

Finance Agreement

Definitions and Interpretation

“Agreed Benefits”

Savings in relation to this Agreement which both Councils have agreed to share and which have been approved by the Board

“Aligned Budgets”

The agreed budgets of the Councils subject to the sharing arrangement and which shall be accumulated for the purposes of applying the share formula.

“Agreed Costs”

Costs and disbursements in relation to this Agreement, the Programme or any of its Projects which both Councils have agreed to bear and which have been approved by the Board. These shall be in accordance with the principles set out below.

“Share Formula”

The agreed formula in determining the relevant share to each Council of net benefits or costs from Aligned Budgets.

“The Board”

All references to “the board” shall mean the shared service project board established under the legal agreement

1. Open Book Accounting

The Councils agree to share information on open book principles to enable the effective working of the Pooled Services.

2. Principles of Agreed Costs

Agreed Costs refer to those contained in and relevant to the approved ‘Shared Services Business Case’ of 12th October 2011. For the avoidance of doubt they include staff and direct service costs of running Council Tax, NNDR and Housing Benefits but exclude fraud, central contract centre staff, accommodation, corporate management costs, democratic costs, depreciation, capital financing costs and central support functions.

3. Principles of Aligned (shared) Budgets

Budgets shall be organised in a consistent manner across both Councils in a format that will enable costs under the Agreement to be separately identified and the share formula applied. For the purposes of applying budget monitoring and control each Council will account for its contribution into the maintained shared budgets within respective financial ledgers. This will provide the necessary link and control into the individual budgets used in setting the annual Council Tax charge.

Table 2 of this agreement defines the initial scope of the budgets and contributions from each Council. These establish the start up contributions and basis of forming the Aligned (shared) Budgets under this agreement.

Financial controls and procedures shall be applied by each Council to expenditure incurred under this agreement in accordance with individually approved financial procedures. This will include necessary agreed virements for the Aligned budgets to operate.

Any cost re-apportionments made under this arrangement e.g. Support costs, shall be applied on an agreed and consistent basis.

The shared services budgets shall be considered annually by the board prior to the commencement of each financial year and where necessary recommendations made to each Council party to this agreement.

Due to the transitional nature of service delivery the budgets to be accumulated under this Agreement for year 1 shall represent a full 12 months activity which avoids the needs for unnecessary complications through apportionments. This also reflects the transitional nature of year 1 implementation.

Ultimate responsibility for financial decision making lies within each Council but within the spirit of the shared services changes to 'Aligned Budgets' should only be made under consultation with the project board.

4. Share Formula

For each year of this Agreement, agreed costs shall be shared between the Councils on the following formula applied to the combined Aligned Budgets:

Stage 1: Excluded costs

The following agreed costs shall firstly be deducted from the costs subject to the sharing arrangements or met through an equivalent budget contribution into Aligned Budgets'.

North East Lincolnshire:

Recovery of sundry debts – Being the cost of the 'Sundry Debts Recovery officer' plus oncosts and other direct employment costs.

Administration of free school meals. – Being the agreed schedule of 'School Meals Recoverable costs'

Stage 2: Total costs (tc)

Shall be established by combining the agreed costs incurred by each Council for each of the shared functions of Council Tax, NNDR and Housing Benefits Administration. Support costs shall be apportioned on an agreed and consistent basis across these functions. These shall form the basis of:

NNDRtc = Combined total costs of NNDR services

CTtc = Combined total costs of Council Tax services

HBtc = Combined total costs of Housing Benefits Administration Stage 3:

Share apportionments (sa):

The formula applied to total costs shall be made up of the following performance measures:

NNDRsa = The percentage applicable to total NNDR costs for each Council

CTsa = The percentage applicable to total Council Tax costs

HBsa = The percentage applicable to total Housing benefit costs.

Applicable percentages shall be calculated by reference to the performance data contained in table 1 within this schedule.

Share apportionments shall be based on activity levels from the prior financial year ended 31st March to provide both parties a degree of financial certainty but these shall be subject to amendment where one or more of the trigger criteria are breached.

Stage 4: Relevant share

The Councils shall share agreed costs and savings on a phased basis. Part (a) shall apply until the relevant targets are delivered, thereafter the share arrangements shall revert to Part (b).

Part (a)

The Councils shall share the agreed costs so that each Council delivers savings in the proportions contained in the original business case dated 12th October 2011. These saving proportions being:

North Lincolnshire 46%

North East Lincolnshire 54%

And this percentage split shall be applied until the criteria i) and ii) are satisfied.

Savings shall be calculated with reference to the starting base budget contributions contained in table 2. Variations to the base shall be by the joint agreement by the Board.

These arrangements shall apply until both the following targets are satisfied:

- i) The cumulative savings of £1.272m are achieved, and
- ii) The unit cost per activity is aligned between both Councils

The above share calculations for year 1 of the agreement shall be adjusted to include costs of staff redundancy and pension strain accounted for by both Councils prior to formal approval of this agreement. Table 3 illustrates how this arrangement will work under part (a)

Thereafter, Part (b) shall apply:

Part (b)

Total annual attributable costs payable by each Council under this Agreement shall be calculated by applying the following annual formula:

$$(\text{NDR}_{tc} \times \text{NDR}_{sa}) + (\text{CT}_{tc} \times \text{CT}_{sa}) + (\text{HB}_{tc} \times \text{HB}_{sa})$$

Stage 5: Settlement terms p.a.

Each Council's share of costs under this agreement shall be compared to the actual total costs paid by each Council under each of the Aligned (shared) budgets and settlements made in the following financial year after the annual audit of accounts. Settlements shall be annual, not carry interest adjustments, and only take place where the cumulative value is in excess of £10,000 (uplifted annually by RPI movements). Except upon termination of this agreement where settlement shall in any event be made within 6 months following termination.

5. Agreed Variations

Variations to defined costs, budget format or share formula is permissible under this arrangement subject the approval of the Board.

6. Change Control

To deal with unplanned consequences from the sharing arrangements which may have a material impact on either Council a set of trigger points shall be applied. Where triggered these may be the basis for discussions and potential actions by the Board through a change control mechanism.

These shall apply where:

1. A change in law
2. A change in volumes of more than 5% from the baseline illustrated in table 1
3. A change in outcome by either or both Councils leading to revised priorities or eligibility in one or both Councils.
4. A proposed change required by either Council on account of a reduction in funding from central government.

Where a change control is invoked a full assessment of its detail, impact and financial consequences should be prepared for consideration by the board within 1 month of its submission.

7. Reporting

The Board shall consider on a regular basis key financial aspects of the projects performance which shall include: Shared costs vs budgets, Share formula trends, activity unit costs, sensitivities and trigger points. The board, following consideration, may make recommendations to respective Councils on actions to be taken.

TABLE 1 – SHARE APPORTIONMENT CALCULATOR

SHARED SERVICE ACTIVITY LEVELS 2011/12

COUNCIL TAX

	NELC	NLC	TOTAL	% split NELC	% split NLC
Bills issued	166395	151397	317792	52.36%	47.64%
Reminders issued	29653	24494	54147	54.76%	45.24%
Summons issued	11651	8682	20333	57.30%	42.70%
Liability orders obtained	8399	6296	14695	57.16%	42.84%
Weighted Average				53.10%	46.90%

NNDR

	NELC	NLC	TOTAL	% split NELC	% split NLC
Bills issued	15268	10674	25942	58.85%	41.15%
Reminders issued	2168	1804	3972	54.58%	45.42%
Summons issued	932	600	1532	60.84%	39.16%
Liability orders obtained	628	415	1043	60.21%	39.79%
Weighted Average				58.47%	41.53%

BENEFITS

	NELC	NLC	TOTAL	% split NELC	% split NLC
NI181 (Benefits) New claims	12099	10759	22858	52.93%	47.07%
NI181 (Benefits) Change of circs	84576	65252	149828	56.45%	43.55%
Appeals	335	96	431	77.73%	22.27%
Reconsiderations	1104	411	1515	72.87%	27.13%
Weighted Average				56.18%	43.82%

SUMMARY AND COSTS

	NELC	NLC	TOTAL	% split NELC	% split NLC
COUNCIL TAX	942,347	832,330	1,774,677	53.10%	46.90%
NNDR	236,783	168,188	404,971	58.47%	41.53%
BENEFITS	1,279,660	1,086,987	2,366,648	56.18%	43.82%
TOTAL	2,458,790	2,087,506	4,546,296		
Overall Average	54.1%	45.9%			

TABLE 2 – 2012/13 INITIAL BASE BUDGET CONTRIBUTIONS AND ALIGNED SHARED SERVICES BUDGETS

Initial base Council budgets.

	NELC (£)	NLC (£)	TOTAL (£)
Staff Costs	1,946,800	1,998,990	3,945,790
Other Employee Costs	17,400	5,370	22,770
Premises Costs	0	1,160	1,160
Transport Costs	24,300	19,740	44,040
Supplies & Services Costs	432,000	307,140	739,140
Third Party Payments		0	0
Internal Charges	0	95,420	95,420
Income	0		0
Net Budget	2,420,500	2,427,820	4,848,320

Budget Contributions based on approved budgets as at September 2012 inclusive of relevant authority virements and excluding target savings and adjustments for sundry debts and free school meals.

Aligned Shared service budgets year 1 2012/13 (After savings delivery)

	NELC (£)	NLC (£)	TOTAL (£)
Staff Costs	1,814,876	1,873,870	3,688,746
Other Employee Costs	15,100	5,260	20,360
Premises Costs	0	1,090	1,090
Transport Costs	14,300	17,560	31,860
Supplies & Services Costs	421,900	288,510	710,410
Third Party Payments	0		0
Internal Charges	0	93,830	93,830
Income			0
Net Budget	2,266,176	2,280,120	4,546,296

Gross budgets prior to adjustment of: sundry debt recovery, administration of free school meals and redundancy costs paid under this agreement.

TABLE 3 - EXAMPLE YEAR 1 SHARED SERVICE FORMULA APPLICATION

	NELC (£)	NL (£)	Total (£)
2012/13 Base budget contributions			
2012/13 base budgets	2,420,500	2,427,820	4,848,320

Less: specific ring fenced budget inclusions			
Sundry debts officer	-26,331		-26,331
Free school meals	-126,100		-126,100
target savings included in base		27,130	27,130
Adjusted Base budgets (A)	2,268,069	2,454,950	4,723,019
2012/13 shared service budget costs	2,266,176	2,280,120	4,546,296
Add: Redundancy costs paid by Councils	13,098	186,835	199,933
Less: specific costs NEL			
Sundry debts officer	-26,331		-26,331
Free school meals	-126,100		-126,100
Total costs to be shared	2,126,843	2,466,955	4,593,798
Inter Council cost alignments	-71,447		-71,447
Final Gen fund Budget positions (B)	2,198,290	2,395,508	4,593,798
Total Shared Service Savings Year 1 (A-B)	69,779	59,442	129,221
Savings attributable to each council	54%	46%	