

CABINET ITEM COVERING SHEET PROFORMA

AGENDA ITEM

REPORT TO CABINET

1 SEPTEMBER 2016

**REPORT OF CORPORATE
MANAGEMENT TEAM**

CABINET DECISION

Corporate Management & Finance – Lead Cabinet Member – Councillor Cook

FINANCIAL UPDATE & MEDIUM TERM FINANCIAL PLAN – JUNE 2016

Summary

This report focuses on the financial performance and position at the end of the first quarter of the 2016/17 financial year and updates the Medium Term Financial Plan accordingly.

Recommendations

1. That the Medium Term Financial Plan (MTFP) and the current level of General Fund balances be noted.
2. That the revised Capital Programme attached at **Appendix A** be noted.
3. That the response to the consultation documents on Business Rates Reform be delegated to the Director of Finance & Business Services in consultation with the Leader of the Council.
4. That the DCLG offer of a Multi-Year Settlement is accepted, with the supporting Efficiency Plan documents submitted as set out in paragraph 32 of this Report.

Reason for the Recommendation/Decision

1. To update Members on the Medium Term Financial Plan.

Members' Interests

2. 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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DETAIL

FINANCIAL POSITION AS AT 30 JUNE 2016

GENERAL FUND

1. The format of this report has been updated to reflect the new directorate structure of the Council. Reporting for Big Ticket areas is now incorporated within the relevant directorates. Budget variances were previously managed through Managed Surpluses (MS) within each Service group. However given the new organisational structure, combined with no significant unallocated MS (see paragraph 18), the position will need to be managed corporately.

2. The following table details the projected budget outturn position for each directorate in 2016/17.

Directorate	Annual Budget £'000	Projected Outturn £'000	Projected Variance Over/(Under) £'000
Children's Services	32,980	34,180	1,200
Adults and Health	70,220	69,552	(668)
Community Services	18,244	19,100	856
Economic Growth & Development	14,288	14,367	79
Culture, Leisure and Events	8,056	8,234	178
Finance & Business Services	7,327	7,286	(41)
HR, Legal and Communications	3,613	3,613	0
Deputy Chief Executive (inc Democratic Services, Xentrall and Corporate areas)	14,815	14,660	(155)
Xentrall	0	0	0
Total	169,543	170,992	1,449

The reasons for any significant variances (In excess of £100,000) are set out for each directorate below.

Officers will continue to manage budgets carefully and explore opportunities to reduce the projected pressure. At the current time however, this will require to be funded from revenue balances.

Children's Services

3. In setting the budget for 2016/17, a sum of £2,226,000 was allocated to fund growth in the costs of Looked After Children (LAC) in recognition of the transition period prior to the delivery of target savings. Evidence from the first quarter of the financial year suggests that pressures continue to be experienced, particularly relating to the rising number and complexity of external residential placements. In the first quarter we have received 5 new placement requests, all with complex needs which are high costs. Based on current projections, expenditure at year end is expected to exceed overall budget and growth allocation by £900,000. This position would have been considerably worse without the places provided by the Joint Venture with Spark of Genius.
4. The Service has also experienced an increase in specialist domiciliary care, costing £300,000, due to domiciliary care services for children with complex needs and this is due to a small number of children requiring 24/7 care in the home whilst ongoing court proceedings are taking place to determine longer term plans for the children.
5. The expected reduction in Education Services grant due to schools converting to academies is being offset by vacancies within the Psychology Service. There are also pressures in social care costs of £150,000 due to the need to employ agency staff, however this is offset by savings being made in Youth Services due to vacant posts pending the review.

Adults and Health

6. The Service is experiencing an increase in the take up of Direct Payments and Supported Living for Older People and those with Learning and Physical Disabilities resulting in a pressure of approximately £1,200,000. This is being offset by additional client income of

£450,000 and reduced costs of residential placements in Mental Health and Older People of £710,000.

7. Following a protracted period of negotiation, a care fees proposal has recently been circulated for consultation to care providers and the financial implications of this will be reported to members in a future Cabinet report.
8. Projected underspending in 2016/17 on Public Health amounts to £880,000, including an element of managed surplus funding brought forward from 2015/16 that will not now be required to be used.

Community Services

9. There are a number of pressures in this area:
 - HV&E income has reduced and this is resulting in an expected pressure of £230,000. This area is currently being reviewed.
 - There continues to be pressure around Community Transport, with a pressure of £450,000.
 - Community Safety pressures are currently estimated at £340,000 due to reductions in income.
 - The Catering Service continues to perform well, with a surplus of £300,000 projected.
10. Based on information to June 2016, pressures continue to be experienced in respect of Waste Disposal due to increases in tonnage and reduced recycling income. It is projected that costs will exceed budget by £299,000.

Economic Growth and Development

11. Planning development income is currently projected to be lower than budgeted leading to a forecast budget pressure. This will be partly offset by savings due to staff vacancies, leading to an overall projected overspend at year end of £79,000.

Culture, Leisure and Events

12. The main issue is the need to incur temporary costs in relation to a building leased by the Council for which a leaseholder unfortunately went into liquidation. Plans are in place to ensure that a new tenant takes on the lease.

Finance & Business Services

13. No significant variances identified in the first three months of the financial year.

HR, Legal and Communications

14. No significant variances identified in the first three months of the financial year.

Deputy Chief Executive (Democratic Services, Xentrall and Corporate)

15. Funding and expenditure for Corporate items is accounted for under this Directorate, together with the budget position for Democratic Services and Xentrall.
16. The Council budgets for an expected level of income from interest on investments. Forecasts of future interest rates are now significantly lower following the European Referendum decision and the recent Bank of England base rate cut. This will result in a reduced level of investment income received. The situation is currently being assessed in

detail, but a shortfall of a minimum of £200,000 is anticipated in 2016/17. In year this shortfall in investment income will be offset by underspending against other corporate budgets, but the long term impact is expected to be significantly greater and that impact will be included in a future update to the MTFP

Managed Surplus

17. The report to Cabinet in July 2016 on the financial outturn position for 2015/16 identified that a total of £4,088,000 was being held as a Managed Surplus as at 31 March 2016. Of this sum, £2,441,000 has been utilised to support specific expenditure in 2016/17 and is therefore included within the budget figures in the table at paragraph 2 above. A further sum of £332,000 will be utilised in 2016/17 to strengthen management capacity in key Children's Social Care teams and to temporarily fund continuing aspects of the Housing Service.
18. Of the remaining balance, £1,234,000 is earmarked to support specific expenditure in future years (2017/18 onwards).

The position can be summarised as follows:

	<u>£'000</u>
Managed Surplus as at 31 March 2016	4,088
Utilised in 2016/17 Budget	(2,441)
Earmarked for use in 2016/17	(332)
Earmarked for use in 2017/18 & 2018/19	<u>(1,234)</u>
Balance not earmarked	81
Projected balances generated in 2016/17	<u>0</u>
Revised balance	<u>81</u>

Overall Revenue Position/General Fund Balances

19. This report documents emerging evidence of a number of financial pressures in 2016/17. These areas are subject to rigorous management review and mitigating actions are being taken wherever possible. However, it is prudent to set out how such pressures would be funded and this is addressed in paragraph 22 below.
20. A number of the emerging issues may also have a financial impact across the period of the MTFP. This will be addressed in a future report to Members updating the MTFP.
21. The Council aims to retain General Fund balances at a recommended level, currently £7,905,000. As reported to Cabinet in July 2016, the level of balances currently exceeds the recommended level by £1,459,000 and this sum is therefore available to support the MTFP.
22. This report identifies that expenditure is projected to exceed budget in 2016/17 by £1,449,000 for the reasons identified. Remedial action will be taken to mitigate this figure as far as possible, but should this not be possible, the shortfall will be funded from available balances as set out below:

	£'000
Available balances in excess of required level	1,459
Projected Call on Balances in 2016/17	(1,449)
Revised level of available balances	10

100% Business Rate Retention

23. As reported previously, in the Spending Review (October 2015) the Government

announced a fundamental review of the way in which councils are to be funded in the future. The proposal is to move to a system of 100% Business Rates retention for Local Government as a whole by the end of the Parliament. The move to 100% Business Rates retention would be accompanied by a transfer of additional responsibilities to councils to be funded by the additional income retained from business rates.

24. The assessment of the relative needs of councils is fundamental to the design and implementation of a fair system. Alongside the 2016/17 Local Government Finance Settlement the Government announced a *Fair Funding Review*, the aim of which is to conduct a thorough review of what the needs assessment formula should be in the context of the new funding system.

The new system should take account of needs which will mean some method of redistribution of funding is needed. It will not therefore mean 100% retention at an individual authority level.

25. In July 2016 the DCLG published two key consultation documents:

- Self Sufficient local government: 100% Business Rates Retention
- Fair Funding Review: Call for evidence on Needs and Redistribution

26. The documents can be accessed at <https://www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention>.

27. The deadline for submission of consultation responses is 26 September 2016. It is recommended that submission of a response is delegated to the Director of Finance and Business Services in consultation with the Leader of the Council.

Four Year Settlement/Efficiency Plan

28. In December 2015, the Secretary of State for Communities and Local Government announced an opportunity for councils to sign up to a Multi-Year Settlement Offer covering four years. No detailed guidance has been published, but the basic parameters of the offer are summarised below.

“Guaranteed” minimum grant funding for the four year settlement covering:

- Revenue Support Grant
- Transitional Funding for 2 years (Not applicable to Stockton)
- Rural Services Delivery Grant (Not applicable to Stockton)

It is important to note that the offer excludes other key elements of Core Spending power such as:

- New Homes Bonus
- Enhanced Better Care Funding

29. The offer also includes a caveat relating to unforeseen events and exceptional circumstances.

30. In reality for Stockton the offer amounts to a four year “guarantee” of the level of Revenue Support Grant.

31. There is no obligation for councils to accept the offer but it could be envisaged that those who do not accept could potentially shoulder a disproportionate share of any future unforeseen costs. Information to date suggests that most Councils are intending to accept the offer.

32. A requirement of the offer is that a council wishing to accept must publish an *Efficiency Plan*. The Secretary of State has been non-prescriptive on the content of such plans to reduce unnecessary bureaucracy and to encourage acceptance of the offer. It is considered that the following documents, taken together, would constitute an appropriate Efficiency Plan for Stockton:
- Medium Term Financial Plan and Big Picture Programme – Cabinet and Council July/September 2015
 - Medium Term Financial Plan & Budget – Cabinet and Council February 2016
 - Council Plan - Cabinet and Council February/March 2016
33. Authorities that wish to accept the offer need to do so by advising DCLG by 14th October 2016. It is recommended that Stockton confirm acceptance of the offer, submitting the Efficiency Plan documents as set out above.

Capital

34. The Capital budget for 2012/19 is shown at **Appendix A** and summarised in the table below:

CAPITAL PROGRAMME 2012-2019	Current Approved Programme £'000	Programme Revisions £'000	Revised Programme £'000
Schools Capital	16,503	30	16,533
Housing Regeneration & Town Centres Schemes	16,051	0	16,051
Transportation	19,254	360	19,614
Other Schemes	33,445	635	34,080
Total Approved Capital MTFP	85,253	1,025	86,277

Reasons for Movements over £100k

New Schemes

35. £100,000 has been confirmed from the Tees Valley Development Fund, administered by the Combined Authority, for a study to establish the feasibility and impact of the provision of a pedestrian overbridge at Eaglescliffe Station and additional car parking and access road to the west of the station within Durham Lane Industrial Estate.
36. Section 278 Access Works at Tedder Avenue have been added to the capital programme (£260,000), funded by the developer.

Scheme revisions

37. The capital element of the building maintenance programme for 2016/17, including additional schemes, has been added to the capital MTFP (£426,000).
38. Members will be aware that the Council received notification that it would receive £30m to support capacity in Education. A report will be presented to Cabinet in October outlining the Strategy for investment and development.

COMMUNITY IMPACT IMPLICATIONS

39. N/A

FINANCIAL IMPLICATIONS

40. To summarise the projected financial position for 2016/17 and to update the MTFP accordingly.

LEGAL IMPLICATIONS

41. None

RISK ASSESSMENT

42. The update of the MTFP is categorised as low to medium risk and is covered by existing management arrangements.

COUNCIL PLAN POLICY PRINCIPLES AND PRIORITIES

43. The report addresses all four Policy Principles in the Council Plan

CORPORATE PARENTING IMPLICATIONS

44. Not applicable

CONSULTATION INCLUDING WARD/COUNCILLORS

45. Not applicable.

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Appendix A

CAPITAL PROGRAMME 2012-2019	Current Approved Programme	Programme Revisions	Revised Programme	Expenditure April 2012 - June 2016
SCHOOL CAPITAL				
School Investment Programme	16,502,578	30,326	16,532,904	2,145,001
SCHOOLS CAPITAL	16,502,578	30,326	16,532,904	2,145,001
HOUSING REGENERATION & TOWN CENTRES SCHEMES				
Housing Regeneration	6,303,262	0	6,303,262	3,649,273
Stockton Town Centre Schemes	8,331,213	0	8,331,213	1,618,207
Billingham Town Centre Schemes	73,460	0	73,460	5,000
Other Regeneration Schemes	1,342,881	0	1,342,881	117,563
HOUSING REGENERATION & TOWN CENTRES SCHEMES	16,050,816	0	16,050,816	5,390,043
TRANSPORTATION				
Local Transport Plans	7,949,015	0	7,949,015	148,654
Other Transport Schemes	6,853,480	100,000	6,953,480	3,129,142
Developer Agreements	3,395,749	260,000	3,655,749	2,266,620
Tees Valley Bus Network Initiative	1,056,085	0	1,056,085	1,021,262
TRANSPORTATION	19,254,329	360,000	19,614,329	6,565,678
OTHER SCHEMES				
Private Sector Housing	3,005,081	125,360	3,130,441	701,767
Building Management & Asset Review	2,160,819	401,560	2,562,379	1,277,045
ICT & Infrastructure	495,215	0	495,215	254,000
Parks, Museums & Cemeteries	737,215	0	737,215	369,661
Energy Efficiency Schemes	13,240,000	0	13,240,000	8,581,745
Other Schemes	13,806,359	107,615	13,913,974	871,885
OTHER SCHEMES	33,444,689	634,535	34,079,224	12,056,103
Total Approved Capital MTFP	85,252,412	1,024,861	86,277,273	26,156,825