

CABINET ITEM COVERING SHEET PROFORMA

AGENDA ITEM

REPORT TO CABINET
8 JANUARY 2009

REPORT OF CORPORATE
MANAGEMENT TEAM

COUNCIL DECISION

Lead Cabinet Member – Councillor Kenneth Lupton - Leader

REVIEW OF THE MEDIUM TERM FINANCIAL PLAN 2009/10

1. Summary

The purpose of this report is to update Members with the current position of the Medium Term Financial Plan ahead of budget and Council Tax setting which is to take place at full Council on 25 February 2008.

The report outlines a number of pressures face by the Council and suggests a strategy for dealing with these pressures both in the immediate future and into the medium term. Part of this strategy involves an efficiency, improvement and transformation programme, an outline of the proposals is also contained in the report.

2. Recommendations

1. It is recommended that Members note the financial position detailed within the report.
2. It is recommended that Members note the principles of the Efficiency, Improvement and Transformation Programme.

3. Reasons for the Recommendations/Decision(s)

The Council is required to approve a balanced budget and set a tax for 2009/10 before the statutory deadline of 11 March 2009.

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 (**paragraphs 10 and 11 of the code of conduct**).

A Member with a prejudicial interest in any matter must withdraw from the room where the meeting considering the business is being held -

- in a case where the Member is attending a meeting (including a meeting of a select committee) but only for the purpose of making representations, answering questions or giving evidence, provided the public are also allowed to attend the meeting for the same purpose whether under statutory right or otherwise, immediately after making representations, answering questions or giving evidence as the case may be;
- in any other case, whenever it becomes apparent that the business is being considered at the meeting;

and must 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 (unless the interest arises solely from the Member's membership of, or position of control or management on any other body to which the Member was appointed or nominated by the Council, or on any other body exercising functions of a public nature, when the interest only needs to be declared if and when the Member speaks on the matter), and if their interest is prejudicial, they must also leave the meeting room, subject to and in accordance with the provisions referred to above.

**NOT FOR PUBLICATION BY VIRTUE OF
PARAGRAPH(S) ? OF SCHEDULE 12A
LOCAL GOVERNMENT ACT 1972**

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SUMMARY

The purpose of this report is to update Members with the current position of the Medium Term Financial Plan ahead of budget and Council Tax setting which is to take place at full Council on 25 February 2008.

The report outlines a number of pressures face by the Council and suggests a strategy for dealing with these pressures both in the immediate future and into the medium term. Part of this strategy involves an efficiency, improvement and transformation programme, an outline of the proposals is also contained in the report.

RECOMMENDATIONS

1. It is recommended that Members note the financial position detailed within the report.
2. It is recommended that Members note the principles of the Efficiency, Improvement and Transformation Programme.

DETAIL

1. The Council is required to take a range of decisions in advance of each new financial year with a statutory deadline for a balanced budget by 11 March 2009.
2. This report provides briefing papers that will facilitate decisions at Special Council meeting on 25 February 2009.
3. The report contains sections on:
 - Provisional 2009/10 settlement.
 - General Fund position.
 - An assessment of pressures in comparison to available resources.
 - A strategy for producing future efficiencies.

FINANCIAL IMPLICATIONS

4. The report updates the Medium Term Financial Plan to reflect a number of pressures and associated resources.

5. In line with the Local Government Act 2003, the report recommends the approach to a robust, balanced budget. The timescales identified in the report are within the requirements laid down in Section 30 of the Local Government Finance Act 1992.

RISK ASSESSMENT

6. The update of the Medium Term Financial Plan is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

SUSTAINABLE COMMUNITY STRATEGY IMPLICATIONS

7. The report supports the Sustainable Community Strategy and Council Plan.

EQUALITIES IMPACT ASSESSMENT

8. An assessment has been undertaken. This resulted in a successful score of 65 and an associated action plan. Details of all documentation can be accessed by contacting the Head of Finance, Procurement & Performance, Paul Saunders.

CONSULTATION INCLUDING WARD/COUNCILLORS

9. A series of consultation events will be taking place between January and February 2009. These will involve Viewpoint, Business Forum, Renaissance and Stockton Members.

Julie Danks
Corporate Director of Resources

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Background Paper

Ward(s) and Ward Councillors:

Property

MEDIUM TERM FINANCIAL PLAN

AND BUDGET

2009/10

BACKGROUND

MEDIUM TERM FINANCIAL PLAN

1. On 4 December 2008 Cabinet received a report detailing the current anticipated financial position of the General Fund for the period of the Medium Term Financial Plan (MTFP). The projected overall Managed Surplus (MS)/Managed Commitment (MC) position of the General Fund was as follows:

	31/3/09 £000s	31/3/10 £000s	31/3/11 £000s
(MS) / MC	(2070)	(1125)	(540)

In managing its finances external assessments have rated Stockton's use of resources very highly. The last assessment gave the maximum score of 4 in each category. During these difficult economic times that sound financial management is even more crucial.

PROVISIONAL SETTLEMENT

2. The Government on 24 January 2008 announced its first final settlement that covered three financial years. At that time the indicative grant increases for Stockton were 3.1% for 2009/10 and 2.7% for 2010/11. On 26 November 2008, as part of its announcement on this year's provisional settlement, the Government confirmed both of those figures. It is highly likely in these circumstances that the figures will remain unchanged in the final settlement announcement.

SBC COUNCIL TAX INCREASES

3. As part of the budget setting process in February 2008 the Council proposed indicative council tax increases for 2009/10 and 2010/11. The proposed increases were 4.3% for 2009/10 and 3.9% for 2010/11. Based on this, a balanced medium term financial plan was produced allowing for a £600,000 one-off resource injection.

PRESSURES

4. The global financial position has changed dramatically since the MTFP was confirmed by the Council on 27 February 2008. There has been a substantial increase in inflation, followed by an economic downturn of a proportion that has not been encountered for quite some time. Not unnaturally this is starting to have an impact on the resource requirements of services provided by the Council. Due to the prevailing economic conditions officers have looked at pressures on services earlier than normal, and classified them into those that are "unavoidable" and those that are "potential" pressures. As we are at the early stage of the recession these could vary significantly for the future, and clearly vigilant monitoring and reporting of the situation needs to be continued.

Unavoidable Pressures

5. Listed below are those pressures that are classified as unavoidable in the medium term. Further details are provided at **Appendix A**.

	2009/10 £000	2010/11 £000	2011/12 £000
<u>Development & Neighbourhood Services</u>			
Planning Fees	150	150	150
Concessionary Fares	275	275	275
Police Community Support Officers	50	125	125
Housing Benefit Grant Reduction	34	151	231
Waste	200	200	200
Voluntary Sector Support	<u>123</u>	<u>0</u>	<u>0</u>
	832	901	981
<u>Children, Education & Social Care</u>			
Demand Pressures (ongoing)	600	600	600
Estimated Growth on demand	<u>575</u>	<u>925</u>	<u>1275</u>
	1175	1525	1875
<u>Resources</u>			
Energy	80	80	80
TOTAL	2087	2506	2936

In addition to the above a review of the Safeguarding Children procedures has identified that extra financial resources are required to meet the increased demand around safeguarding and to ensure that there is an appropriate staff resource (further details at **Appendix A**). This creates an extra pressure totalling £300,000 per year. The Service Group does, however, benefit from a number of grants from external bodies. It is expected that the extra pressure can be funded via a reprioritisation of these and associated budgets.

Supplementing the contribution above for Voluntary Sector Support during 2009/10, it is suggested that the Community Empowerment Network will also receive financial support of £131,000 from the Communities Fund. Funding beyond 2009/10 will be considered following a holistic review of voluntary sector support which is to be undertaken during 2009/10.

6. A further unavoidable pressure is becoming increasingly inevitable as time progresses, but is also becoming increasingly more difficult to predict due to the rapidly changing state of the economy. This is the investment income that is received for the funds we place with banks and building societies. The Authority has built into its MTFP for 2009/10 an anticipated income of £4.6 million from returns on these investments. This target has been exceeded in recent years, however the picture has changed dramatically in recent months, during which time the Bank of England has made large reductions in the base rate. If the average rate of investment for 2009/10 was 2% the Council would suffer a substantial shortfall against the target within the MTFP. This is mitigated to a degree by the gains made in the first half of 2008/09 and the fact that we have placed some longer-term investments, as a consequence of the urgency decision, just prior to the December rate cut. It is estimated that at this current moment in time the net effect in 2009/10 will be a shortfall of £800,000. The position however gets much worse for 2010/11. We will not have any surplus to offset the shortfall, and some of the longer-term investments will mature and have to be placed at the anticipated lower rates. The current estimated shortfall for 2010/11 is £2.3 million. This is again based upon an anticipated average of 2%. Some economists have been predicting even lower rates than this. Although it is unlikely we will ever get to the position of no interest earned and a £4.6 million shortfall, there is a possibility the shortfall will be somewhere between the predicted £2.3 million and the target of £4.6 million. Clearly a plan for funding such significant sums needs to be developed.
7. In recent years revenue contributions have also been used to supplement the capital programme. The table below identifies the schemes that were funded via this route last year.

	2011/12 £000
<u>Capital Schemes</u>	
Environmental Improvements	400
Chronically Sick and Disabled Persons Adaptations	250
Repairs and Maintenance	400
Cemeteries	150
TOTAL	1,200

Funding was, however, only made available to the end of 2010/11. If these schemes were to continue to the end of 2011/12 a further £1.2 million would be required. In addition in 2007/08 the Council allocated £500,000 per annum to supplement highways improvement budgets. This allocation was short-term and ceases at the end of 2008/09. Consideration needs to be given regarding extending the scheme resourcing still further.

Potential Pressures

8. As mentioned previously the country is at the start of an economic downturn. It is therefore almost inevitable that the Council will face a number of pressures in addition to those already referred to. Although service and financial planning processes encourage predictions and projections, it is extremely difficult to quantify these with accuracy at this stage.
9. The Borough is also facing a significant change in demographics particularly in relation to the ageing population. It is difficult to quantify the impact on demand of this with precision, although it is realistic to assume there will be an impact particularly around personal services in CESC. Demand has already increased in 2008/09 and this has been built into the unavoidable pressures above. Extrapolating this forward, however, would see cost increases rise by £3.2 million in 2010/11.
10. An additional pressure that will surface in 2011/12 is an increase in National Insurance. The Chancellor in his pre-Budget speech on 24 November 2008 indicated that he was going to increase National Insurance contributions by 0.5% for both employees and employers. A deminimus level has been referred to, however, it is currently unclear whether this will be applied to employers contributions. If the full 0.5% was to be applied to current general fund pay bill as of now, the additional cost would be £413,000.
11. On the positive, the Council has attracted considerable external funding over the years and has used its own limited resources effectively to encourage and pump prime initiatives. Indeed even in times of economic downturn major initiatives such as the Primary Capital Programme, a major extension of Splash, a comprehensive refurbishment of Billingham Forum, an upgrade of parks and many play areas continue. At the same time the plan to revitalise our secondary schools through the BSF funding is being finalised and there are proposals to improve the White Water Course at the barrage. The latter scheme involves the Council partnering with British Waterways, Middlesbrough Borough Council, Tees Active and Sport England. The result being the best course in the country, one of the top five in Europe and the only fully sustainable pumped White Water Course in the world, already been identified as a pre 2012 Olympic training camp looking to attract international teams and host national and international events. The delivery of the scheme requires the Council to draw down from the previously agreed SMI allocation. It also provides an excellent partnering opportunity, Tees Active taking over the management of the facility and using the additional income generated to contribute to the cost of the scheme. Overall the scheme attracts over £3.5 million and once Tees Active Leisure have contributed will cost the Council less than 10% of the total. Other development opportunities are also being progressed such as the Tees Valley Metro drawing in £290 million of external funding to the sub region and Preston Hall attracting some £3.5 million. The Council's housing stock options are currently also being considered. Many of these

opportunities will require the Council to contribute to or “match-fund” external investment. This needs to be considered against any available resources.

12. Clearly there are a number of issues to be addressed and opportunities to be grasped. The financial plan as outlined in the coming paragraphs seeks to deal with short term issues immediately whilst suggesting the service and financial planning processes, which are considered robust by the various inspection regimes, are extended still further by the inclusion of an efficiency, improvement and transformation programme.

RESOURCES

13. As mentioned previously, there is no change in Government grant. If Council Tax is increased by the indicative 4.3% there will be no additional income. In these circumstances resources to fund the pressures above need to be generated internally. A number of sources of funds have been identified. In May 2008 Stockton undertook a Consortia Insurance tendering exercise in conjunction with Darlington Council. This resulted in both a reduction in premiums for insurance and a lowering of the total amount Stockton has to pay in any one year from its self insurance fund. After an evaluation of the difference in premiums and a re-evaluation of the actuarial position of the self insurance fund, resources of £1.950 million per annum can be released to supplement the MTFP. In addition, after the release of Grant Exit reserve to fund the plastics and cardboard recycling scheme, there is a residual amount of £176,000 available for utilisation year on year. A further source of funds will be available from the Local Authority Trading Scheme for landfill credits. Due to its successful management of the waste stream, Stockton is able to sell credits to other Councils. This will create minimum funds of £255,000 in 2009/10.
14. In addition the Council has £2.718 million one-off resource generated from additional PSA Reward Grant, Collection Fund surplus over and above that anticipated, and Grant Exit Strategy reserve accumulated prior to it being allocated on an ongoing basis.
15. It was apparent at the early stages of evaluating the MTFP for 2009/10 that the resource detailed above would not be sufficient to present a balanced budget. It was also apparent, as referred to at paragraph 12, that the approach required an immediate response alongside a slightly longer term one. The management team of the Authority have been discussing the most appropriate, and realistic, methods to deliver further efficiencies in the short term. A number of measures have been agreed that will generate resource of £1.4 million in 2009/10, rising to £2.6 million in 2011/12. It is intended that these will be built into the service and financial planning process and will be generated from a freeze on supplies and services budgets, managed staff vacancies and an allowance for staff turnover within budgets and are in line with the Council's current efficiency and innovation culture.
16. In order to make the situation more manageable consideration has also been given to utilising some of the one-off resource. Although economists cannot agree on the investment position for 2011/12 it is hoped that the current position has rebounded by then. It is therefore proposed that £1.9 million of the lost investment income be funded ongoing from 2010/11 whilst the balance, £1.6 million over the 3 years of the financial plan, be funded from one-off resources.

PRESSURES V RESOURCE SUMMARY

17. Below is a summary of the resources available to fund recommended pressures:

	2009/10 £000	2010/11 £000	2011/12 £000
Pressures:			
Unavoidable	2087	2506	2936
Investment Income		1925	1925
Capital Schemes			1200
Highways *	<u>150</u>	<u>150</u>	<u>150</u>
	2237	4581	6211
Resources:			
Insurance	1950	1950	1950
Grant Exit	176	176	176
LATS	255	343	277
Service Efficiencies	1400	2000	2600
	(3781)	(4469)	(5003)
(Surplus) / Deficit	(1544)	112	1208

* The Council has invested over £1.5 million additional resources into highway improvements over the last 3 years and it is proposed that a further commitment of £150,000 per annum continues for the following 3 years.

18. Across the 3 years of the MTFP this provides a surplus of £224,000 which can be added to the one-off resource leaving a balance of £1.342 million available for key capital or invest to save initiatives. That said, if Members want the capital schemes to continue beyond 2011/12, then £1.3m ongoing would need to be found as would any other of the potential pressures outlined in the report.

EFFICIENCY, IMPROVEMENT AND TRANSFORMATION PROGRAMME

19. As is mentioned previously in the report, in order to position the Council well going forward, it is suggested an efficiency, improvement and transformation programme be developed to supplement current service and financial planning processes. Partly this will build on the work that has already started on cross-cutting initiatives such as Workwise and Procurement.

20. The programme will have a range of objectives:

- To improve services while reducing costs enabling the Council to manage budget reductions effectively.
- To improve resident satisfaction.
- To further develop the Council's excellence, improvement and efficiency culture.
- To maximise the potential of partnership working to improve efficiency and delivery to residents and service users.
- To ensure the Council remains high performing in the new Comprehensive Area Assessment.
- To develop service delivery models which will be effective in meeting the changing needs of our communities e.g. the needs of an aging population.

This will need to be a wide ranging programme covering every aspect of the Council's work. A review methodology including the role of Councillors in reviews, governance arrangements and a review toolkit is currently under development. Work has begun to identify priority areas for review and these include facilities management, placement of looked after children, adult social care (placements, telecare, home care service), youth services, employee transport and procurement. The selection of these areas has been based on either high costs in Audit

Commission value for money profiles, previously being programmed for review, or having been highlighted by Members. It is also the intention to review all other service areas during the period of the Medium Term Financial Plan. A report outlining the proposed approach and review programme will be submitted to February Cabinet alongside the budget, following consultation with Councillors at the Members seminar on the budget and council plan on 30 January 2009.

GERSHON/COUNCIL TAX BILLS

21. Members will be aware that some time ago the Government introduced Gershon targets to monitor Councils' achievement of efficiencies. In 2008/9 the target is 3% efficiencies and Stockton is predicting to achieve this. Nationally, however, there is a predicted shortfall. As a consequence and in an attempt to demonstrate more clearly to the public how their Council is operating efficiently, the Government intends to publish some of the Gershon information on the Council Tax bill and leaflet. From 2009/10 onwards the requirements for Stockton are as follows:
 - a. Bill and leaflet. Forecast efficiency savings at March 2009. £10,183,000.
 - b. Bill and leaflet. Forecast efficiency saving by March 2009 as a % of the 2007/08 baseline. 5.6%.
 - c. Bill only. Aggregate impact of forecast efficiency savings by March 2009 for Band D. £183. (The aggregation is SBC and Cleveland Fire Authority).
 - d. Leaflet only. Impact of forecast efficiency savings by March 2009 for Band D (SBC only). £179.
 - e. Leaflet only. Average impact of forecast savings by March 2009 by authorities of the same type. £75.

22. Our Software suppliers are currently in discussions with the Department of Communities and Local Government to resolve the practicalities of inclusion on the Council Tax bill. Once these discussions have been concluded Members will be updated on the outcome.