% contingency £ 1.0m
- Social Services Independent Sector
Retendering – 13% actual; 2.5% contingency £ 1.0m
- Highways Structural Maintenance
- 6.2% actual; 2.5% contingency £ 0.4m
- Buildings Repair and Maintenance
- 5.3% actual; 2.5% contingency £ 0.1m

22. The 2003/04 budget includes inflation from November 2002 prices to 2003-04 outturn prices on the following basis:

- Pay 3.5% £ 3.3m
- Running Costs 2% £ 3.9m
- Income 3% £ -3.2m

23. Where there is additional provision to cover anticipated increases in price inflation above 2% this is contained in growth bids.

24. National Insurance and Superannuation increases are higher than the anticipated pay inflation and add the following increases to the overall respective paybill:

- National Insurance (average) 1% £0.9m
- Local Govt. Superannuation 0.6% £0.5m

25. The national insurance increase is due to the government's decision in the 2002 budget, to increase both employer and employee rates to fund improvements in the Health Service.

26. The superannuation increase reflects the 2001 triennial actuarial valuation of the pension fund. The valuation recommended that employer rates increased in 2002/03, 2003/04 and 2004/05 to meet increasing net provision liabilities.

Other Changes

27. Other key changes included in the 2003/04 volume standstill are:

- Reduction of £1.82m regarding the transfer of the budget to provide free nursing care to the NHS.
- Net increase of £2.0m arising from the full year effect of growth and savings approved as part of earlier years' budgets.
- Savings of £0.83m on the concessionary fares scheme.

- Savings of £0.16m from a decrease in the number of school days during the 2003/04 financial year.
- Increased net costs of £0.13m on Social Services budgets arising from the effects of providing care for an additional day as 2003/04 is a leap year.
- Central Items have been updated according to the latest forecasts. The £3.6m budget for the net effects of Job Evaluation includes provision for the phased cost of all staff other than schools where costs will have to be met from the schools budget.
- The contribution to the Combined Fire Authority assumes only a 4% increase in fire-fighters pay. This is significantly lower than the pay demand from the Fire Brigade Union. The pay assumption does however reflect the government's position that the pay increase should be linked to modernisation. The required contribution will depend on the outcome of the dispute. A report to Cabinet will be produced once the financial impact of any settlement is known.

Schools

28. Central government has changed the local authority funding formula for all services. Central government funding for Education in Leicestershire is based on an increase of 3.2% per pupil. This is the minimum increase under DfES phasing arrangements. If it were not for the system of 'floors' and 'ceilings' the increase would only have been 2.9%. Following the introduction of the new funding system Leicestershire is the lowest funded LEA per pupil in England. These figures exclude the effect of changes in specific grants and additional funding for a large increase in teachers pension contributions.
29. The new funding system establishes two funding blocks; Schools and LEA. The government expects all LEAs to passport the increase in resources to the schools block. This message has been reinforced in the various statements and guidance issued by government. The government has advised that failure to comply could result in action by the Secretary of State under the 2002 Education Act.
30. The proposed County Council's budget complies with the guidance and passports the increase in FSS into the schools block. For schools delegated budgets this means a cash increase of £30.9m at outturn prices (16.4%). The assumption that the majority of the SEN statementing budget will be delegated to schools accounts for £10.1m (5.4%) of the increase while the loss of specific grants explains £7.5m (4%).
31. This cash increase after the loss of specific grants and SEN delegation is £13.3m (7.1%). This will need to fund the teachers pay award, the increase in employers pension contributions for teaching staff, job evaluation and the growth in pupil numbers.

Growth and Savings

32. The growth of £11.8m is concentrated in four main areas, Social Services (£4.1m), Waste Disposal (£1.0m), Education Other (£3.4m) and Chief Executives (£1.1m). This growth is mainly required to meet service pressures (£6.2m). Growth of £5.6m for service improvements includes £2.1m to extend provision for 3 year old education and provision to meet the commitments within both the medium term strategy and the proposed public service agreement with the government. Growth required to fund the PSA improvements will be financed in 2003/4 only from PSA pump priming grant (£0.9m).
33. Reductions in expenditure of £3.5m are a combination of transferring expenditure to capital, efficiency and other savings and additional income.
34. Appendix C sets out growth and savings in detail. The key features are;
- Growth for service pressures is mainly concentrated within Social Services. There are significant demand and cost pressures for home care, residential care and children. In addition an extra £0.55m is required to meet the cost of excess inflation for contracts with the independent sector. The cost of Waste Disposal also continues to rise. The main drivers this year are landfill tax (£300,000), fridges (£150,000) and increased disposal and haulage costs (£300,000). The key pressure within Education (non schools) is SEN and mainstream transportation costs.
 - Growth for service improvements is concentrated within Education Other and Social Services. In Education Other the major area of growth is £2.1m to extend provision of three year nursery education. The main improvements in Social Services are to fund a real terms increase in residential and nursing fees. Service improvements growth within Chief Executives is mainly allocated to Crime reduction initiatives, including improvements to facilities for young people, and to progress the "Better Access to Better Services Initiative". The main growth area in Highways, Transportation and Waste is associated with implementing the outcome of both the Highways Network Management Review and Public Transport Review.
 - An amount of £9.8m has been allocated to reflect the transfer of specific grants into mainstream funding within both Social Services and Education (non schools).
 - Savings and additional income total £3.5m. The largest items are: transfer of funding for footway renewals from revenue to capital (£1.1m), additional Home Care income (£0.79m) principally as result the introduction of fairer charging and additional residential income (£0.3m) as a result of the introduction of the pensioners credit. In addition efficiency savings of nearly £0.6m have been made across the authority.

Funding

35. The funding set out in Appendix B is based on the Revenue Support Grant consultation and is therefore subject to amendment. Final settlement is expected in early February. Given this caveat the main features of funding are:-

- The proposed budget is based on a council tax increase of 10.3%. This principally reflects the impact of the new funding system. Our calculations indicate that an increase of 10% is implied in order to spend the increase in Formula Spending Share for services.
- Central Government Support of £318.3m (RSG and NNDR) is increased by 6.6% over 2002/03.
- The £1m contribution for the net surplus on District Council collection funds represents anticipated higher than budgeted council tax collection by District Councils. Final figures have been requested from the District Councils.
- A contribution of £0.85m from the county fund is included, leaving a county fund balance of £3.15m at the end of 2003/04.

Recommendation

Members are asked to consider the report and any response they may wish to make to Cabinet.

Equal Opportunities Implications

No specific and direct implications.

Background Papers

Revenue Budget 2002/03 - Report to Cabinet on February 2002.

Circulation Under Sensitive Issues Procedure

None.

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