

## CABINET ITEM COVERING SHEET PROFORMA

**AGENDA ITEM**

**REPORT TO CABINET**

**16 JANUARY 2013**

**REPORT OF CORPORATE  
MANAGEMENT TEAM**

### **CABINET DECISION**

Leader of the Council – **Councillor Cook**

#### **MEDIUM TERM FINANCIAL PLAN UPDATE AND STRATEGY**

1. Summary

This report updates Cabinet on the Council's Medium Term Financial Plan (MTFP) position for 2013 to 2017. It includes areas where there are uncertainties and seeks agreement to an approach for addressing budget pressures and budget gaps.

2. Recommendations

1. Members note the current financial position.
2. Members agree the approach to the development of the 2013-17 MTFP.

3. Reasons for the Recommendations/Decision

To update Members on the Council's financial position.

4. Members' Interests

Members (including co-opted Members) should consider whether they have a personal interest in any item, as defined in **paragraphs 9 and 11** of the Council's code of conduct and, if so, declare the existence and nature of that interest in accordance with and/or taking account of **paragraphs 12 - 17** of the code.

Where a Member regards him/herself as having a personal interest, as described in **paragraph 16** of the code, in any business of the Council he/she must then, **in accordance with paragraph 18** of the code, 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 and the business:-

- affects the members financial position or the financial position of a person or body described in **paragraph 17** of the code, or
- relates to the determining of any approval, consent, licence, permission or registration in relation to the member or any person or body described in **paragraph 17** of the code.

A Member with a personal interest, as described in **paragraph 18** of the code, may attend the meeting but must not take part in the consideration and voting upon the relevant item of business. However, a member with such an interest may make

representations, answer questions or give evidence relating to that business before the business is considered or voted on, provided the public are also allowed to attend the meeting for the same purpose whether under a statutory right or otherwise (**paragraph 19** of the code)

Members may participate in any discussion and vote on a matter in which they have an interest, as described in **paragraph 18** of the code, where that interest relates to functions of the Council detailed in **paragraph 20** of the code.

### **Disclosable Pecuniary Interests**

It is a criminal offence for a member to participate in any discussion or vote on a matter in which he/she has a disclosable pecuniary interest (and where an appropriate dispensation has not been granted) **paragraph 21** of the code.

Members are required to comply with any procedural rule adopted by the Council which requires a member to leave the meeting room whilst the meeting is discussing a matter in which that member has a disclosable pecuniary interest (**paragraph 22** of the code).

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**SUMMARY**

This report updates Cabinet on the Council's Medium Term Financial Plan (MTFP) position for 2013 to 2017. It includes areas where there are uncertainties and seeks agreement to an approach for addressing budget pressures and budget gaps.

**RECOMMENDATIONS**

1. Members note the current financial position.
2. Members agree the approach to the development of the 2013-17 MTFP.

**DETAIL**

**Background and context**

1. The Council has seen a significant reduction in Resources over the past few years. Between 2010/11, and 2013/14, there has been a total reduction of £34m which is approximately a 30% cash reduction in Government Funding (approximately 40% in real terms).

**Current Approved MTFP**

2. The current Medium Term Financial Plan as approved in the budget report presented to Council on 29 February 2012 is as follows:

	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
<b>ESTIMATED BUDGET GAP</b>	<b>0</b>	<b>897</b>	<b>7,861</b>	<b>11,614</b>

Members will be aware that the decision was taken to increase Council Tax by 3.49% in 2012/13 as opposed to freezing the levels and accepting a Government Grant. Had this decision not been taken, the budget gap would have been approximately £2.6m higher. The plan also included the following assumptions:

- Reductions in Government funding in line with estimates following the Spending Review in 2010 and the financial settlement for Local Government in 2012. Although there were no details for subsequent years this included an assumption that the 2011/12 freeze grant would not continue beyond 2014/15 (£1.8m pressure), and further funding reductions of £2.9m in 2015/16 and a further £2.8m in 2016/7 were incorporated in each of 2015/16 and 2016/17. It was also assumed that PCT funding in respect of reablement would cease from 2015/16 (£1.7m).

- An assumed Council Tax increase of 3.49% in each year, which was the equivalent of the level of restrictions on increases placed on Local Authorities in 2012.
  - The plan also includes a pay provision of 1% for 2013/14 and 2014/15 and 2% for 2015/16 and 2016/17.
3. Members are also reminded that the current plan also includes a significant level of savings which have been identified through the Council's planned approach to efficiency measures over the past 3 years and these are outlined below.

	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000
EIT Phase 1	8,280	8,280	8,280	8,280
EIT Phase 2	7,104	8,434	8,434	8,434
EIT Phase 3	1,500	3,000	3,000	3,000
Phase 4	500	1,000	1,000	1,000
<b>Total Savings included in MTFP</b>	<b>17,384</b>	<b>20,714</b>	<b>20,714</b>	<b>20,714</b>

Table 1

### Updated Medium Term Financial Plan

4. Members will be aware from briefings towards the end of last year of a number of announcements and changes which impact significantly upon the Council's position. In addition the plan needs to be updated to reflect:
- a. The Provisional Local Government which was published on 19 December 2012. This outlines the baseline funding position for the localisation of business rates.
  - b. The Chancellors Autumn Statement which outlines further funding reductions across the medium term.

### Introduction of Business Rate Retention System

5. The provisional finance settlement for local government sees the introduction of the Business Rates Retention (BRR) scheme as the principal form of local government funding. Previously the Government provided details of the Revenue Support Grant (and other specific grants) and this funding was paid by the Government with all Business Rates income paid to the Government and Pooled.
6. Under the new scheme, a **Start Up Funding Assessment** is determined for each Authority, in the same way as Revenue Support Grant was determined previously (Assessment of Need), and this figure is adjusted for specific grants which have now been incorporated into this scheme. This **Start Up Funding Assessment** is then split between **Revenue Support Grant** and **Business Rates Retention**. In 2013/14 the National determination/split is 60% Revenue Support Grant and 40% business rate retention.
7. The funding for Stockton for 2013/14 is therefore:

	'000
Start Up Assessment	86,748
Funded by:	
Retained Business Rates (40%)	34,655
Revenue Support Grant (60%)	52,093

8. The estimates assume that the level of Business Rates collected by Stockton will be £74.1m. The Business Rates collected are allocated as follows :

- 50% is transferred to Central Government (£37.05m)
- The remaining 50% is compared to the National Business Rates calculation above to determine whether a Tariff or a Top Up is applied.
- In Stockton's case this means the following,

	£'000
Remaining Business Rates (50%)	37.057
Business Rates to be retained – per above table	<u>34.655</u>
Tariff payable	2,402

As mentioned above, the Council retains an element of Business Rates and there is therefore an additional risk in that any reduction in collection will have a direct impact on the Council. There is a safety net mechanism, under which the threshold figure for Stockton is £32m. This means that we would lose £2.6m in Business Rates income before the safety net would apply.

### Reductions in Government Funding

Members will be aware from the budget report in 2012, that we were anticipating reductions in Government Funding and this was incorporated into the Medium Term Financial Plan at that time. The projections have been reviewed and updated with 2013/14 and 2014/15 incorporating the Provisional Settlement and various Government announcements during the year, including the Autumn Statement. The impact of changes in funding on the Council's Medium Term Financial Plan is demonstrated below:

	2013/14 '000	2014/15 '000	2015/16 '000	2016/17 '000
Current Projections	77,535	72,251	67,551	64,751
Updated Projections	74,956	66,624	60,711	55,929
<b>PRESSURE</b>	<b>2,579</b>	<b>5,627</b>	<b>6,840</b>	<b>8,822</b>

Table 2

The reasons for the change and additional pressures can be summarised as follows:

- A reduction in Early Intervention Grant Funding
- Additional reductions in Local Government Funding outlined in the Autumn Statement
- The new system of Local Government Finance has confirmed that New Homes Bonus will be funded through a top slice from Revenue Support grant Funding.

The Autumn Statement also announced that there would be a Comprehensive Spending review in 2013 and it should therefore be noted that the position for 2015 onwards is extremely uncertain.

### New Homes Bonus

9. The Provisional settlement has provided an indicative allocation for the 2013/14 New Homes Bonus of £933,000 and this will be received for 6 years. Given that the treatment of New Homes Bonus has now been confirmed in future, (see above), we can now incorporate an estimate of this for future years. Based on an estimated growth of 0.5%, this would equate to:

	Annual Allocation	Cumulative Total
2013/14	933	933
2014/15	551	1,484
2015/16	662	2,146
2016/17	672	2,818

## Council Tax

10. There are a number of changes to Council Tax Revenues which need to be incorporated into the plan.

- The current Medium Term Financial Plan was based on a 3.49% annual increase, which is slightly lower than the referendum level set for 2012/13. The provisional settlement has however indicated that the referendum level for 2013/14 will be set at the lower level of 2%. Information published as part of the Autumn statement also indicates that this is the level of Council Tax increase anticipated in subsequent years.
- Members will be aware that there is a financial pressure caused by the localisation of Council Tax benefit which has been outlined in previous reports. This is due to:
  - The grant allocated to the Council to fund discounts is £12.5m, however the actual level of benefit in 2012/13 is £14.7m (the grant was based on estimates of 2011/12 benefit figures)
  - The allocation will be incorporated into Revenue Support Grant which will reduce in future and there is therefore no funding for any growth. This has been estimated at £750,000
  - The scheme effectively permanently reduces the Council Tax base by the elements of the discount thus reducing the level of Council Tax revenues in future years.
- The taxbase has been updated to reflect the current numbers and types of properties.
- If the Council Tax were set at the referendum level of 2% increase, the result of all of the above changes on the estimated Council Tax revenues would be as follows:

	2013/14	2014/15	2015/16	2016/17
	'000	'000	'000	'000
Estimates per 2013/14 Budget Report	78,523	81,650	84,902	88,284
Updated Estimates	62,747	64,397	66,212	68,081
Council Tax Support Grant	12,532	12,532	12,532	12,532
Updated Total	75,279	76,929	78,744	80,613
<b>Impact of Changes to Council Tax</b>	<b>3,244</b>	<b>4,721</b>	<b>6,158</b>	<b>7,671</b>

Table 3

## Council Tax Increase 2013/14

11. As outlined above, the updated Council Tax funding has assumed an increase of 2% in each year. The Government have again indicated that should Councils freeze Council Tax, funding equivalent to a 1% increase would be available for 2 years. It is unclear whether this would continue into future years. The impact of the current offer of a freeze / 1% allocation would be an additional pressure of £620,000 in 2013/14 rising to £1.4m by 2015/6 and this is outlined below:

	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000
<b>Council Tax for the year</b>	62,747	64,397	66,212	68,081
<b>(Based on 2% increase per year)</b>				
<b>Impact of Freeze Funding</b>				
Opening Council Tax Income	61,363	61,821	63,588	65,407
Increase (@2% - from 2014/15)	0	1,175	1,208	1,243
Freeze Grant	756	756		
<b>Funding for the Year</b>	<b>62,119</b>	<b>63,752</b>	<b>64,796</b>	<b>66,649</b>
<b>Pressure on MTFP</b>	<b>628</b>	<b>645</b>	<b>1,416</b>	<b>1,432</b>

Table 4

Note – This table is to demonstrate the impact of the freeze only and excludes estimated taxbase growth so therefore differs from the table in paragraph above.

12. Given the level of additional pressure caused by the freeze, for planning purposes the remainder of this report assumes that the freeze is not adopted and that the increase incorporated into the MTFP is maintained. Final recommendations will be made as part of the budget report in February 2012. Members are reminded that an increase of 2% would mean 46p per week for a Band D Council Tax and 31p per week for Band A. Members could consider a rise above the 2% limit, which would require a referendum. Every 1% generates approximately £600,000 per annum.

### Summary of Government Announcements and Funding Changes on Medium Term Financial Plan

13. The impact of the Government funding announcements and restrictions on Council Tax Increases has the following impact on the Medium Term Financial Plan:

	2013/14	2014/15	2015/16	2016/17
	'000	'000	'000	'000
<b>Estimated Budget Gap (Budget report)</b>	0	897	7,861	11,614
<b>Estimated Changes :</b>				
Government Funding Changes	2,579	5,627	6,840	8,822
New Homes Bonus	-933	-1,484	-2,146	-2,818
Additional Dept of Health Grant	-837	-981		
Council Tax Impact	3,244	4,721	6,158	7,671
<b>Updated Budget Gap</b>	<b>4,053</b>	<b>8,780</b>	<b>18,713</b>	<b>25,289</b>

Table 5

### Additional Changes to the Medium Term Financial Plan

14. The Medium Term Financial Plan has been reviewed and there are a number of changes to expenditure plans to be incorporated.
- There are some minor amendments to the plan mainly due to returns on investments being lower than estimated. It had been anticipated that interest rates would have improved, however this is not the case and this is now reflected in the plan.
  - The income associated with the invest to save schemes (Local Authority Mortgage Scheme and the Solar scheme within Municipal Buildings) can be incorporated.

- Members will be aware from the MTFP update reports of the demand led pressures being encountered in the current financial year, most notably in respect of Looked After Children. Although this level of pressure has been managed in the current year through one off savings and managed surplus, this is not available to fund this pressure next year. Based on the current levels of activity, the base budget for this area would need to increase by £2m and this should therefore be included in the plan.
15. Members will be aware that from 2013/14 the responsibility for Public Health and the associated funding transfers to the Council. Although the announcement on funding was anticipated as part of the provisional settlement, this has in fact been delayed. Previous indications were however that the funding the Council will receive is £11.8m. An examination of the Public Health budgets and commitments has indicated that there is currently £1m of the £11.8m unallocated. This funding will be utilised to support Public Health activities currently being funded from elsewhere within the Council and as such this will save the Council's core budget £1m per year. The Government are planning to review the distribution mechanism for this funding and although this has been incorporated on an ongoing basis, this will need to be reviewed following any changes to the funding formula and Stockton's allocation.
16. Members will be aware of the recent consultation exercise and proposed changes to Council Tax discounts. A report will be presented to Cabinet in February and if changes were to be approved, this would generate approximately an additional £1.3m per annum in Council Tax revenues.

#### Approach to allocation of Resources to Services

17. The current approach for allocating resources to Services has operated for many years and has served the Council well. It can be summarised as follows:
- All services receive a base increase of 2% (adjusted to reflect anticipated pay awards being below this level).
  - Approximately £60m Social Care allocation receives a 4% per year increase which reflects pressures and growth in this area.

There is therefore an inflationary element included in the plan and budget gap of future years. It is therefore proposed that the Council revises and updates the mechanisms for preparing the Medium Term Financial Plan **to freeze all budgets across the medium term financial plan**, other than pay where the assumptions include a provision for 1% increase in 2013/14 and 2014/15, with 2% thereafter. Given recent trends in the high cost areas of Looked After Children, Adult Social Care and Energy and Waste, it is suggested that a contingency is included for growth. If we assumed this were £1.8m per annum, then the change would remove inflationary increases valued at £700,000 in 2013/14 rising to £4m by 2016/7. This means that all services will be operating with a standstill budget for the next four years which is a reduction in real terms.

Incorporation of the following changes would mean that the Council's budget position would be as follows:



	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
<b>Budget Gap</b>	<b>4,053</b>	<b>8,780</b>	<b>18,713</b>	<b>25,289</b>
<b>Increase in Current Expenditure Levels</b>				
Investment Income adjustments	755	673		
Invest to Save Schemes	-32	-82	-82	-82
Demand Pressures	2,000	2,000	2,000	2,000
Council Tax Discount Scheme	-1,244	-1,281	-1,326	-1,372
Removal of Inflationary Increases	-2,521	-5,239	-8,087	-11,147
Growth	1,800	3,600	5,400	7,200
Public Health Re-distribution	-1,000	-1,000	-1,000	-1,000
<b>ESTIMATED BUDGET GAP</b>	<b>3,811</b>	<b>7,451</b>	<b>15,618</b>	<b>20,888</b>

Table 6

This would result in a budget gap of £3.8m in 2013/14 rising to £21m by 2016/17.

### Updated Medium Term Financial Plan

18. There have been many changes to the Council's Medium Term Financial Plan since the budget was set for 2012/13, and the plan can be represented as follows:

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
<b>Income</b>				
RSG (Inc LCTS Funding)	52,093	42,755	36,155	30,017
Retained NNDR (less Tariff)	34,655	35,719	36,648	38,004
Council Tax	62,747	64,397	66,212	68,081
Potential Income - Discount Scheme	1,244	1,281	1,326	1,372
New Homes Bonus	2,254	2,805	3,467	4,139
Dept of Health Funding	3,025	3,169		
NHB / Safety Net Return anticipated	740	682	440	440
Services Transferred to Local Gov (Specific Grants)				
Public Health	11,900	11,900	11,900	11,900
Social Fund Grant	900	887	887	887
<b>TOTAL RESOURCES</b>	<b>169,558</b>	<b>163,595</b>	<b>157,035</b>	<b>154,840</b>
<b>Expenditure</b>				
Expenditure Plans	171,569	167,446	167,253	168,528
Growth Provision	1,800	3,600	5,400	7,200
	<b>173,369</b>	<b>171,046</b>	<b>172,653</b>	<b>175,728</b>
<b>ESTIMATED BUDGET GAP</b>	<b>3,811</b>	<b>7,451</b>	<b>15,618</b>	<b>20,888</b>

Table 7

### Approach to Budget Savings

19. The Council has a strong track record of delivering savings and efficiencies and will therefore be well prepared for the challenges ahead. Although the current plan includes savings of almost £20m, it is clear additional savings are required and difficult decisions will need to be made.

20. Members will be aware that the 2012/13 budget report initiated reviews in the big ticket areas. These reviews are ongoing and the clear aim is to stem future financial pressures

through:

- Reduce costs in these areas where possible
- Stem growth through examining alternative means of service delivery
- If possible, contribute to the remaining budget gap.
- The above table includes an estimate of potential growth. However the big ticket reviews will be aiming to remove this financial pressure from the medium term financial plan.

21. There are numerous workstreams underway or planned, including innovative ways of reducing revenue costs through invest to save schemes.

- Members will be aware that a bid to DCLG’s Weekly Collection Support Scheme delivered a positive outcome of £1.8m enabling “single pass” recycling to commence following due diligence. Using the new split body vehicles will result in a reduced fleet, fewer rounds and manpower creating a revenue and carbon emissions saving.
- The Council is also undertaking a commercial review of high cost placement packages within Learning Disability.

Other initiatives being evaluated, which will be considered by Cabinet before implementation, include:

- A partnership to deliver care and education to Looked After Children placed out of the area. This will result in purchasing additional properties and the redevelopment of King Edwin School site and working with a delivery partner.
- Examining the potential for Extra Care provision within Adult Social care
- Examining the possibility of a specialist Autism provision within the Borough.

22. Although it is too early to place a value on these workstrands, they will contribute to reducing the current costs and providing alternative services which should stem growth pressures.

23. There will be a clear focus on the big ticket areas, even if they fully deliver on the objectives and remove the growth provision from the MTFP, which given the level of growth in recent years is extremely ambitious, then there will still be an estimated gap of approximately £14m by 2016/17. Realistically, the gap will be between £14m and £21m.

24. The Council is in a position that through careful financial management, the 2013/14 position can be managed through one off resources which will allow us to continue the managed approach to delivering savings to address the gap in future years. The final 2013/14 budget report to Cabinet and Council will provide an update on the Final Settlement and focus on setting the 2013/14 budget.

25. The Council clearly however, needs to examine all other areas of spend to identify savings to address the gap. It is therefore proposed that potential savings and service reductions are identified, assessed and discussed in the Spring and Summer of this year as follows:

1. Officers develop proposals for potential savings or service reductions
2. Member discussion & evaluation – March/April, including Cabinet, Executive Scrutiny and Members seminars
3. Final proposals to Cabinet – 16 May 2013
4. Final proposals to Council – 12 June 2013

A series of meetings will be placed in members diaries.

26. The reports to Cabinet and Council will outline the proposals for consultation, potential phasing and an implementation plan. It is likely that for some proposals, external

consultation will be appropriate whilst for others, this may not be required and the changes can be implemented as soon as possible after June next year. It is also possible that some of the savings may be deliverable in 2013/14 which could reduce the call on one off resources.

### **Reserves and One off resources**

27. Members will recall that resource of £13.8m was earmarked for a transformation reserve across the MTFP to support transition and implementation costs such as redundancy costs and invest to save initiatives. The report also earmarked £6.5m to support investments. Given the requirement to now fund the 2013/14 budget gap, as well as Cabinet's support for allocation of funding for Stockton Town Centre and the Local Authority Mortgage Scheme, the position on reserves will be considered fully as part of the budget report.

### **HR IMPLICATIONS & STAFF SUPPORT**

28. The Council will continue to manage service changes sensitively and proactively and has a long history of doing so. Given the extent of change and the budget reductions outlined above there will clearly be a further reduction in the number of posts over the coming MTFP period. It is anticipated that the process adopted will be that used during the recently completed 3 year EIT process with each service review taken through it's own consultation and implementation process.

29. There is no requirement to begin a formal consultation process at this stage as proposals for services have not been identified however the Trade Unions have been kept up to date with the funding developments and regular update meetings are also held with the Trade Unions and the Chief Executive, The Director of Resources and Head of Human Resources & Communications. There have also been regular updates in KYIT on the funding situation and managers have had held briefing meetings with employees. We will continue to provide updates and opportunities for employees to take part in the discussions during the process.

30. It is clear that is a period of uncertainty for employees and the HR service are continuing to ensure that a package of employee support and targeted training is available to all employees.

### **FINANCIAL AND LEGAL IMPLICATIONS**

31. To update the MTFP position for 2013/14 – 2016/17.

### **RISK ASSESSMENT**

32. 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.

### **SUSTAINABLE COMMUNITY STRATEGY IMPLICATIONS**

33. The report supports the Sustainable Community Strategy.

### **EQUALITY IMPACT ASSESSMENT**

34. The report was not subject to an Equality Impact Assessment. The report does not seek approval for a new policy and an assessment was taken on the MTFP report submitted as part of the 2009/10 budget cycle.

## **CONSULTATION, INCLUDING WARD COUNCILLORS**

35. Consultation will be undertaken as part of the lead in to setting the 2013/14 budget.

**Contact Officer: Garry Cummings, Head of Finance & Assets**  
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