

AGENDA ITEM

**REPORT TO EXECUTIVE
SCRUTINY COMMITTEE
19 DECEMBER 2006**

**REPORT OF CORPORATE
MANAGEMENT TEAM**

FINANCIAL POSITION UPDATE

SUMMARY

The report provides Members with information on the projected outturn position based on information to the end of September 2006, the medium term financial position (MTFP) and the 2007/08 financial settlement.

DETAIL

Projected Outturn

1. The position for 2006/07 are structured around three “ring-fenced” financial areas:
 - a. General Fund
 - b. Housing Revenue Account
 - c. Capital

Summary projected outturn information for each service grouping is attached at **Appendix A**, including a detailed variance analysis

General Fund

2. The projected 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 £2.5 million into 2007/08 compared to a £1.873million Managed Surplus reported to Cabinet in September 2006.

3. The following table details the current MTFP position.

MTFP (MS / MC) – September 2006 Outturn

Service Reserves (MS)/MC	Approved Position at 31/03/2007 (MS) / MC's £'000's	Projected Outturn Position at 31/03/2007 (MS) / MC's £'000's	Projected Outturn Position at 31/03/2008 (MS) / MC's £'000's	Projected Outturn Position at 31/03/2009 (MS) / MC's £'000's	Projected Outturn Position at 31/03/2010 (MS) / MC's £'000's
CESC	(587)	(760)	0	0	0
D & NS	(1,149)	(1,490)	0	0	0
RESOURCES	(117)	(121)	(65)	0	0
TES	133	38	0	0	0
LAW & DEMOCRACY	0	0	0	0	0
POLICY & COMMUNICATIONS	(153)	(167)	(27)	0	0
TOTAL	(1,873)	(2,500)	(92)	0	0

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 savings amounting to £6.8 million, including £3.5 million within Development and Neighbourhood Services and £2.5 million within Children, Education and Social Care, will be made within service groupings over the medium term financial plan. These savings will be required to maintain a balanced budget to cover inflationary and service pressures within our services. This will be a difficult task and a considerable strain will be placed on our services to achieve these efficiencies.

4. In accordance with the Councils Medium term Financial Planning process most of our services, apart from Health and Social Care and Care For Your Area, have to operate within a stringent efficiency agenda, in conjunction with the remit of a 1% increase in resource allocations. As part of this financial process our service's are required to utilise available Managed Surpluses to fund specific pressures that requires detailed planning at least 3 years into the future. The following paragraphs covering the generation and utilisation of Managed Surpluses supports this process. Key movements since the last reported position are as follows:

Children, Education and Social Care

The Service Grouping is currently projecting a £760,000 Managed Surplus at the end of the year. The major variations identified since the June budgetary control exercise are:

- Elderly Agency Placements (underspend of £250,000) due to a reduction in the number of elderly placements, there is however, a growing rise in demand for community based services;
- Surestart (overspend of £181,000). Redundancy and early retirement costs arising from staffing reductions within the service following the decline in government support from 2007/08;
- Children's Residential Homes (underspend of £125,000). Vacant posts are not being filled in residential children's homes until the closure of Vulcan Way is complete and the role of the Disability Community Service is enhanced.

During 2007/08 part of the £760,000 Managed Surplus is ring-fenced to the Youth Offending Service (£243,000) in accordance with the requirements of the specific grant allocation. The remaining element (£517,000) will be utilised, subject to the appropriate approval, to fund the procurement and implementation of the Integrated Children's System (£233,000) and as a subsidy towards Neighbourhood Nursery provision following the cessation of DfES grant and to cover some redundancy costs (£150,000). It is intended that any remaining balance will be considered as part of the budget setting process.

Development & Neighbourhood Services

The managed surplus for Development and Neighbourhood Services is £1,490,000. The major variations identified since the last report are as follows:

- Grounds Maintenance (increase in income of £103,000) – generated through Tristar Homes Limited from works mainly to Linear Park;
- Incinerator/Civic Amenities (underspend of £188,000) – actual waste disposal tonnages are lower than anticipated.

The Managed Surplus (£1,490,000) will be utilised, subject to the appropriate approval, to fund staffing, general and more specific inflationary pressures within:

- Planning (£457,000) which includes a specific pressure for additional Development Control Staff (£231,000) assuming no planning delivery grant;
- Housing Services (£336,000) that includes the requirement to fund a Private Sector Stock Condition Survey (£100,000);
- Community Protection (£215,000);
- Engineers (£388,000), that mainly arises from increases in Street Lighting energy prices (£233,000) and
- Remaining service areas (£94,000).

Training and Employment Services

The MTFP position for 2006/07 has improved since the report to Members in September. The Job Centre Plus contracts have been extended to the end of December, which has resulted in higher than anticipated levels of income. The long-term situation remains uncertain as contracts have not been awarded after December, but we are hopeful that the service will receive sub-contracts equivalent to the current levels of income. An update will be presented to Members when these issues have been resolved and more information is available.

General Fund Balances

5. The Council's current policy is to hold 3% of General Fund expenditure as balances. In the report to Cabinet in September the forecast level of working balances was £8.9million and the position has now improved to £9.9 million (3% requirement equates to £6.9m). The major reason for the change is the improved position within our interest on balances arising from high levels of long and short-term investments and improving interest rates. The overall position on balances can be summarised below:

	£m Final Position at 31 March 2007	% of General Fund
Corporate Working Capital	(9.932)	(4.3)
Net (MS)/MC	(2.500)	(1.1)
Net Working Balances	(12.432)	(5.4)

6. It should be noted that £400,000 of the £9.9 million in working capital has been approved to be utilised as part of the Medium Term Financial Plan in 2007/08, which leaves available corporate working balances at £9.5 million (4.0%). A number of potentially significant pressures and opportunities, including Single Status, increasing energy costs and Building Schools for the Future (BSF) have been identified in earlier reports to Cabinet.

7. Officers will be shortly starting to review the MTFP, including a quantification of these pressures, as part of the 2007/08 budget setting process and the level of reserves will be reviewed as part of this process.

Housing Revenue Account

8. The projected position is in line with the report presented to Cabinet in September, which is a surplus of £1.1 million at the 31 March 2007.

Capital

9. The Capital budget for 2006/07 is outlined in the following table:

	Approved Budget £000's	Outturn £000's	Variance £000's
Children, Education and Social Care	13,309	8,593	(4,716)
Development & Neighbourhood Services	44,071	44,513	442
Resources	235	170	(65)
Total Programme	57,615	53,276	(4,339)

10. This movement includes cost variations of £ 914,000, slippage of £(2,000,000) and a re-profiling of the use of ring-fenced resources £(3,253,000). The major reasons for the movements are as follows:

Ring-fenced Resources £000's

Children, Education and Social Care

NDS Modernisation – delayed start of the schemes, all are expected to be completed by the end of 2007/08. The expenditure will be funded from grant (approvals cover a 17 month period), borrowing and corporate resources. (1,990)

Devolved Formula – funding allocation ring-fenced to schools and covers a 3 year period. (1,263)

Slippage

Children, Education and Social Care

Redbrook/Roseworth Targeted Capital – scheme due to commence in May 2007, funded from grant and corporate resources. (1,236)

£000's

Preston Hall Winter Garden – the scheme will start next year and be funded from corporate resources and the Lottery Fund. (107)

Development and Neighbourhood Services

Repurchase of Council Housing – rescheduled programme of repurchases on Hardwick and Mandale. Work to be undertaken in 2007/08 and funded from capital receipts. (554)

Cost Variations

Children, Education and Social Care

Grangefield Targeted Capital Funding – scheme is now complete and no further expenditure is expected. (182)

Development and Neighbourhood Services

Regeneration – the programme now includes the construction of Mandale Linear Park. This scheme is being funded by the developer from contributions. 1,003

Market Restructuring SHIP – reduced programme as a result as a result of a government cut in funding for the Housing Market Renewal Fund in the Tees Valley. (146)

Ropner Park Regeneration Project

11. There are issues surrounding the funding of the Ropner Park Regeneration Scheme, which was worth around £3.4m and levered in £2.8m in external funding, resulting in the significant restoration of the park. To meet the timescales for heritage lottery funding a commitment to match funding had to be provided to enable a successful £2.4 million bid. At the time, it was hoped that other external funding would be accessible for certain elements of the redevelopment, but despite exhaustive efforts not all these funding streams were available. Some elements of the scheme also proved to be exempt from Heritage Lottery Funding. In addition during the works, in common with other major restoration projects, further elements became apparent including far more extensive tree surgery, replanting and additional expenditure on entrance works, including gates etc.
12. Clearly, the priority has been to manage the opportunities on site to ensure a successful and hugely popular redevelopment. Despite extensive efforts, it is felt that all avenues to lever in additional external support and grant funding have been explored. Unfortunately, some of these have not materialised and there is a funding gap on the scheme of up to £500,000.
13. Officers are currently finalising the details of the shortfall and it is recommended that a contribution of up to £500,000 be made from available corporate capital resources, which were originally set aside to fund strategic capital schemes.

Current Issues Leading Up To The 2007/08 Finance Settlement

14. A number of issues were covered in the report to Cabinet in July, namely
 - Indicative settlements for 2007/08
 - Comprehensive Spending Review (CSR) 2007
 - Lyons Report

2007/08 Provisional Settlement

15. Members will be aware that as part of the 2006/07 Revenue Support Grant Settlement, the Government, for the first time, issued indicative grant allocations for the following financial year. Despite releasing these figures the Government are consulting on the Revenue Support Grant Settlement as normal and issued a provisional settlement for 2007/08 on the 28th November. Final figures will be issued sometime in the new year. The next Cabinet meeting will be held on 4th January, 2007, which is before the consultation period has closed and a recommendation has been approved by Cabinet that the Corporate Director of Resources, in consultation with the Leader and Deputy Leader, be delegated approval to respond to the provisional settlement.

Comprehensive Spending Review (CSR 2007)

16. In advance of the CSR the Government have been damping down expectations and hinting that rises in public expenditure will slow considerably. As part of Stockton's service planning process, Corporate Directors and Heads of Service have been requested to prepare details of pressures they face from 2007/08 onwards. These will be collated and reported to Cabinet as part of the budget process. In the interim, the Council has responded to requests from the Local Government Association (LGA) for examples of the type of financial pressures local authorities are experiencing. The LGA are using this information in their ongoing dialogue with Government to build up a strong case of the challenges authorities face in the lead up to the CSR.

Lyons Report

17. Sir Michael Lyons report into the functions and funding of local government is expected in February 2007.

Consultation

18. A members seminar will be arranged during January 2007. A debate and decision process on Council Tax levels and allocations of any headroom funding will be the object of the seminar. As normal, there will also be drop-in sessions for Members during February to discuss the budget position in more depth.
19. Discussions are currently taking place with the Business Forum to determine the nature of the consultation to be undertaken. In addition the council will be visiting Renaissance to consult on the budget setting process.

Financial and Legal Implications

To update the MTFP and outline the projected 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 2006.

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.

Julie Danks
Corporate Director of Resources

Contact Officer: Brian Simpson
Telephone Number 526357
Email address: brian.simpson@stockton.gov.uk

Background papers: MTFP Files and Reports