

# **CABINET ITEM COVERING SHEET PROFORMA**

**AGENDA ITEM**

**REPORT TO CABINET**

**5 JULY 2007**

**REPORT OF CORPORATE  
MANAGEMENT TEAM**

## **COUNCIL DECISION**

**Corporate and Social Inclusion – Lead Cabinet Member – Councillor Laing**

### **FINANCIAL POSITION UPDATE**

1. Summary

The report provides Members with information on final outturn, the medium term financial position (MTFP), current issues for the 2008/09 Revenue Support Grant settlement, and the Treasury Management Annual Report.

2. Recommendations

1. That the revised MTFP be noted.
2. That Capital slippage of (£2,445,000), additional expenditure of £3,025,000 and a re-profiling of ring-fenced resources £424,000 be approved.
3. Members note the issues for the 2008/09 Finance Settlement.
4. That the level of working balances be retained at £9.2 million, given the potential changes emanating from the reviews in local Government Finance and the potential pressures facing the Council.
5. That Members approve the creation of the specific reserves including Dedicated School Grant (£347,000), Kerbside Recycling (£200,000), Youth Offending Service (£228,000), Cemeteries (£150,000) and Weather Maintenance (£130,000).
6. That Members approve the utilisation of the £60,000 capital receipt, less fees, from the sale of 2 Cottages in the Theatre Yard and a small part of Wasps Nest Yard to part fund refurbishment works to the Georgian Theatre.
7. That the Treasury Management Annual Report for 2006/07 be approved.

3. Reasons for the Recommendations/Decision(s)

To note the final 2006/07 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 2008/09 Finance Settlement, and to approve the Treasury Management Annual Report for 2006/07.

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.**

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**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 2008/09 Revenue Support Grant (RSG) settlement and the Treasury Management Annual Report.

**RECOMMENDATION**

1. That the revised MTFP be noted.
2. That Capital slippage of (£2,445,000), additional expenditure of £3,025,000 and a re-profiling of ring-fenced resources £424,000 be approved.
3. Members note the issues for the 2008/09 Finance Settlement.
4. That the level of working balances be retained at £9.2 million, given the potential changes emanating from the reviews in local Government Finance and the potential pressures facing the Council.
5. That Members approve the creation of the specific reserves including Dedicated School Grant (£347,000), Kerbside Recycling (£200,000), Youth Offending Service (£228,000), Cemeteries (£150,000) and Weather Maintenance (£130,000).
6. That Members approve the utilisation of the £60,000 capital receipt, less fees, from the sale of 2 Cottages in the Theatre Yard and a small part of Wasps Nest Yard to part fund refurbishment works to the Georgian Theatre.
7. That the Treasury Management Annual Report for 2006/07 be approved.

**DETAIL**

**Final Accounts**

1. The Statement of Accounts for 2006/07 were approved by Audit Committee on 28 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 2006/07 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 £4.844m into 2007/08 compared to £3.477m Managed Surplus reported to Cabinet in February 2007. The following table details the current MTFP position.

### MTFP (MS / MC) – 2006/07 OUTTURN

| Service Reserves (MS)/MC | Approved Position at 31/03/2007 (MS) / MC's<br>£'000's | Actual Outturn Position at 31/03/2007 (MS) / MC's<br>£'000's | Projected Outturn Position at 31/03/2008 (MS) / MC's<br>£'000's | Projected Outturn Position at 31/03/2009 (MS) / MC's<br>£'000's | Projected Outturn Position at 31/03/2010 (MS) / MC's<br>£'000's |
|--------------------------|--|--|---|---|---|
| CESC                     | (1,401)  | (1,817)  | 0   | 0   | 0   |
| D & NS                   | (1,751)  | (2,330)  | (1,216)   | 0   | 0   |
| RESOURCES                | (147)  | (460)  | (53)  | 0   | 0   |
| TES                      | 65   | 68   | 0   | 0   | 0   |
| LAW & DEMOCRACY          | 0  | 0  | 0   | 0   | 0   |
| POLICY & COMMUNICATIONS  | (243)  | (305)  | (134)   | (87)  | (74)  |
| <b>TOTAL</b>             | <b>(3,477)</b>   | <b>(4,844)</b>   | <b>(1,403)</b>  | <b>(87)</b>   | <b>(74)</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 £2.6 million within Development and Neighbourhood Services and £3.1 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 Agency – £260,000 overspend due to an increase in the number and complexity of placements and a change in the balance of funding between partner agencies with a consequential impact on income;

Social Care premises – £160,000 overspend from a higher than anticipated level of expenditure on refurbishment, repairs and maintenance. This includes the impact of earlier phasing of revenue contributions to a specific capital scheme;

Early Years/Sure Start - (£290,000) savings arising from staff vacancies have been carried forward and earmarked to cover expenditure in 2007/08 following the decline in Surestart funding;

Fostering Allowances/Adoption – (£114,000) underspend caused by the delayed commencement of placements;

Children's Agency – (£163,000) as a result of a reduction in the number and related cost of placements;

Youth Service – (£106,000) savings arising from a reduction in National Non-Domestic rates costs (£28,000), energy (£29,000) and staff savings (£49,000);

The Managed Surplus (£1,817,000) brought forward into 2007/08 has been partly utilised to fund pressures within the budget approved by Cabinet in February (£500,000). The remainder of the Managed Surplus, which has been partly earmarked to fund expenditure as detailed above, can be used subject to approval by the relevant Cabinet Member to fund the procurement and implementation of the Integrated Children's System (£284,000), the funding of Sure Start and Neighbourhood Nurseries grant exit strategies and the externalisation of Neighbourhood Nurseries (£630,000). In addition, decisions are to be taken regarding the remaining Managed Surplus as part of the 2007/08 budget management process to recognise significant continuing pressures, such as the volatile Learning Disability Agency budget.

#### 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:

Waste Disposal - (£117,000) savings arising from lower recycling costs and reduced tonnages;

Highways – (£94,000) increase in income from additional successful tendering exercises;

Bereavement Services – (£52,000) at December it was anticipated that income targets within Bereavement Services would not be met due to a reduction in burials in the borough. Management intervened at this point and, in the last quarter, cut non-essential expenditure which has contributed to this underspend; and Heating, Ventilation and Electrical - (£130,000) additional contract income.

The Managed Surplus (£2,330,000) brought forward into 2007/08 has been partly utilised to fund pressures identified at budget setting and approved by Cabinet in February (£540,000). The remainder is subject to approval by the relevant Cabinet Members and covers a range of pressures within the service area during 2007/08 and 2008/09.

### Resources

Property Development - this function transferred to Resources during the year and this MTFP Update report is the first time it has been included in Resource's Medium Term Financial Plan. Since the last report to Cabinet in February a surplus has been generated from additional income.

( ) denotes savings or underspends

### **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 and Earmarked Reserves**

- 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 2007/08 budget setting), the forecast level of working balances was £10.7m. By outturn the position had improved to £13.2m. The major reasons for the change are as follows.

|  | £000's |
|--|--------|
| Receipt of Local Authority Business Growth Incentive Scheme Grant (LABGIS) from Communities in Local Government (CLG), party utilized as part of the 2007/08 budget. | 1,580  |
| Interest Payable – an interest provision has been written back in year following a debt restructuring exercise.  | 550    |
| Improved position within interest received on balances   | 200    |

The overall position on balances can be summarised below:

|                             | £m<br>Final Position<br>at 31 March 2007 | % of General<br>Fund |
|-----------------------------|--|----------------------|
| Corporate Working Capital   | (13.216)                                 | (5.8)                |
| Net (MS)/MC                 | (4.844)                                  | (2.1)                |
| <b>Net Working Balances</b> | <b>(18.060)</b>                          | <b>(7.9)</b>         |
|                             |  |                      |

7. At the time of setting the 2007/08 budget, £4.017 million of the working capital (including the Local Authority Business Growth Incentive Scheme grant) were utilised, leaving corporate working balances at £9.2 million (equivalent to 3.8% of our 2007/08 Net Budget Requirement). 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:
  - Various regeneration schemes, including SMI;
  - Rising Energy Costs;
  - Single Status – although we are holding the reserve outlined above, the current costs are unknown;
  - Building Schools for the Future;
  - Integrated Children and Adult Services.
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.

### **Earmarked Reserves**

9. The Council have created 5 new earmarked reserves at the year end to fund specific pressures arising within our service areas. The reserves include 3 within Development and Neighbourhood Services including Kerbside Recycling (£200,000), the inspection of Cemetery Memorials (£150,000) and Weather Maintenance (£130,000). New reserves within Children, Education and Social Care have been formed to fund costs within the Youth Offending Service (£228,000) and the carry forward of ring-fenced Dedicated Schools Grant (£347,000).

### **Housing Revenue Account**

10. The final position of £1.397 million at the 31 March, 2007, which is slight improvement on the position reported to Cabinet in February and is within agreed limits for the third successive year. Officers are working with representatives from Tristar Homes Limited to maintain our reserves at the 3% limit.

## Capital

11. The outturn position for 2006/07 is as follows:

|  | Approved Budget | Outturn | Variance |
|--|-----------------|---------|----------|
|  | £000's          | £000's  | £000's   |
| Children, Education and Social Care    | 9,140           | 10,718  | 1,578    |
| Development and Neighbourhood Services | 42,849          | 41,632  | (1,217)  |
| Resources                              | 170             | 813     | 643      |
| Total Capital Programme                | 52,159          | 53,163  | 1,004    |
|  |                 |         |          |

The outturn variance includes additional expenditure funded from specific capital grants and earmarked capital receipts of £3,025,000, slippage of (£2,445,000) and a re-profiling of the use of ring-fenced resources £424,000. The major reasons for the movements are as follows:

### Cost Variations (and identification of additional funding):

£000's

#### Development and Neighbourhood Services

Housing Regeneration – The budget had been re-profiled in December however, additional properties were purchased late in the financial year once the probability of a large capital receipt became certain. This expenditure was funded from capital receipts. 1,346

Delegated to Tristar – Final account costs of decent standards works to council house in the Low Grange area of Billingham were higher than anticipated, funded mainly from grant. 140

#### Children, Education and Social Care

City Learning Centres - additional refurbishment expenditure required in year to develop the centres at Billingham and Grangefield Campus expended in year and funded from Standards Fund grant. 306

Bath Lane Childcare Centre – Additional contractor payments and safety works meant that costs were higher than budgeted, the expenditure being funded from DfES Surestart grant. 254



£000's

### **Resources**

A capitalisation directive was issued from central government that required Local Public Service Agreement (LPSA) expenditure to be capitalised. The expenditure has been fully funded by the LPSA grant. 668

### **Ring Fenced Resources:**

Internal alterations to Harewood Primary School – profile of expenditure has changed since original PID, the scheme is not due to begin until 2007/08. This scheme is funded from NDS modernisation grant. (255)

Billingham Masterplan – Schemes are approved separately and drawn down from this budget during the year. The balance will be utilised in 2007/08, funded from corporate resources. (129)

Devolved Formula Schools – Re-profiled programme of capital expenditure on schools. Slippage is fully funded by 2007/08 schools formula grant. 744

### **Slippage:**

### **Development and Neighbourhood Services**

North shore Footbridge – Scheme scheduled to commence in 2007/08, however some preliminary consultants and legal costs were incurred in 2006/07 and fully funded from grant. 217

Section 278 Engineering Schemes – Agreements for the private-sector funding of Engineering works are made under section 278 of the Highways Act 1980. These agreements provide a financial mechanism for ensuring delivery of mitigation works identified as necessary for planning permission to be granted. Delivery of some of these schemes are under the control of the Developers and this has produced variations against the original spending profile. (910)

Bayheath House Lift – Delays in the tendering process have resulted in a delayed start to this scheme and work will now commence in 2007/08. This scheme is funded from corporate resources. (129)

### **Children, Education and Social Care**

Roseworth / Rebrook replacement school – Scheme budgeted to start in 2007/08, however architects fees have been incurred in 2006/07. All expenditure financed from borrowing. 174

Early Years Children's Centres – All schemes budgeted to begin in 2007/08, however re-profiling of the schemes has meant work had begun earlier than planned. This will be funded from Sure Start Grant. 268

## Refurbishment of the Georgian Theatre

12. It is proposed that Cottages 1 & 2 Theatre Yard, and a small area of Wasps Nest Yard, be sold to a private developer (JOMAST) as part of a scheme to improve the two Yards. This scheme would create a new restaurant and flats, which would enhance the open space and improve the night time economy of the Cultural Quarter and the town.
13. The Cottage sale and conversion scheme necessitates accommodation works to replace the existing Theatre fire exit, toilets, and green room. The accommodation works are being carried out by JOMAST and will increase the Georgian Theatre safe/licensable capacity. However, a range of other refurbishment works to the theatre are essential or desirable, including replacement of the heating system, improved security and access, and improved exterior door and window appearance. Tees Music Alliance, the not-for-profit company managing the Georgian Theatre and Green Dragon Studios, have attracted £95,000 from Arts Council England and Northern Rock Foundation towards the capital works and require a matching sum of £50,000 to draw down the grants and contract the package of works. As the scheme will not progress without the investment of Council resources, it is recommended that the £60,000 receipt from the sale of the Cottages, less fees, be allocated to help fund the improvement works to the Georgian Theatre.

## Current Issues Leading Up To The 2008/09 Finance Settlement

14. 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.

- **Grant settlement for 2008/09 and indicative settlements for 2009/10 and 2010/11**

2008/09 marks the starting point for the next round of multi-year grant settlements. It is expected that the Government will announce details of the Council's next three years grant settlements around early December this year. In addition, there could be significant changes to the formulae used to assess needs and distribute grant to councils. Negotiations with the Government have been taking place since February and a consultation paper setting out options is expected to be published towards the end of July. This will be assessed, reported to members, and the Council's comments forwarded to the Government in accordance with the timetable.

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

The Government have announced that next CSR will not be published in the summer as previously announced, but will now be published in late autumn. The CSR provides indicative 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.

- **Gershon**

It is expected that the target for Gershon savings will be raised to 3% (all cash releasing). This will be extremely difficult to achieve, as it needs to be made on services that have already exceeded the earlier Government target of savings of 2.5% (half cashable). Also, Government Department's spending totals are under critical review.

- **Local Authority Business Growth Incentive Scheme (LABGIS)**

In 2005/06 the Government introduced a scheme where Council's could share in the proceeds of increases in growth in their business rate income. This was to encourage and reward Council's for their role in economic development. In the last two years Stockton has received approximately £2.2m and is expected to receive notification of further funds in February 2008. The current scheme ends at the end of 2007/08 and the Government has already started consultation with local authorities on its replacement.

- **Single Status.**

The profile of Single Status has been elevated recently as a national pressure and settlements have been complicated due to legal rulings made, and other judgements that remain pending. Substantial sums are involved and the issue has been discussed in Parliament.

- **The Lyon`s Report.**

This addressed many issues relating to local government, which for the moment have been placed in abeyance. However, it is probable that some elements of the report will be introduced in future.

- **Environmental Issues.**

It is also likely that burdens arising from increased Government emphasis on issues such as recycling and carbon emissions will feature in future spending rounds.

## **Treasury Management Annual Report**

15. 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 A**.

## **Financial and Legal Implications**

To update the MTFP and outline the outturn position as at 31 March 2007 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.

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Background papers: MTFP Files and Reports