

## **CABINET ITEM COVERING SHEET PROFORMA**

**AGENDA ITEM**

**REPORT TO CABINET**

**13 JULY 2006**

**REPORT OF CORPORATE  
MANAGEMENT TEAM**

### **COUNCIL DECISION**

**Corporate - Lead Cabinet Member – Councillor Coleman**

#### **FINANCIAL POSITION UPDATE**

1. Summary

The report provides Members with information on final outturn, the medium term financial position (MTFP), current issues for the 2007/08 Revenue Support Grant settlement, and the Treasury Management Annual Report.

2. Recommendations

1. That the revised MTFP be noted.
2. That Capital slippage of (£9,249,000) and cost variation of £261,000 be approved.
3. Members note the issues for the 2007/08 Finance Settlement.
4. That the level of working balances be retained at £8,130,000 given the potential changes emanating from the reviews in local Government Finance and the potential pressures facing the Council.
5. That the Treasury Management Annual Report for 2005/06 be approved.

3. Reasons for the Recommendations/Decision(s)

To note the final 2005/06 position, approve slippage and cost variations to the capital programme, to provide members with information on the revised MTFP, for members to note the issues leading up to the 2007/08 Finance Settlement, and to approve the Treasury Management Annual Report for 2005/06.

4. Members Interests

Members (including co-opted members with voting rights) should consider whether they have a personal interest in the item as defined in the Council's code of conduct (paragraph 8) and, if so, declare the existence and nature of that interest in accordance with paragraph 9 of the code.

Where a Member regards him/herself as having a personal interest in the item, he/she must then consider whether that interest is one which a member of the

public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest (paragraph 10 of the code of conduct).

A Member with a prejudicial interest in any matter must withdraw from the room where the meeting is being held, whilst the matter is being considered; not exercise executive functions in relation to the matter and not seek improperly to influence the decision about the matter (paragraph 12 of the Code).

**Further to the above, it should be noted that any Member attending a meeting of Cabinet, Select Committee etc.; whether or not they are a member of the Cabinet or Select Committee concerned, must declare any personal interest which they have in the business being considered at the meeting, and if their interest is prejudicial, they must also leave the meeting room during consideration of the relevant item.**

**AGENDA ITEM**

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MANAGEMENT TEAM**

**COUNCIL DECISION**

**FINANCIAL POSITION UPDATE**

**SUMMARY**

The report provides Members with information on final outturn, the medium term financial position (MTFP), and raises developments in Local Government Finance which may impact on the 2007/08 Revenue Support Grant (RSG) settlement and the Treasury Management Annual Report.

**RECOMMENDATION**

1. That the revised MTFP be noted.
2. That Capital slippage of (£9,249,000) and cost variation of £261,000 be approved.
3. Members note the issues for the 2007/08 Finance Settlement.
4. That the level of working balances be retained at £8,130,000 given the potential changes emanating from the reviews in local Government Finance and the potential pressures facing the Council.
5. That the Treasury Management Annual Report for 2005/06 be approved.

**DETAIL**

**Final Accounts**

1. The Statement of Accounts for 2005/06 were approved by Audit Committee on 29 June 2006, in line with the approval timescales detailed in the Accounts and Audit Regulations 2003. A full copy of the Statement of Accounts and a Summary Statement are available in the Members library and on the Council's website for information. Our external auditors, the Audit Commission, are required to sign off the accounts by 30 September and a special meeting of the Audit Committee has been arranged towards the end of September to review the Audit Commission's findings.

## Final Outturn

2. The results for 2005/06 are structured around three “ring-fenced” financial areas:
  - a. General Fund
  - b. Housing Revenue Account
  - c. Capital

## General Fund

3. The final position on the service element of the General Fund is given below where it can be seen that the Council will be carrying forward a Managed Surplus of £3.502m into 2006/07 compared to £2.042m Managed Surplus reported to Cabinet in February 2006. The following table details the current MTFP position.

### MTFP (MS / MC) – 2006 OUTTURN

Service Reserves (MS)/MC	Approved Position at 31/03/2006 (MS) / MC's £'000's	Actual Outturn Position at 31/03/2006 (MS) / MC's £'000's	Projected Outturn Position at 31/03/2007 (MS) / MC's £'000's	Projected Outturn Position at 31/03/2008 (MS) / MC's £'000's	Projected Outturn Position at 31/03/2009 (MS) / MC's £'000's
CESC	(400)	(1,028)	0	0	0
D & NS	(1,453)	(2,130)	(1,201)	0	0
RESOURCES	(184)	(334)	(86)	(60)	0
TES	246	282	223	182	158
LAW & DEMOCRACY	(12)	(40)	(45)	0	0
POLICY & COMMUNICATIONS	(239)	(252)	(73)	0	0
<b>TOTAL</b>	<b>(2,042)</b>	<b>(3,502)</b>	<b>(1,182)</b>	<b>122</b>	<b>158</b>

Note: The above table takes account of the utilisation of Managed Surpluses within Development and Neighbourhood Services, Resources and Policy and Communications as part of the budget process.

The above figures assume that efficiency savings amounting to £6.5 million, including £3.2 million within Development and Neighbourhood Services and £2.5 million within Children, Education and Social Care, will be made within service groupings over the medium term financial plan. This savings will be required to maintain a balanced budget and cover inflationary and service pressures within our services.

4. Key movements since the last reported position are as follows:

Children, Education and Social Care

The Managed Surplus for Children, Education and Social Care has improved since December and the major changes are detailed as follows:

Learning Disability Complex Residential Care – increased overspend of £110,000 resulting from continuing high levels of demand for care packages.

Agency Placements – (£88,000) certain placements of children with special educational needs commenced later than expected and placement fees were lower than anticipated.

Foster Placement Allowances – (£113,000) saving due to changes to the payment scheme that was introduced later than anticipated.

Adoption Allowances – (£66,000) complexities within the adoption process has resulted in delays in commencements and corresponding underspends in expenditure.

Specialist Services – (£68,000) staff vacancies on the Leaving Care and Review and Development Teams and lower than expected independent living allowance payments.

Children's Homes and Disability Services – (£93,000) savings from staff vacancies.

Integrated Children's System - there were delays in implementing the system (£60,000), and the cost has been earmarked from the Managed Surplus.

Youth Offending Service – (£139,000) arising from staff vacancies and lower than anticipated service charges.

The utilisation of the Managed Surplus (£1,028,000) brought forward into 2006/07 is subject to approval by the relevant Cabinet Member. If approved it will be used to fund the procurement and implementation of the Integrated Children's System (£261,000) and the Young Persons Prevention Scheme (£207,000) which received an allocation in 2005/06 that was not fully spent and has been carried forward. Additional funding (£322,000) will be allocated to cover specialist placements for children and adults.

Development & Neighbourhood Services

The managed surplus for Development and Neighbourhood Services has also improved following the completion of the outturn exercise. This is a result of a number of savings as outlined below:

Heating, Ventilation and Electrical - (£300,000) additional contract income and savings within supplies and services on materials.

Waste Disposal – (£175,000) saving as a result of lower than expected tonnages.

Community Safety Team – (£53,000) works have to be completed on the co-location of the Community Safety Team and the Police. These works will be completed in 2006/07.

Catering – (£93,000) an improved position following the receipt of grant funding to offset the increased cost of school meal provision. The additional costs were as a result of the healthier eating initiative.

( ) denotes savings or underspends

## Resources

Human Resources – (£45,000) income generated from the Offender Learning and Skills Service (OLAS) and higher than anticipated efficiency savings.

Finance – (£46,000) additional income from supplier Retro Rebates and the cost of the new Risk Management IT System will now take place in 2006/07.

## Training and Employment Services

The service is currently operating within a recovery plan, which at the present time is not on target to be achieved. A potentially significant financial issue has now arisen during the year concerning the Learning Skills Council contract in respect of an outstanding £100,000 that refers to 2004/05. Negotiations are continuing at a national level with the LSC and it is possible that this income may be repaid to the authority.

There is also uncertainty surrounding the Job Centre Plus contracts, which could have a financial impact in 2006/07 and future years. These contracts have contributed over £750,000 each year in previous years, but the future value of these contracts to the authority will not be known until the end of the Job Centre Plus re-tendering process and it is anticipated that this process will be completed in January 2007.

The MTFP position for 2006/07 and beyond is therefore uncertain at this time and a report will be presented to Cabinet when the issues have been resolved and more information is available.

## **Single Status**

- Members are aware of the issues surrounding single status and have indeed set aside resources to accommodate this. There are however, a number of outstanding issues and the position will continue to be monitored and reported throughout the year.

## **General Fund Balances**

- The Council's current policy is to hold 3% of General Fund expenditure as balances. In the report to Cabinet in March (at the time of the 2006/07 budget setting), the forecast level of working balances was £7.8m. By outturn the position had improved to £9.543m. The major reasons for the change are as follows.

	£
Repayment of loan by Resources in respect of corporate systems replacement budget, as reported to Cabinet during 2003/04. This was repaid earlier than previously anticipated.	167,000
Local Authority Business Growth Incentive scheme grant received and utilised to fund pressures within the 2006/07 budget.	602,000

Improved position within interest received on balances

760,000

The overall position on balances can be summarised below:

	£m Final Position at 31 March 2005	% of General Fund
Corporate Working Capital	(9.543)	(4.4)
Net (MS)/MC	(3.502)	(1.6)
<b>Net Working Balances</b>	<b>(13.045)</b>	<b>(6.0)</b>

7. At the time of setting the 2006/07 budget, £1,412,000 of the working capital (including the Local Authority Business Growth Incentive Scheme grant) were utilised which leaves corporate working balances at £8,130,000.. It should be noted however that there are a number of potentially significant pressures and opportunities facing the Council from a service delivery and improvement perspective, some of which are shown below:

- Billingham Regeneration
- Computer Room
- Rising Energy Costs.
- Single Status – although we are holding the reserve outlined above, the current costs are unknown.
- SMI
- Children's Trust & Adults Green Paper

8. It is recommended that in order to manage the Councils finances on a prudent basis, at this stage balances are retained at the current level until some of the above issues become clearer. It is suggested that this be reviewed on a quarterly basis as part of the updates on the Medium Term Financial Plan.

### **Housing Revenue Account**

9. The final position of £1.15m at the 31 March, 2006, although slightly reducing from the report presented to Cabinet in February, is within agreed limits for the second successive year. Officers are working with representatives from Tristar Homes Limited to maintain our reserves at the 3% limit.

### **Capital**

10. The outturn position for 2005/06 is as follows:

	Approved Budget £000's	Outturn £000's	Variance £000's	Variances approved by Council	Movement
Children, Education and Social Care	23,568	20,752	(2,816)	(2,805)	(11)
Development and Neighbourhood Services	49,126	43,299	(5,827)	(418)	(5,409)
Resources	652	307	(345)	(224)	(121)
Total Programme	73,346	64,358	(8,988)	(3,447)	(5,541)

11. The outturn variance includes cost variations of £261,000 and slippage of (£9,249,000). Additional resources have been made available in the form of grant to fund costs variations and all slippage is fully funded in future years through carrying forward of resources.

12. The major variances since the last report to Cabinet are as follows:

• **Cost Variations (and identification of additional funding):**

**£'000**

CESC

Basic Need – works due be complete by end of March. However, possible contributions are due to Northumbrian Water, works to an overspill car park are ongoing and a debate concerning a contractors claim for loss and expense is to resolved. To be funded from NDS Modernisation Standards Fund grant in 2006/07. (150)

City Learning Centres – additional works at Billingham Campus completed in year and funded from Standards Fund grant. 200

Seed Challenge – Additional works funded by Devolved Formula Funding, revenue contributions and external contributions. 254

Sports and Recreation – works on pitches at Thornaby Road and in Ingleby Barwick approved by Cabinet but not included in the capital programme. Expenditure incurred in the financial year mainly funded from Football Foundation grant. 420

Early years – the budget profile for 2005/06 was overstated for both expenditure and income. Although a cost variation has been identified there will be no resource implications for the Council. (712)

D&NS

Market Restructuring – additional funding received from partner contributions secured since the last report to Cabinet and further (2,300)



savings generated on the Contingencies budget set aside to cover house price movements and development risks.

Decent Standards Work – Actual costs were less than target, resources will be utilised in the Housing Capital Programme. (615)

• **Slippage:**

CESC

Devolved Formula – projects, which were previously expected to slip were completed in year and funded from Standards Fund grant. 500

New Deal for Schools Modernisation – delayed completion of works with regard to the replacement of the Science and Technology Faculty at Billingham Campus. Expenditure to be funded from Standards Fund grant in 2006/07. (600)

Ropner Park Restoration – the scheme progressed better than expected in the last quarter of the year. Expenditure funded from Heritage Lottery grant. 500

Early Years – works at the Bath Lane Childcare Centre and Parkfield Early Years Centre ongoing have not been completed. Expenditure to be funded from DFES grant in 2006/07. (353)

D&NS

Section 278 Agreements – the original budget profile covered 21 schemes, however, this needs to be reviewed in light of current approvals. Detailed budget to be profiled in 2006/07 and funded from developer contributions. (1,232)

Thornaby Town Centre Sale – Delays in the sale of the town centre due to the requirement to secure vacant possession of both residential and commercial tenants. The sale is now anticipated in 2006/07 and the associated costs will be funded from corporate resources. (210)

Forum House and La Ronde Demolition – A programme of works was drawn up and surveys were required to establish the extent of asbestos within the buildings. The tender process was delayed and works are now underway. Expenditure to be funded from corporate resources in 2006/07. (413)

Transforming Your Space – delayed start to works within the Hardwick Housing Regeneration Programme. New Opportunities Fund grant carried forward to fund the expenditure in 2006/07. (104)

Decent Standard Works – slippage on partnership final accounts Complemented by an increase in RTB applications. (1,550)

## Current Issues Leading Up To The 2007/08 Finance Settlement

12. Members will be aware that at a national level there are a number of issues in respect of Local Government Finance, which will impact on future local government finance settlements.

- **Indicative grant settlements for 2007/08**

2006/07 was a year of great turbulence in local government finance. A new general grant system and a new dedicated schools grant was introduced. There were also significant changes to the formulae used to assess needs and distribute grant. However, as an aid to assist longer term financial planning the Government also took the opportunity to introduce multi-year settlements. Although these figures are indicative, and therefore subject to change, the Council does have details of possible levels of grant for 2007/08. It is expected this trend will continue with a further two years details announced with the 2008/09 settlement.

- **Comprehensive Spending Review (CSR) 2007**

The Government have announced that details of the next CSR will be published in the summer of 2007. This will provide figures expenditure and grant figures for the next three years at a national level and will assist Council's in their financial planning over the period. Already the Government are damping down expectations stating that the rises in the level of public expenditure seen over the last few years will not be repeated and generally hinting at harder settlements to follow.

- **Lyons report**

Sir Michael Lyons final report into the functions and funding of local government is expected sometime in December 2006. In terms of finance it is expected that the report will comment upon the future of Council Tax (Council Tax valuations have been postponed until after Lyons reports) as well as the appropriateness of alternative forms of local taxation that Council's could use.

## Treasury Management Annual Report

16. As part of the CIPFA Code of Practice on treasury management activity, there is a requirement for the Treasury Management Annual Report to be presented to Council for approval. This is attached at **Appendix 1**.

## Financial and Legal Implications

To update the MTFP and outline the outturn position as at 31 March 2006 on General Fund, Capital and the HRA and complies with the requirements of the Accounts and Audit Regulations 2003.

## Risk Assessment

This review of the MTFP and projected outturn report is categorised as low to medium

risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

**Community Strategy Implications**

The report supports the Community Strategy.

**Consultation including Ward/Councillors**

Not applicable.

**Julie Danks**  
**Corporate Director of Resources**

**Contact Officer: Brian Simpson**  
**Telephone Number 526357**  
**Email address: [brian.simpson@stockton.gov.uk](mailto:brian.simpson@stockton.gov.uk)**

Background papers: MTFP Files and Reports