

STOCKTON-ON-TEES BOROUGH COUNCIL

CABINET RECOMMENDATIONS

PROFORMA

Cabinet Meeting18th February 2010

1. Title of Item/Report

Review of MTFP and Budget 2010/11

2. Record of the Decision

Members considered the final report in determining the Medium Term Financial Plan (MTFP) for 2010/2011 onwards, which also incorporated the level of Council Tax increase and associated budget issues.

Cabinet was reminded of previous reports that had identified the difficult financial position facing the Council. In view of this, officers were carefully considering expenditure in all areas.

A table detailing the current MTFP position for each service was provided to members, together with commentary relating to changes in the position since the last quarter report.

It was explained that the Council's current policy was to hold 3% of General Fund expenditure as balances (this equated to £7.9 million at 1 April 2010). It was anticipated that the General Fund balance would stand at £10.8 million at 1 April 2010, which would exceed the 3% level by £2.9 million. This was a change of £2.43 million from the position reported at the end of the last quarter of £8.37 million. The change arose mainly from:

- Increased savings from pay awards (£945,000)
- Improved borrowing position (£815,000)
- Saving associated with the reconsideration of the referendum (£215,000)

Cabinet had agreed site investigations in the south of the Borough for BSF and costs associated with that would reduce the balances.

On 20 January 2010 the Government confirmed the Provisional Settlement of £78,196,322. With the announcement there was a statement from the Government that it was in the process of capping 4 Police Authorities at the 3% level. This confirmed earlier speculation that this was likely to be the tolerated ceiling for council tax increases

after the Government had stated that it expected increases for 2010/11 to be substantially below 3%.

Cabinet was reminded that when the budget had been set for 2009/10 an increase of 3.9% for 2010/11 had been anticipated which would contribute to funding a net resource allocation of £155,551,091. Members were informed of potential savings that would reduce the net resource allocation for 2010/11 to £152,762,091. A 2% council tax increase would generate resources of £71,468,861 and together with the final settlement of £78,196,322 this would leave a gap of £3,096,908 against the £152,762,091 resource allocation requirement referred to above. This would need to be funded from SBC generated resources, and was within the compass of those previously identified in the MTFP in the previous financial year, e.g. insurance fund, grant exit, LATS, that complemented the service efficiencies associated with a supplies and services freeze leading to a reduction in the cost base (this equated to £6 million in efficiencies over the three-year period), as well as the one off resources to fund the minor capital schemes and the last year of the one off schemes from the 2008/09 MTFP.

This would result in Stockton setting a balanced budget for 2010/11, at the same time as halving its proposed council tax increase, without any reduction in services or a programme of significant job cuts. A position that was far superior to that which most councils were facing during difficult economic times. This was allied to the situation that Stockton continued to make considerable investment in service provision, the £180 million that would be expended on Building Schools for the Future, the £15 million refurbishment of Billingham Forum, £7 million to be spent on the Primary Capital Programme in 2010/11, and the £7 million Stockton was investing in the Communities Fund that sought to redress unemployment issues by utilising Voluntary Sector Organisations.

An explanation was given to the reason that the budget in recommendation 2 for 2010/11 at £150,966,155 differed from the figure in paragraph 8 of the report at £152,762,091. Stockton would have a net budget of £152,762,091 for 2010/11, if the report was agreed. As mentioned this utilised £3,096,908 of SBC resource from a number of sources, surplus on council tax collection, PSA reward grant, Local Authority Business Growth Initiative, etc. However the Government in prescribing what constituted the statutory net budget only allowed the surplus on council tax collection to be added to Government Grant and Council Tax. This was a technical accounting adjustment for reporting purposes, the figure in paragraph 8 of the report would be the actual net budget Stockton would spend in 2010/11.<

Cabinet noted that this balanced budget did not contain any additions to

pressures other than those that were incorporated as unavoidable when the MTFP was agreed in February 2009. Services had coped with those pressures by making efficiencies or adaptations to ensure the Council remained within the approved financial envelope. Based on current projections, this was expected to be the position, however work was ongoing to assess future social care demand pressures along with a range of reviews into how the services were delivered, most notably to the personalisation agenda. It was explained that there was one emerging potential pressure from the Queen's Speech that may require additional resources to be allocated for part of 2010/11. This was the Government's proposals for free Personal Care for a range of people based upon differing criteria and three options. This proposal required legislation to be passed before the forthcoming General Election so there was a question mark as to whether it would be implemented or not. If this was implemented it would begin on 1 October 2010 and the current suggested funding model would only be until 31 March 2011. The Government had calculated the financial impact at a national level, and acknowledged in those calculations that there was an area of speculative guesswork as to the numbers not claiming care from local authorities, but who would do so once the provision was free. The national estimates were that the total cost of provision would be £335 million for the period in question. The Government would contribute £210 million in grant and expect local authorities to produce the balance of £125 million from efficiencies. Initial analysis of the figures produced for Stockton showed that, in terms of current care, the cost of lost income would be some way below the Government grant, even on the lowest option. However, as at a national level, similarly at Stockton it was not known how many would additionally take up the free care once it was available. In such circumstances, for the initial six month period, this had the potential to be an additional cost or a saving. More worrying perhaps was that this method of funding was only guaranteed for that six month period stated. There were concerns that, after that, it would become part of the Revenue Support Grant process, and as has been seen in the past, once a function became subsumed in the four block calculation actually tracking where that money had gone was very difficult. Inevitably these transitions had resulted in cost pressures on authorities. The impact of these changes and work surrounding social care in particular, would inform future years of the MTFP.

Members considered the financial year 2011/12 and onwards and noted that the picture became a lot less certain and gloomier. When the Provisional Settlement was announced for 2010/11 there was no indication to likely grant settlements for the next three year period. What had been stated quite openly was that Public Sector Expenditure would need to be reduced to help pay back the current high levels of national debt, and talks of council tax increase freezes had been regular. In the

absence of any definitive data it was considered that Stockton must make a calculated estimate of the possible impact on its revenue resource stream for the two financial years after 2010/11. For illustrative purposes projections were that revenue support grant would be reduced by 3.333% year on year, and that council tax increases would be frozen for 2011/12 and 2012/13. Research and networking with other councils had shown a wide disparity in the assumptions councils were making. It was felt that some of the extreme projections put forward were a reaction to media hype and speculation. In the absence of any Government data it had been very difficult to project future years' financial resources. It was felt however that the assumptions outlined above were realistic.

Based upon these assumptions the grant income for 2011/12 would be £75,589,778 and council tax would raise £71,468,861 resulting in total external funding to the General Fund of £147,058,639. If the budget detailed earlier for 2010/11 was implemented, the starting point for resource allocation would be £152,762,091, before inflation allowances increased it to £156,008,676. This would result in an initial gross budget gap of £8,950,037. Plans and actions were initiated some time ago to mitigate this anticipated situation. Savings from the first year of the Efficiency Improvement and Transformation Programme and other suggestions for operational efficiencies would deliver a total of £4,048,000. A schedule of those proposals was provided. The authority had also embarked on the process of Procurement Category Management in twelve priority areas for goods and services the council procures. This process included category aggregation, the management of demand and updating of market intelligence with a view to influencing this more. It was envisaged that this approach would deliver £1 million in savings. A schedule of the twelve chosen categories and progress made was provided. During 2011/12 the second stage of the car allowance proposals was scheduled to occur, on the revised basis this would result in an additional £470,000. Finally, it was anticipated that the pay increase in 2011/12 would remain at 1%, delivering an additional £1.3 million in resource reduction. These measures narrowed the budget gap to £2,132,037 to be funded from SBC resources. This figure was again within the compass of the figure originally approved in February 2009. Members noted the government's proposal to raise national insurance contributions in April 2011 which, if implemented, would create a further pressure of approximately £800,000.

Moving into 2012/13, it was noted that additional assumptions had had to be made. Members were reminded that in the 2009/10 MTFP the Council reduced the amount earned on investment income, with £1.9 million of ongoing resource and £1.6 million of one-off funds being used to balance the budget. Indications from the Bank of England were that interest rates should start to rise in 2011/12 and by 2012/13 be back to

the level to allow a return to our target figure to its original level. Clearly this was a long way into the future to predict with any accuracy, but the assumption being made was that this would happen. Another assumption for 2012/13 was related to the minor capital schemes: environmental improvements £400K; disabled adaptations £250K; repairs and maintenance £400K; cemeteries £150K; highways £150K. These were funded in the MTFP up until 2011/12, at this moment in time it was assumed this funding would not continue in 2012/13. The era of being able to allocate additional headroom monies for improvements was likely to disappear if these projections were correct. A cautious approach to extending expenditure beyond core service provision at least until the settlements for 2011/12 onwards were known was advised. Stockton was in the strong financial position of today because it has not extended itself beyond its means in the past. Until some certainty appeared about the picture from April 2011, it was imperative that approach was continued.

Assuming the above projections were correct and implemented, the rise in resource allocation for 2012/13 was only £1,003,809, taking account of the return to investment income targets and the fall out of the minor capital expenditure. This produced a starting point of £150,194,485. The projections for grant and council tax were £72,983,234 and £71,468,861 respectively giving a total of £144,452,095 for external resource. Some of those operational efficiencies identified by officers would not be available until 2012/13. These amounted to £352,000 and could be used to reduce the starting figure. In addition there was, in 2012/13, the saving from the final phase of the car allowance proposals amounting to £260,000. As the last MTFP did not extend until 2012/13 there was no estimate of SBC resource available for that year. It was anticipated that there would be £3.4 million of resource that would be available in year. The first element of this was a contribution of £1.9 million from the insurance fund. The second element was an estimated surplus of £500,000 from the collection fund. The final element was associated with employers pension contributions. Due to stock market falls the Government asked for an interim valuation of the latter. This showed that the Teesside Pension Fund was weathering the storm very well and if this was repeated in the formal valuation the £1 million that was anticipated to fund the fall in valuation of the fund would not be required for that purpose and could be utilised in the MTFP instead. Again a development in the Pre-Budget Report raised a potential problem with this proposal. It has been announced there is to be a cap on employers contributions to pension funds with effect from 2012/13. The proposal does not say whether the cap would be national or local, nor at what level it would be. It did however have the potential to impact on the calculation undertaken to release this million. It was said at the start of assessing the two years from 2011/12 there was a large degree of

uncertainty over predicted figures, and with each Government announcement these were being added to rather than clarified. If however the previous predictions do occur the net budget gap that would need to be found from efficiencies was £1,730,390. Again in anticipation of this initiative on partnering with other authorities, joined up services within the Council and the proposed EIT Year 2 programme were being put in place, and based upon previous successes should be capable of delivering the required efficiencies. Details were provided to members. This would leave Stockton in the position for 2012/13 of achieving a balanced budget based upon the planned and managed approach outlined. A position that was sure to be the envy of many other councils who are not in such a healthy financial state.

If all of these assumptions are correct, Stockton would have moved from an anticipated resource allocation in 2012/13 of £159.8 million to one of £147.8 million, a reduction of £12.0 million delivered from efficiencies or generating resource. These are additional to the many millions of pounds of efficiencies Stockton has made in previous MTFP's. Cabinet noted that, if these same levels of reduction in resources were to continue in 2013/14, it was difficult to contemplate the gap continuing to be closed in the same manner and a programme of service / job cuts would be hard to avoid.

Members were reminded that Stockton was going to have some additional one-off resource available from 2009/10. This was estimated to be in the region of £4.5 million, only at year end would a definite figure be known. It had been past practice in the era of year on year grant increases and headroom, to allocate this money to time limited projects and initiatives. Given the uncertainty about future funding levels, potential pressures such as 'Personal Care at Home' and the National Insurance proposal, and the need with some efficiency measures to invest to save, it was considered prudent not to agree any use of this resource in that manner until the grant settlements for 2011/12 were known, when a more informed choice could be made about the utilisation of any such resources.

It was explained that a 2% increase in 2009/10 Council Tax rates would have the following impact:

	Band A
Band D	
2009/10	798.39
1197.58	
2010/11	814.35

1221.53

Members noted that it was anticipated the Police Authority would recommend a precept of £10,989,972, £125.23 at Band A (£187.84 at Band D) which equated to a 2.94% increase in Council Tax based on a Band A figure of £121.65 for 2009/10 (£182.47 at Band D). The Fire Authority had determined a precept of £3,742,736, £42.65 at Band A (£63.97 at Band D) which equated to a 3.9% increase in Council Tax based on a Band A figure of £41.05 for 2009/10 (£61.57 at Band D). It was noted that this was above the Government's capping level but indications were that the Fire Authority were likely to appeal against any capping, with the outcome not expected until July. The financial implications on this Council should their appeal be unsuccessful and a revised Council Tax demand be subsequently required, were noted as being in the region of £75,000, although this amount would be reimbursed to the Council by the Fire Authority.

Members were provided with details of all the Parish precepts for 2010/11.

The Council must approve precept/tax in line with statutory guidelines and details of these were provided to members at Appendix C of the report.

Members were asked to consider and recommend for approval the following appendices to the report:-

Appendix D – Treasury Management Strategy, Minimum Revenue Provision Statement, Investment Strategy and Prudential Indicators for 2010/11 – 2012/13.

Appendix E – Stock Rationalisation Programme

Appendix F – Revised Capital Programme for 2009/10 and for 2010/11

Appendix G – The Housing Revenue Account

Appendix H - Council Rents Increase

Appendix I – proposed partnering categories

RECOMMENDED to Council that :-

1. in accordance with the Local Government Act 2003, Members note that the Section 151 Officer confirms that the following recommendations:-

- a) represent a robust budget which has been prepared in line with best practice,
- b) provide adequate working balances at 3% of general fund and net operating expenditure of HRA, and
- c) that the controlled reserves and provisions are adequate for their purpose.

General Fund Budget

- 2. a 2010/11 budget for Stockton-on-Tees Borough Council of £150,996,155 be approved
- 3. a 2010/11 budget for Stockton-on-Tees Borough Council inclusive of Parish Precepts (£582,560) of £151,578,715 be approved.

Taxation

SBC

- 4. the Council Tax for Stockton-on-Tees Borough Council, prior to Parish, Fire and Police Precepts, be increased by 2.0% to a level of £1221.53 at Band D (£814.35 Band A).

Fire, Police & Parish

- 5. Council note the Fire Precept of £3,742,736, which equates to a Council Tax of £63.97 at Band D (£42.65 at Band A).
- 6. Council note the anticipated Police Precept of £10,989,972, which equates to a Council Tax of £187.84 at Band D (£125.23 at Band A).
- 7. Council note the Parish precepts as set out in paragraph 20, page 15 of the budget report.

Council Tax - Statutory Requirements

- 8. the statutory requirements for Council Tax , as shown in Appendix C, be approved

Treasury Management/Prudential Code

- 9. the Treasury Management Strategy, Minimum Revenue Provision Statement, Investment Strategy and Prudential Indicators for 2010/11 – 2012/13 as set out in Appendix D to the report be approved

Capital

10. the proposed Stock Rationalisation Programme at Appendix E be approved

11. the revised capital programme for 2009/10 (paragraph 28) and for 2010/11 at Appendix F be approved

Housing Revenue Account

12. the Housing Revenue Account as set out in Appendix G be approved.

13. the proposed Council Rents increase at Appendix H be approved

Partnering Proposals

14. the proposed service areas for feasibility in Appendix I be approved

3. Reasons for the Decision

To allow final decisions on financial/taxation policy to be taken prior to the statutory deadline of 11 March 2010 and to allow the continued development of the Authority and its partnerships through effective management of the Authority and its resources

4. Alternative Options Considered and Rejected

None

5. Declared (Cabinet Member) Conflicts of Interest

None

6. Details of any Dispensations

Not applicable

7. Date and Time by which Call In must be executed

Not applicable

Proper Officer
22 February 2010