

AGENDA ITEM

**REPORT TO EXECUTIVE
SCRUTINY COMMITTEE**

17TH SEPTEMBER 2007

**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 June 2007, the Medium Term Financial Plan (MTFP) and current issues for the 2008/09 Revenue Support Grant settlement.

DETAIL

Projected Outturn

1. The position for 2007/08 are structured around three “ring-fenced” financial areas:
 - a. General Fund
 - b. Housing Revenue Account
 - c. Capital

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 £1.769 million into 2008/09 compared to the £1.403 million Managed Surplus reported to Committee in July 2007.

3. The following table details the current MTFP position.

MTFP (MS / MC) – JUNE 2007 OUTTURN

Service Reserves (MS)/MC	Approved Position at 31/03/2008 (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	Projected Outturn Position at 31/03/2011 (MS) / MC's £'000's
CESC	0	(199)	0	0	0
D & NS	(1,216)	(1,318)	0	0	0
RESOURCES	(53)	(40)	(10)	(15)	0
TES	0	0	0	0	0
LAW & DEMOCRACY	0	(30)	0	0	0
POLICY & COMMUNICATIONS	(134)	(182)	0	0	0
TOTAL	(1,403)	(1,769)	(10)	(15)	0

Note: The above table takes account of the utilisation of Managed Surpluses within Children, Education and Social Care, 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 £3.3 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. Even though the Council could look towards partly offsetting such pressures through increasing income from trading and commercial activity, this will be a difficult task and a considerable strain will be placed on our services to achieve these efficiencies.

4. Key movements since the last reported position are as follows:

Children, Education and Social Care

The Service Grouping is currently projecting a £199,000 Managed Surplus at the end of the year. The major variations identified in June are:

- Elderly Agency - (£536,000 underspend) resulting from a reduction in Elderly Residential and Nursing placements (£780,000). This has been partly offset by a shift to community based services including an increase in Personal Care packages (£100,000). Resources have also been earmarked to support the provision of additional extra care housing at Aspen Gardens (£144,000);
- Adults Learning Disability Agency – (£1,318,000 overspend) due to an increase in the number and complexity of supported placements, including the transitional impact of young adults moving between children and adult services, and a change in the balance of funding between partner agencies with a consequential impact on income;
- Children’s Leaving Care Services (£172,800 underspend) due to a lower than anticipated number of care leavers receiving payments due to changes in their eligibility under the Care Leavers Act and movements out of the borough.
- Integrated Children’s System – (£176,000 underspend). This will be carried forward and earmarked for use in 2008/09 to fund the ongoing implementation of this IT development including the costs of software and consultancy.

During 2008/09 the Managed Surplus (£199,000) will be utilised, subject to the appropriate approval, to mainly fund the procurement and implementation of the Integrated Children’s System. It is intended that any remaining balance will be utilised to fund pressures arising within the service.

Development & Neighbourhood Services

The managed surplus for Development and Neighbourhood Services is £1,318,000. The major variations expected during the year are as follows:

- Refuse Collection – (£119,000) improved contract negotiations for motor fuel and savings on hire purchase arising from the purchase of vehicles (£51,000) and an increase in commercial waste income (£55,000).
- Management - £101,000 overspend due to loss of income and additional costs on events including the motor show (subsequent repairs were required to the field following the bad weather) and early retirement costs to aid the continuing efficiency of the service.

The Managed Surplus will be utilised over the medium term to fund pressures within the service.

General Fund Balances

5. The Council's current policy is to hold 3% of General Fund expenditure as balances (equates to £7.4 million at 1st April 2008). In the report to Committee in July and following the utilisation of working capital as part of the budget setting process, the forecast level of working balances at 31st March 2008 was £9.2 million (equated to £1.8 million over the 3%). At June a number of issues have arisen that have further improved this position and the current level of working capital now exceeds the 3% by £5.6 million. The issues include the following:

	£000's
Corporate provisions allowed for within the budget that will not now be required.	535
Expected receipt of Public Service Allowance (PSA) Reward Grant due in March 2008, based on performance against previous year PSA targets. The Council only became aware of the level of reward grant following the completion of the outturn exercise.	812
Improved position on interest received on balances (investment interest rate forecasts used at budget setting were 5% and these are now closer to 6%) and interest payable on borrowing following a debt restructuring exercise.	2,300

6. At present, the overall position on balances can be summarised below:

	£m Expected Position at 31 March 2008	% of General Fund
Corporate Working Capital	(13.037)	(5.4)
Net (MS)/MC	(1.769)	(0.7)
Net Working Balances	(14.806)	(6.1)

The Council received £1.6 million in Local Authority Business Growth Incentive Scheme Grant (LABGIS) from Communities in Local Government (CLG) in February 2007. At present, there is some uncertainty over the expected receipt in 2007/08 and the Council has not built in any receipt into the above forecasts. This position will continue to be reviewed as part of the Medium Term Financial Planning process.

7. It should be noted that there are a number of major issues and pressures that may require major funding from the Council's available corporate working capital. These are summarized in the following paragraphs.

Neighbourhood Renewal Grant (NRF)

Serious concerns have emerged around the level of Neighbourhood Renewal Grant funding that the Council will receive in 2008/09. Although the position is currently under review, the Council will receive funding of £3.7 million in 2007/08 and any reduction is expected to have a major impact on the Council's Medium Term Financial Plan.

2008/09 Grant Settlement

There is some uncertainty around the level of support grant funding that the Council will receive next year, currently a 2% grant increase is built into the Medium Term Financial Plan, but this is by no means certain.

Housing Benefits

A further significant emerging pressure has arisen in Housing Benefits amounting to £200,000 in 2008/09 and rising to £500,000 by 2010/11. This is due to the Department of Works and Pensions (DWP) decision to cut the Administration Grant by 5% year on year.

Service Pressures and Opportunities

There are also a number of potentially significant pressures and opportunities, including Single Status, Building Schools for the Future (BSF), Integrated Children and Adult Services and a range of regeneration schemes. These have been identified in earlier reports to Members.

8. Officers will be shortly starting to review the MTFP, including a quantification of these pressures, as part of the 2008/09 budget setting process and an assessment of our available reserves will be undertaken as part of this process.

Housing Revenue Account

9. The projected position is in line with the report presented to Committee in July, which is a surplus of £1.3 million at the 31 March 2008.

Capital

10. The Capital budget for 2007/08 is outlined in the following table:

	Approved Budget £000's	Outturn £000's	Variance £000's
Children, Education and Social Care	17,076	14,675	(2,401)
Development & Neighbourhood Services	57,398	57,169	(229)
Resources	988	988	0
Total Programme	75,462	72,832	(2,630)

11. This movement includes savings on expenditure of £(3,000) and slippage of £(2,627,000). The major reasons for the movements are as follows:

£000's

Slippage

Children, Education and Social Care

Abbeyhill and Westland School – Delays in the tendering process with construction now due to begin in October. The expenditure will be funded from DCSF grant and borrowing. (427)

Replacement of Redbrook / Roseworth primary schools – Delays in the tendering process. Work is due to commence in November, with the school now due to open in April 2009. The scheme is funded from DCSF grant, revenue contributions and corporate resources. (1,934)

Movements in the 200708 capital programme;

12. The following schemes are the major additions to the 2007/08 capital programme since the report to Cabinet in February:

Northshore Footbridge – Figure previously reported to cabinet for 2007/08 was £5.619 million, this figure has now increased to £7.482 million. This is due to the tender value being higher than originally anticipated and a re-profiling of the scheme. The scheme is funded from various grants including Tees Valley Partnership.

Extended Schools – £250,000 has been made available from Sure Start Grant, for use by primary schools. The funding will be allocated to clusters of primary schools, and will be used to develop additional services to the wider community.

LTP Integrated Transport – additional contributions amounting to £1.305 million (original approval £2.237 million) have been secured since the budget setting report presented to cabinet in February and will be fully utilized for integrated transport related schemes.

Thornaby Pavilion Improvements

13. The initial brief to improve the Pavilion was costed at £600,000, funded from corporate capital resources and a contribution from Tees Active Limited. In 2006 revisions to the scheme were proposed that included taking over part of the bowls area for a fitness centre, with the aim of creating a facility comparable with those in Billingham and those proposed for the new Splash. The above would not have otherwise been possible within the confines of the existing building, the total additional area being 400 square metres of which 300 square metres relates to the fitness suite.
14. Tees Active Limited have also identified the above as an opportunity to provide significant improvements to the Pavilion at a reasonable cost. The improvements include works to a new reception and café, a new fitness suite with integral changing facilities, new public toilets, removal of the existing staircase and the conversion of first floor space to relocate crèche facilities displaced by the new reception. Included as part of the works are essential fire alarm and emergency lighting improvements to enable continued use of the facility. This project is tied in with the Access to Services project at Wrightson House library, which can only be commenced once part of this project has been completed.
15. The above improvements will cost £1.4 million and be part funded from the Council's corporate resources (£420,000), previously approved by Cabinet. It has been proposed that the remainder should be funded through borrowing, as the scheme would not otherwise progress and a recommendation has been forwarded to Council that £1.008 million of prudential borrowing be approved to help fund the improvement works. Tees Active's Management Board has approved the business case for investment and the additional costs, including the ongoing annual revenue costs of borrowing, will be borne by Tees Active Limited.

Current Issues Leading Up To The 2008/09 Finance Settlement

16. Members will be aware that at a national level there are a number of issues in respect of Local Government Finance, which will impact on future local government finance settlements.

- **Grant settlement for 2008/09 and indicative settlements for 2009/10 and 2010/11**

2008/09 marks the starting point for the next round of multi-year grant settlements. It is expected that the Government will announce details of the Council's next three years grant settlements in December of this year. In addition, there could be significant changes to the formulae used to assess needs and distribute grant to councils. The consultation paper has now been received and is currently being assessed by officers. Key issues will be reported to members with comments forwarded to the Government in accordance with the timetable.

- **Comprehensive Spending Review (CSR) 2007**

The Government initially announced that next CSR will not be published in the summer as previously announced, but will now be published in late autumn. Latest implications are that the CSR announcement will now be made in early October. The CSR provides indicative expenditure and grant figures for the next three years at a national level and will assist Council's in their financial planning over the period.

- **Local Authority Business Growth Incentive Scheme (LABGIS)**

The current scheme ends at the end of 2007/08 and the Government has already started consultation with some local authorities on its replacement. The CLG expect to start a general consultation exercise shortly.

- **The Lyon`s Report.**

This addressed many issues relating to local government, which for the moment have been placed in abeyance. However, it is probable that some elements of the report will be introduced in future. Announcements are expected on Supplementary Business Rates and measures to take-up Council Tax benefit.

Financial and Legal Implications

To update the MTFP and outline the outturn position as at 31 March 2008 on General Fund, Capital and the HRA and complies with the requirements of the Accounts and Audit Regulations 2003.

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.

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Background papers: MTFP Files and Reports