

## **AGENDA ITEM**

### **REPORT TO EXECUTIVE SCRUTINY**

**4 JANUARY 2011**

### **REPORT OF HEAD OF FINANCE & ASSETS**

## **QUARTER 2 MEDIUM TERM FINANCIAL PLAN UPDATE**

### **SUMMARY**

The appendix to this report updates Members on the Council's current financial position as at the end of September 2010. It also updates Members on the funding position of the Council following the Comprehensive Spending Review and outlines the Council's approach to developing the Medium Term Financial Plan covering 2011 to 2015.

### **RECOMMENDATION**

That Members note the report.

### **DETAIL**

1. The Medium Term Financial Plan report presented to Cabinet on 16 December 2010 is shown attached at **Appendix 1**.

### **FINANCIAL AND LEGAL IMPLICATIONS**

2. To update the MTFP and outline the outturn position as at 30 September 2010 on General Fund, Capital and the HRA and comply with the requirements of the Accounts and Audit Regulations 2003.

### **RISK ASSESSMENT**

3. 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**

4. The report supports the Sustainable Community Strategy.

### **EQUALITY IMPACT ASSESSMENT**

5. 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**

6. Not applicable.

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CABINET ITEM COVERING SHEET PROFORMA

## AGENDA ITEM

## REPORT TO CABINET

16 DECEMBER 2010

REPORT OF CORPORATE  
MANAGEMENT TEAM**CABINET DECISION****Corporate Management & Finance – Lead Cabinet Member – Councillor Laing****QUARTER 2 MEDIUM TERM FINANCIAL PLAN UPDATE**1. Summary

This report updates Members on the Council's current financial position as at the end of September 2010. It also updates Members on the funding position of the Council following the Comprehensive Spending Review and outlines the Council's approach to developing the Medium Term Financial Plan covering 2011 to 2015.

2. Recommendations

1. Members note the financial position as at September 2010.
2. Members agree the approach to the development of the Medium Term Financial Plan for 2011-15 and endorse the efficiency plan proposed to cover the likely budget gap.
3. Members agree that for grant funding at risk, grant exit strategies are developed with a view to services being stopped or reduced to reflect the reduced funding.
4. Members note the continued support for the Voluntary and Community Sector through VSSF and the development of an Asset Transfer Strategy, and the exploration of new models of service delivery for social care.
5. Members note the strategy for dealing with HR issues outlined at Paragraphs 43 and 44.

3. Reasons for the Recommendations/Decision(s)

To update Members on the current Medium Term Financial Plan position.

4. Members' Interests

Members (including co-opted Members with voting rights) should consider whether they have a personal interest in the item as defined in the Council's code of conduct (**paragraph 8**) and, if so, declare the existence and nature of that interest in accordance with paragraph 9 of the code.

Where a Member regards him/herself as having a personal interest in the item, he/she must then 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 (**paragraphs 10 and 11 of the code of conduct**).

A Member with a prejudicial interest in any matter must withdraw from the room where the meeting considering the business is being held -

- in a case where the Member is attending a meeting (including a meeting of a select committee) but only for the purpose of making representations, answering questions or giving evidence, provided the public are also allowed to attend the meeting for the same purpose whether under statutory right or otherwise, immediately after making representations, answering questions or giving evidence as the case may be;
- in any other case, whenever it becomes apparent that the business is being considered at the meeting;

and must not exercise executive functions in relation to the matter and not seek improperly to influence the decision about the matter (**paragraph 12 of the Code**).

**Further to the above, it should be noted that any Member attending a meeting of Cabinet, Select Committee etc; whether or not they are a Member of the Cabinet or Select Committee concerned, must declare any personal interest which they have in the business being considered at the meeting (unless the interest arises solely from the Member's membership of, or position of control or management on any other body to which the Member was appointed or nominated by the Council, or on any other body exercising functions of a public nature, when the interest only needs to be declared if and when the Member speaks on the matter), and if their interest is prejudicial, they must also leave the meeting room, subject to and in accordance with the provisions referred to above.**

**AGENDA ITEM**

**REPORT TO CABINET**

**16 DECEMBER 2010**

**REPORT OF CORPORATE  
MANAGEMENT TEAM**

**CABINET DECISION**

**QUARTER 2 MEDIUM TERM FINANCIAL PLAN UPDATE**

**SUMMARY**

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**RECOMMENDATIONS**

1. Members note the financial position as at September 2010.
2. Members agree the approach to the development of the Medium Term Financial Plan for 2011-15 and endorse the efficiency plan proposed to cover the likely budget gap.
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5. Members note the strategy for dealing with HR issues outlined at Paragraphs 43 and 44.

**DETAIL**

**FINANCIAL UPDATE AS AT 30 SEPTEMBER 2010**

1. The following table details the current MTFP of each Service Group.

<b>Service Reserves (MS)/MC</b>	<b>Previously reported position at 31/3/2011 (MS)/MC's £'000's</b>	<b>Projected Outturn position at 31/3/2011 (MS)/MC's £'000's</b>	<b>Projected Outturn position at 31/3/2012 (MS)/MC's £'000's</b>	<b>Projected Outturn position at 31/3/2013 (MS)/MC's £'000's</b>
CESC	(395)	(77)	0	0
D&NS	(285)	(237)	0	0
RESOURCES	(65)	(89)	0	0
LAW & DEMOCRACY	(58)	(99)	0	0
POLICY & COMMUNICATIONS	(401)	(446)	(194)	(42)
<b>TOTAL</b>	<b>(1,244)</b>	<b>(948)</b>	<b>(194)</b>	<b>(42)</b>

2. There are a range of pressures currently being experienced by service sand these are outlined below:

### Children, Education and Social Care

3. Previous reports have identified a range of pressures within this area and these have been incorporated into the medium term financial plan and reflected in the managed surplus position. There has been a slight reduction in anticipated managed surplus at the end of the financial year due to an increased pressure in looked after children. The overall pressures within this area this year can be summarised as follows:

Childrens Placements – there has been an increase in high cost placements which is estimated to cost the Council an additional £1million.

Foster Allowances – there has been an increase in children in care and the majority of these have been placed into the independent sector due to the lack of “in-house” foster carers. This also equates to £1million.

Legal Fees – additional legal costs in respect of child care cases are anticipated to mean a pressure of £150,000.

Agency Staff/contact arrangements – the council are still having difficulty recruiting social workers for childrens’ services and are having to employ agency staff at a cost of £285,000.

Direct Payments – the direct payments budget is anticipated to overspend by £500,000

Although these services are being regularly reviewed, it is likely that these costs will continue across the medium term.

### Development & Neighbourhood Services

4. There are a number of pressures which are currently being managed within the service and these include:

Waste – the closure of contracted lines at the EFW plant has created a pressure of approximately £200,000.

HVE – a general decrease in work has resulted in a reduced surplus of £200,000.

Street Lighting – there are increased distribution charges associated with energy costs which are expected to cost approximately £100,000.

There has been an increase in income from sale of recyclables through renegotiated prices as well as savings within Highway Maintenance which have helped to offset these pressures within this financial year.

### **General Fund Balances**

5. The current general fund balances are anticipated to be £11.3m which is £3.4m above 3%. This is discussed further in the report when considering the approach to the MTFP. This is an increase of approximately £500,000 since the last reported position and this is mainly due to the benefits of a debt redemption exercise which has reduced the Councils debt management costs.

## Capital

6. The Capital budget for 2010/11 is outlined in the following table:

	Revised Budget £000's	Outturn £000's	Variance £000's
Children, Education and Social Care	13,774	13,800	26
Development & Neighbourhood Services	46,052	44,586	(1,466)
Resources	3,935	3,863	(72)
Total Programme	63,761	62,249	(1,512)

7. The main variation in respect of capital is associated Billingham Town Centre Regeneration (£1.5 m) The Funds set aside from the capital receipt for contributions to fund Town Centre Infrastructure improvements is linked to the redevelopment of the Town Centre by Stockland and this is now anticipated to be committed during 2011/12.

## HRA

8. Members will be aware that the Council has approved the transfer of the Council's housing stock. There are a number of costs, previously associated with the HRA which will transfer to the Council and these have been mitigated through the repayment of Council debt following receipt of the settlement from Government and the HRA balances.

## NATIONAL FUNDING POSITION

### CSR

9. Members will be aware from previous reports, of the difficult and challenging position facing local government, and the level of uncertainty in planning following changes and funding reductions outlined as part of the CSR. Some key headlines from the CSR were:

- The overall reduction in Revenue Support Grant grants to Local Government was 29% by 2014/15 in cash terms, with 14% being reduced in the first year.
- There were £3.4bn of Area Based and Specific Grants which were incorporated in Revenue Support Grant, and this will increase to £4.5b by 2014/15. The main reason for the increase was an extra £1b in respect of Social Care.
- The net effect of the above was an overall reduction of 21.7% in funding which was the headline reduction for Local Government.
- Funding would be available to allow Local Authorities to implement a Council Tax freeze for 2011/12. This funding would be equivalent to a 2.5% tax increase and would be for 4 years.
- There were a significant number of grants where no information was provided.
- Changes were announced to the carbon reduction scheme which means the payments made by participants to this mandatory scheme would no longer be redistributed back to participants based on performance but would be retained by Treasury.
- Prudential Borrowing rates were increased by 1%.

10. Critically there were a number of areas of uncertainty:

- A number of grants were incorporated into RSG. The distribution effect of RSG could impact on the level of resources received.
- There was uncertainty over a number of grant streams and whether they would continue.

- It was unclear how the headline reductions would be distributed through our RSG funding formula.
11. In addition to the above, there was a review of the Revenue Support Grant Formula calculations which would also impact on the funding.
  12. Although the future position was uncertain, it was clear that significant savings would be required and the Council's EIT programme was updated with some reviews truncated, and others brought forward, in order to support the Council's planned approach.
  13. Members will also be aware of recent motions to Council expressing concern over the fairness of reductions in Government funding, particularly in relation to Working Neighbourhoods Funding, and the Council will continue to lobby Government on these matters. Members will be aware that ANEC have also been lobbying on these matters. The Provisional Settlement indicates that WNF is no longer to be paid and Stockton's reduction in Revenue Support Grant is 12.1% in 2011/12 compared to the national average of 9.9%.

#### Provisional Financial Settlement

14. The Provisional Finance Settlement provided further information and impact on the reduction of Council funding of the Comprehensive Spending Review. It also reflected changes in Formula Grant calculations and provided some clarification on the Specific and Area Based Grants position.
15. A key issue for Stockton is that the Settlement is for 2 years only. There is to be a fundamental review of local government finance in 2011 and it is expected this will inform subsequent years.
16. Some key information from the Settlement is as follows:
  - £9.2m was transferred to our Revenue Support Grant base position from Specific and Area Based Grants in line with national changes.
  - Our Revenue Support grant will reduce in cash terms by 12.1% in 2011/12 and a further 8.7% in 2012/13.
  - Out of the remaining £30m of Specific and Area Based Grants, £16m will continue, albeit at a reduced rate, the majority being 'unringfenced', £9.6m will stop and we are still awaiting further details in respect of £3m.
  - Overall, based on current confirmed information, Government funding will reduce from £117m to £94m, a reduction of 19.7%.
17. We are awaiting further details in relation to the mechanisms to transfer resources from Health to Local Authorities in respect of support for Social Care. £648m will transfer nationally in 2011/12 and we are awaiting details of our allocation which should be in the region of £2m. Once there is further clarity in respect of funding and also of any responsibilities transferring, the impact and benefit on the MTFP can be considered. We are also awaiting further details on New Homes Bonus funding.

#### **APPROACH TO DELIVERING EFFICIENCY SAVINGS**

18. Members will be aware that the Council have for many years had a managed approach to delivering savings and efficiencies within the medium term financial plan. Since the inception of Stockton as a Unitary Authority, we operated for many years with a Resource Allocation mechanism which increased the resources allocated to the majority of services by only 1%, well below inflation (Excluding education and some aspects of social care). A culture of efficiency within the Council ensured that this was well managed and this has contributed significantly to the Council's strong financial position over recent years. This has also allowed

the Council to invest heavily in a range of service priorities and improvements through the operation of a development fund. Most notably, significant investment has been necessary in social care and in the development and improvement in our care for your area services.

19. The Council has also been committed to reducing the costs of senior management and in back office support services. Members will be aware that we have had Planning for the Futures 1, 2 and 3 which have in various stages reduced our Directorates to 3 and reduced management costs significantly. This included the Unitisation and rationalisation of support services. Most recently, there was a decision not to replace the Assistant Chief Executive and all reviews are considering the management of the Service.
20. The Council has also entered into an innovative shared service partnership with Darlington Borough Council, and this will deliver savings of £7m over a 10 year period which has contributed to efficiencies needed within the current medium term financial plan.
21. A number of specific savings were included in the 2009/10 and 2010/11 budget reports and are therefore already assumed in the Councils future medium term financial plans:

	£
Supplies & Services freeze	2,600,000
Vacant posts/turnover freeze	
Recruitment advertising	150,000
Car Allowances	800,000
Agency Contracts	100,000
Procurement of ICT and Telecommunications Equipment	230,000
EIT Year 1 Reviews / Operational Efficiencies	4,400,000
<b>Savings included in MTFP by 2012/13</b>	<b>8,280,000</b>

#### **MEDIUM TERM FINANCIAL PLAN 2011/15**

22. The Council's MTFP has been reviewed and updated, based on the Provisional Settlement for the next 2 years. Future years funding has been estimated but can only be considered indicative given lack of information available and a review of Local Government Finance and this could change significantly.

	2011/12	2012/13	2013/14	2014/15
	£'m	£'m	£'m	£'m
Spending Plans	153,711	152,721	157,169	161,527
Resources :				
Estimated RSG	76,955	70,241	68,930	64,296
Council Tax (inc collection fund surplus)	74,321	76,416	78,572	80,785
<b>TOTAL</b>	<b>151,276</b>	<b>146,657</b>	<b>147,501</b>	<b>145,082</b>
<b>GAP</b>	<b>2,435</b>	<b>6,064</b>	<b>9,668</b>	<b>16,445</b>
Service Pressures	3,850	4,050	4,050	4,050
<b>ESTIMATED BUDGET GAP</b>	<b>6,285</b>	<b>10,114</b>	<b>13,718</b>	<b>20,495</b>

#### Council Tax Assumptions

23. One of the aspects of the CSR was the commitment of the government to fund a Council Tax Freeze in 2011/12. This was for a one year freeze, with funding allocated to cover this freeze for a period of 4 years. It has been assumed for the purpose of this report that this freeze would be implemented, with Stockton receiving the grant equivalent of £1.8m per annum. It has also been assumed for the purpose of the medium term plan that Council Tax would be increased by 2.5% per annum in subsequent years.

## Expenditure Assumptions

24. The expenditure above assumes:

- Savings outlined at Paragraph 21 have been incorporated into the current spending plans.
- An updated position with regards to Debt Management costs following the debt redemption exercise.
- The current MTFP includes a contribution to the pension reserve of £1m per annum, in anticipation of increased liability following the actuarial review in March 2011. Based on current indications from the pension fund, significant change in the rates is unlikely and this contribution will no longer be required.
- Council Tax freeze in 2011/12 and 2.5% increase thereafter.

25. There are a number of service pressures which to ensure a robust budget going forward, need to be incorporated into expenditure plans:

- a) The pressures experienced in the current financial year which are currently being managed within Services MTFP's, are expected to continue in the medium term. These have therefore been added to the above budget and are shown below:

	£'000
○ Childrens Placements	1,000
○ Foster Allowances	1,000
○ Direct Payments	500
○ Legal Fees	150
○ Energy Cost Increase	150
○ Waste Management	<u>200</u> (one year only)
	3,000

Members will note that the main areas of pressure are in Social Care where there has been a significant increase in numbers over recent years. Following an assessment of REIP programmes and funding, the Council has received some funding to invest in efficiency measures. An element of this funding will be allocated to work with the Voluntary and Community Sector to develop alternative models. The Council is also committed to continuing to support the voluntary and community sector through the Voluntary Sector Support Fund.

- b) The changes proposed to the Carbon Reduction Scheme at the time of the Comprehensive Spending Review will create a pressure with effect from 2012/13. Although we will attempt to mitigate this pressure through energy efficiency measures, this is expected to be in the region of £300,000.
- c) Members will be aware that the refurbishment of Billingham Forum is funded in the main through prudential borrowing and the increase in rates has had a significant impact. Additional costs over and above those previously reported, have also been encountered and an opportunity arose to negotiate a final settlement with the contractor to negate any further risks to the Council. This was approved through the Council's urgency procedures and the overall cost increase is £150,000 per annum.
- d) Following the Government's announcement as part of the June budget in respect of public sector pay, the Council may need to increase pay for staff earning less than £21,000 per annum by pro-rata £250 and this will therefore create an additional pressure of approximately £400,000 in 2011/12 rising to £800,000 thereafter.

26. Although there are a number of factors which could change the grant allocation following the financial settlement, it is clear that the Council will face a significant deficit growing from approximately £6m in 2011/12 to £20.5m by 2014/15.

## Approach to Budget Gap

27. It is important that the by the time of the 2011/12 budget and medium term financial plan report, the Council can demonstrate a robust mechanism for resolving the deficit over the medium term. The Council will continue the managed approach to resolving the deficit and a number of EIT reviews and reports are included elsewhere on the agenda which outline savings which can be incorporated into the MTFP. There are also some areas of budget savings which have been identified which can also be included.
28. There are also a number of other Year 2 EIT reviews in progress and Year 3 Reviews planned. It is suggested that in order to aid financial planning financial targets are given to each of these reviews.

### a) Savings identified to be incorporated into MTFP

We are currently awaiting details of the future Education Capital Programme following the cancellation of Building Schools for the Future and this is expected early in the new year. The current MTFP includes £1m associated with the development and ongoing support to the BSF Programme, it is unlikely however that any future programme will require the same level of support. The work undertaken so far has given us a comprehensive understanding of our school estate which will place us in a good position to develop a School Capital Strategy. This Strategy will be presented to Cabinet in March alongside the funding announcements, and proposals for the development and management of the programme will also be presented. There is however, an expectation that the budget will be reduced by £750,000 in 2011/12 and £850,000 thereafter.

There are a number of organisational restructures recently undertaken and currently planned within CESC's School Improvement Service and Senior Management Structure which will result in savings of £270,000 per annum. There are also organisational restructures within Housing and Regeneration Services underway which will consider the services following changes associated with the Housing Stock transfer, the changing regeneration picture and the changes associated with Tees Valley Unlimited and these are anticipated to save £475,000.

These changes will result in savings of **£1.108m in 2011/12 and £1.596m** thereafter.

### b) Completed Year 2 and Task and Finish EIT Reviews

There are a number of reports included on this agenda associated with EIT reviews, many of which were truncated or brought forward from 2012/13 to meet budget timescales:

- **Back Office Services.** A number of reviews relate to back office services and these have identified savings equating to £2.37m by 2012/13:
  - Administration £1.3m
  - Human Resources £210,000
  - Finance (inc Audit, Risk management and Land & Property), £391,000
  - Taxation & Customer Services, £160,000
  - Democratic Services £ 70,000
  - Xentrall have also identified additional savings over and above the original estimate of £240,000:

It is anticipated that these reviews will deliver half of the annual saving in 2011/12 due to the time taken to implement the recommendations. The savings to be included in the medium term financial plan will therefore be £1.185m in 2011/12 and £2.371m thereafter.

- The Sport, Leisure and Recreation review has outlined savings of £316,000 in 2012/13 rising to £616,000 by 2013/14.

- The Built and Natural Environment Review has identified savings of £150,000 by 2012/13 with the potential for additional savings in the future through changes in car parking charges.

Incorporation of all of these savings would contribute **£1.3m in 2011/12 rising to £3.1m by 2013/14** to the budget gap.

c) Ongoing Year 2 EIT and Task and Finish reviews

There are a number of reviews ongoing where recommendations are due to Cabinet in the next few months and where proposals are still to be finalised.

- A full review of assets is ongoing. This is considering the condition and utilisation of all of the Council's assets and will consider opportunities for co-location of services, rationalisation opportunities and opportunities for community asset transfer. A policy is currently being developed for asset transfer and this will be presented at the same time. This review will also link with the Youth review and also a review of library provision. Given the costs of the Council's buildings are approximately £8.5m, a saving of £1m by 2013/14 is estimated from the review.
- School Meals – the review is still considering final proposals and there are initial indications of savings being delivered. The Council currently subsidises the school meals service by approximately £330,000, due to costs associated with school meals. Given the financial climate facing the Council, it is suggested that this review consider means to remove this subsidy requirement from the Council. This would have no impact on free school meals.
- A review is currently considering options for setting up a Tees Valley Museums Trust for the delivery of the museums service which will save £110,000 without any impact on service. A detailed paper will be presented to Cabinet in due course.
- Review of Adult Services Structure. This review is required to consider the impact of changes in the joint arrangements with Health partners. Given that the task and finish reviews were given targets and delivered savings of 15%, it is suggested that this savings target also be applied in these areas. This will generate £400,000 by 2012/13
- Highway Management. The EIT review of Highways recommended a review of operational structures in this area. If a target saving of 15% were applied, this would generate £273,000 by 2012/13. It is also suggested that this review considers the prioritisation and profiling of highway maintenance work with a view to reducing the budget. A 15% saving would generate approximately £250,000.
- Youth Service – The review has recommended that the Service needs to maintain targeted services but look to reconfigure Universal services considering alternative options for service provision in order to reduce the costs of the service. The report has not yet identified savings and given that the overall Youth Service budget is £1.4m, it is suggested that this review should deliver savings of 15% equating to £210,000 through changing service delivery.

d) Procurement

The previous efficiency programme identified procurement as one of the key tools and mechanisms to deliver savings. The target saving was £1m, however, what has become clear is that in many areas, procurement is contributing to savings as part of other reviews and therefore to avoid potential double counting, this has been reduced to £500,000.

The incorporation of all of the above savings would have the following impact on the Councils Medium Term Financial Plan.

	2011/12	2012/13	2013/14	2014/15
<b>ESTIMATED BUDGET GAP</b>	<b>6,285</b>	<b>10,114</b>	<b>13,718</b>	<b>20,495</b>
a) Savings Identified	1,108	1,596	1,596	1,596
b) Completed Reviews / Reports to Cabinet	1,314	2,828	3,128	3,128
c) Reviews in Progress / Target Savings	589	1,825	2,325	2,325
d) Procurement	250	500	500	500
<b>TOTAL Savings</b>	<b>3,261</b>	<b>6,749</b>	<b>7,549</b>	<b>7,549</b>
<b>Remaining Gap</b>	<b>3,024</b>	<b>3,365</b>	<b>6,169</b>	<b>12,946</b>

e) Services included in the "Hopper"

After delivering the above efficiencies, there will still be a budget gap. There are a number of reviews to be undertaken as part of the EIT Year 3 programme (below), however these will not be sufficient to meet the budget gap. Members will be aware that a number of reviews identified options for further savings which could be considered if the Council's financial position so dictated. It is recommended that Members now implement those options:

- Minor amendment to concessionary fares policy, in line with the National Policy and Tees Valley Authorities if followed would save £60,000.
- Subsidised Bus Routes. The number of routes subsidised would reduce and this would save £300,000

These savings would contribute a further £360,000.

f) EIT Year 3 Programme

There are a number of reviews still to be undertaken in Year 3 which will commence in 2011. These are:

- Learning Disability and Mental Health Services
- Review of School Improvement
- Care for Your Area (Refuse, Street Cleansing, Grounds Maintenance, etc)
- Community Safety and Security
- Childrens Social Care Management
- Waste Management
- Housing benefits
- Legal Services
- Registration and Bereavement
- Housing & Regeneration

The School Improvement Service provides a number of services to schools which are subsidised by the Council to the value of £600,000. It is suggested that this review includes within its remit the removal of this subsidy from the service and works with schools to consider and mitigate its impact.

The overall budget associated with these services is approximately £35m and for the purposes of the medium term financial plan a conservative estimated saving of £2.5m has been assumed from these reviews, given that these reviews include Safeguarding and Waste Management where both services we know are currently experiencing pressures. These services will however be subject to the same rigour of challenge as other services through the review process.

This would mean the savings included in the Council's MTFP to mitigate the budget gap would be as follows:

	2011/12	2012/13	2013/14	2014/15
<b>ESTIMATED BUDGET GAP</b>	<b>6,285</b>	<b>10,114</b>	<b>13,718</b>	<b>20,495</b>
a) Savings Identified	1,108	1,596	1,596	1,596
b) Completed Reviews / Reports to Cabinet	1,314	2,828	3,128	3,128
c) Reviews in Progress / Target Savings	589	1,825	2,325	2,325
d) Procurement	250	500	500	500
e) 'Hopper'	360	360	360	360
f) Year 3 EIT – School Subsidy	300	600	600	600
Other		1,250	2,500	2,500
<b>TOTAL Savings</b>	<b>3,920</b>	<b>8,957</b>	<b>11,006</b>	<b>11,006</b>
<b>Remaining Gap</b>	<b>2,365</b>	<b>1,157</b>	<b>2,712</b>	<b>9,489</b>

29. The above summary demonstrates that there will still be a remaining gap across the Medium Term Financial Plan, and there will overall be a need to reduce base budget by a further £9.5m by 2014/15 in order to resolve the gap, Members will recall the 2010/11 budget report outlined the intention to explore partnering opportunities in a number of areas. This process is continuing and we are currently involved in a range of discussions on areas such as:

Museums service  
 Leisure services  
 Social Care & Health  
 School Effectiveness  
 Care for your area

Although some of these may contribute to savings outlined above, they should contribute further to the budget gap.

30. We have also avoided so far the need to review employees' terms and conditions. Although many changes were implemented as part of the single status agreement there are still some areas which could be explored to contribute to this position.

31. As previously indicated, we are awaiting information in respect of Social Care Funding and New Homes Bonus and this could also improve the position. We do have a number of 'one off' resources and this is covered at paragraphs 39 and 41 and these could be used to support the 2011/12 budget gap provided plans were in place to reduce base budgets thereafter over the medium term.

## **SPECIFIC AND AREA BASED GRANTS**

32. Members will be aware that the Council was affected by in year reductions in grants to the value of £3.6m in this financial year and this was managed to avoid direct impact on front line services, but prevented investment and development opportunities.

33. The Government has announced major changes in the way grants will be administered. Some grants have been incorporated into our revised Revenue Support Grant and this is covered in paragraph 16. The Council currently receives approximately £30m in other Area Based or Specific Grants and the position is outlined below.

### Grants Incorporated into New Funding Streams

34. The Council has now been notified of the funding streams incorporated into the new 'Early Intervention Grant' and the provisional allocation for 2011/12. Details are shown at **Appendix A** and key points to note are:
- The funding streams incorporated amount to approximately £11.4m in 2010/11, although this supports £12m of spend as the in-year cut was supplemented by other resources in the current financial year.
  - The provisional allocation is £9.34m in 2011/12, rising to £9.5m in 2012/13.
  - The Grant includes SureStart, Connexions, and Childrens Fund and is now unringfenced.
35. Given that in future there is a shortfall in funding of £2.7m in these areas, and given the funding is no longer ringfenced, it is suggested that all services covered by this grant, be subject to an urgent Task and Finish review with the need to deliver significant savings and ensure a focus on more targeted services and that staff and providers of commissioned services are advised of this position. Any savings made above the £2.7m would contribute to the budget gap mentioned earlier in the report.
36. There are a number of other grants the Council will receive in place of previous funding streams. These are also shown attached and where previously we received £3.45m, we will now receive £3.75m. These services, with the exception being the PFI grant where there is no scope for savings, are already included in the EIT programme. Given the grant is unringfenced, it will be proposed that the additional £300,000 be used to support the overall MTFP position.

### Grants Confirmed as Stopping

37. There are a number of grants which will stop this financial year totalling £9.6m. The main ones are Working Neighbourhoods Fund (£4.4m) and Future Jobs Fund (£1.2m). Although the Council had not entered into any contracts and there is no impact on the medium term financial plan, this reduction in funding will still have a significant impact on the Council and Borough at a time when we are working hard to mitigate detrimental impact and encourage economic growth. However, this also includes a number of grants which will cease where there will be an immediate impact on the Council (e.g. National Education Strategy, School Development Grant, etc), which equates to approximately £3.6m. It is therefore recommended that exit strategies are developed with a view to these services ceasing from 31 March 2011. Members will also be aware of the significant reduction in funding associated with TVU and the removal of the Area Tourism Grant.

### Awaiting Further Information

38. There are a number of grants totalling £3m, where we are awaiting further details in respect of future funding. Indications within the Finance Settlement and also from some Government Departments are that there is a likelihood of some funding in future but levels are not known. This includes Youth Offending Service, Drugs Prevention, and Music Grant. It is also worthy of note that some of these services also benefit from significant levels of partnership funding from Police and Health and this funding is also unclear. All of the services associated with the grants will therefore be reviewed to consider whether these services could be reconfigured, delivered in a different way or reduced significantly.

### One off funding available

39. Previous budget reports have identified potential 'one off' funding available for use in supporting the Council. It is important to recognise that this is one off funding and can not be used to support ongoing expenditure and whilst it could be used to supplement budgets in a

particular year, it can not support ongoing budget gaps. The Council's one off funds currently available have been re-assessed, many of these have been outlined in previous budget reports, and these are outlined below:

	£'m
Pension Reserve	3.3
Grant Exit Strategy reserve	1.5
PSA Reserve	<u>1.1</u>
	5.9

There is also a current surplus of £3.4m on the Councils Working Balances.

40. In addition, as reported in the 2010/11 budget report, the Insurance Fund could manage without the annual contribution of £1.9m for a period of three years, and this is therefore also available as one off resources.
41. It is likely that these balances would be required to balance the 2011/12 budget, currently estimated at £2.3m, to allow time to assess further funding announcements and allow time to deliver further budget savings. Given the potential transition costs, including redundancy payments associated with the reviews, the grant exit arrangements, and the potential requirement for invest to save schemes, it is strongly recommended that this resource is retained for this purpose.

## HR IMPLICATIONS

42. The Council will continue to manage service changes sensitively and proactively and has a long history on doing so. Given the extent of change and budget reductions, however there will clearly be a significant reduction in the number of posts. It is anticipated that the reviews reporting in this cabinet cycle will result in a reduction in approximately 100 posts, however if the services associated with all of the grants at risk or unconfirmed cease also, this could rise to approximately 250. Although redundancy costs are difficult to estimate, this could be several million pounds.
43. There is a well established consultation procedure in place in the Council, which requires the involvement of the Trade Unions and employees in the process. Legally, an employer must consult with appropriate representatives where they are proposing to dismiss as redundant more than 20 employees within a 90 day period. The consultation period is 30 days for 20 – 99 employees and 90 days for 100+ employees. Although consultation can be concluded earlier than the 30/90 day consultation period no redundancies can take effect until the consultation period has expired. In addition there is also a requirement to notify the Secretary of State, in writing, of the proposal before giving notice to terminate any contracts and at least 30/90 days before the first dismissal takes place. Although the number of potential redundancies is unknown at this stage it is expected that more than 100 redundancies are likely from the reports considered at this Cabinet. In this regard a 90 day consultation period with the trade unions will be required and it is proposed to commence this period on 17 December 2010. Allowing for meaningful consultation to take place the first redundancy dismissals will not take effect before 17 March 2011. This process will need to be repeated as further reviews identify preferred options which may lead to redundancy situations with the consultation period determined by the number of employees potentially to be made redundant over a 90 day period.
44. The potential redundancies impact across teaching and non teaching employees of the Council and as such terms and conditions associated with different groups need to be managed. For instance, teaching staff have specific notice provisions, built into their contracts of employment which means that notice to terminate employment must end on or before 30 April, otherwise termination cannot take effect before the 31 August. This will have further financial implications for the Council, as any savings realised will be for a part year only and in the case of grant funded posts where grants are withdrawn immediately, result in ongoing salary costs. Given the current situation therefore it is proposed that many employees affected by the EIT and Task

and Finish reviews and grant funded jobs may need to be issued with an “at risk” letter. In the case of grant funded jobs this will include the grants where future funding is unconfirmed. This is not a notice of redundancy letter but merely explains the current situation and potential risk to an employee to keep them informed. The issuing of these letters needs to be considered on a service by service basis and should be with the agreement of the Head of HR. There are 270 posts currently funded by specific grants which could be withdrawn.

45. The Trade Unions have been kept up to date with the progress of EIT and Task and Finish reviews and have had meetings with the majority of lead officers as reviews progress. Regular update meetings are also held with the Trade Unions and the Chief Executive, The Director of Resources and Head of Human Resources. There have also been regular updates in KYIT on the EIT reviews and managers have had meetings with employees at appropriate stages in the EIT process. Discussions with the relevant Trade Unions on the proposal to issue ‘at risk’ letters to certain employees are ongoing with a meeting arranged for 8 December 2010.

#### **FINANCIAL AND LEGAL IMPLICATIONS**

46. To update the MTFP and outline the outturn position as at 30 September 2010 on General Fund, Capital and the HRA and comply with the requirements of the Accounts and Audit Regulations 2003.

#### **RISK ASSESSMENT**

47. 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**

48. The report supports the Sustainable Community Strategy.

#### **EQUALITY IMPACT ASSESSMENT**

49. 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**

50. Not applicable.

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**Information Following Finance Settlement**

<b>Service</b>	<b>ABG</b>	<b>Specific Grant</b>	<b>Total Current Grants</b>
<b>Grants incorporated into Early Intervention Grant</b>			
Connexions	1,570,792		
Children's Fund	380,791		
Positive Activities	291,251		
Youth Opportunity Fund		98,260	
Teenage Pregnancy	125,458		
Youth Crime Action Plan		175,000	
Youth Substance Misuse	19,415		
January Guarantee	22,585		
14 - 19 Flexible Funding Pot	43,350		
Early Years SureStart		6,952,142	
Two Year Old Offer - Early Learning and Childcare		211,382	
Think Family Grant		457,000	
Short Breaks Aiming High for Disabled Children		812,100	
Targeted Mental Health in Schools		150,000	
Children's Social Care Workforce	54,500		
Contactpoint			
Child Trust Fund	3,220		
<b>Total</b>	<b>2,511,362</b>	<b>8,855,884</b>	<b>0 11,367,246</b>
<b>Grants Incorporated into Other Core Revenue (Unringfenced Grants)</b>			
Learning Disability Transfer Grant		1,184,000	1,184,000
PFI Grant		554,000	554,000
Council Tax & Housing Benefit Admin Grant		1,688,808	1,688,808
Homelessness Grant		41,000	41,000
<b>Total</b>	<b>0</b>	<b>3,467,808</b>	<b>0 3,467,808</b>
<b>Grants Incorporated into Schools Funding</b>			
Early Years: Flexibility of Free Entitlement for 3-4 Year Olds		1,234,495	1,234,495
National Strategies		974,560	974,560
<b>Total</b>	<b>0</b>	<b>2,209,055</b>	<b>2,209,055</b>
<b>No information Received - Awaiting Announcement</b>			
Drugs & Social Inclusion (Children)	45,525	159,832	
Music Grant		1,423,700	
Extended Rights to Free Transport	62,065		
Youth Offending Service	69,523	558,169	
Drugs & Social Inclusion (Adult)		699,000	
<b>Total</b>	<b>177,113</b>	<b>2,840,701</b>	<b>3,017,814</b>

### Indications that Grants have Ceased

Road Safety Grant	219,163		
Prevent	138,193		
School Travel Advisers	17,488		
School Improvement Partners	70,500		
Primary Strategy	252,561	356,237	
Extended Schools Start up	224,819		
14 - 19 Flexible Funding Pot	0	547,852	
School Intervention Grant	42,047		
Sustainable Travel - General Duty	11,152		
School Development Grant	1,682,915		
Designated Teacher Fund	9,034		
Choice Advisers	23,585		
Education Health Partnerships	48,523		
WNF	4,452,859		
Stronger Safer Communities	207,035		
Supporting People Administration	97,000		
Future jobs Fund		1,172,699	
<b>Total</b>	<b>7,496,874</b>	<b>2,076,788</b>	<b>9,573,662</b>
<b>TOTAL</b>	<b>10,185,349</b>	<b>19,450,236</b>	<b>29,635,585</b>