

## AGENDA ITEM

### REPORT TO EXECUTIVE SCRUTINY

20 DECEMBER 2011

### REPORT OF CORPORATE MANAGEMENT TEAM

## MEDIUM TERM FINANCIAL PLAN UPDATE AND STRATEGY

### Summary

This report updates Cabinet on the Council's Medium Term Financial Plan (MTFP) position for 2012 to 2016. It includes areas where there are uncertainties and seeks agreement to an approach for addressing budget pressures and budget gaps.

### Recommendations

1. Members note the current financial position.
2. Members note the approach to the development of the 2012-16 MTFP.

## DETAIL

### Financial Position as at 30 September 2011

1. The following table outlines the current MTFP position of each service.

	Previously Reported Position	Projected Outturn 11/12	Projected Outturn 12/13	Projected Outturn 13/14
CESC	0	0	0	0
DANs	(192)	(192)	0	0
Resources	(223)	(218)	(218)	(164)
L&D	(146)	(187)	(106)	(24)
Policy & Communications	(196)	(191)	(127)	(63)
<b>TOTAL</b>	<b>(757)</b>	<b>(788)</b>	<b>(451)</b>	<b>(251)</b>

## CESC

2. The previous report to members in September outlined pressures across the Service most notably within childrens social care. It is still anticipated that the variances within the service will utilise all of the managed surplus, which was £2.5m at the start of the financial year. The main areas of anticipated overspend are:
  - Childrens Placements – There is currently an anticipated overspend of £1m due to a slight increase in numbers since budget setting but also an increase in complexity of individual cases. Members will be aware that the following the EIT review, we have invested in opening two new childrens homes and these are expected to open in January 2012. It is anticipated that this will save approximately £300,000 from next financial year, which will contribute to addressing ongoing pressures in this area.
  - Children in Care – the overall costs of looked after children are expected to be £200,000 higher than budget.

- The service is making a number of savings including delivery of some EIT savings ahead of target, which is contributing to managing the pressures being encountered.
- There are a number of pressures within Adult Social Care, most notably within Learning Disability which as Members are aware is currently subject to an EIT review.

These areas will continue to be monitored closely throughout the year and the impact of the current position has been included in the update to the MTFP outlined later in the report.

## **DANS**

3. It is anticipated that the managed surplus will remain unchanged at the end of the current financial year but be fully utilised by the end of 2012/13. There are a number of in-year pressures now predicted, although these are anticipated to be covered within service through savings, some of which it should be noted however, are one-off.
  - Planning Income – indications are that the income will be £250,000 lower than estimated. Given the current economic climate, it cannot be assumed that this will improve in the short-term and Officers are once again reviewing the service with a view to resolving the pressure.
  - Waste disposal – there is an anticipated pressure of £300,000 due to delays in the refurbishment of one of the waste lines and additional NNDR costs.
  - Recycling – additional income is anticipated in relation to the sale of recyclable material of £300,000.
  - Community Protection – savings are anticipated at £276,000 mainly in respect of increased income in relation to Security services and Care Call.

## **General Fund Balances**

4. The position on general fund balances has improved by £700,000 since the previous report and are now estimated to be £10m, which is £1.7m above the 3% required. The main reasons for the improvement are:
  - Income from the sale of Landfill Allowances (£277,000). Given that Trading of Allowances will no longer occur, this will no longer generate income.
  - The report to Members in July identified that costs of Housing Benefits were lower than budget for 2010/11 and this is expected to continue. The budget will be amended for subsequent years of MTFP.
  - The costs associated with the Housing Stock Transfer are approximately £270,000 lower than anticipated.

The £1.7m surplus has been included as one-off resources.

5. Members will recall that the 2011/12 budget report indicated that additional funding in respect of Social Care was anticipated to be received by the Council, although final details were not known at the time. In this context £2.3m of one-off resources was earmarked to ensure a balanced budget position. This funding has now been confirmed for 2011/12 and 12/13 and it is now anticipated that only £600,000 will be required from balances in the current year.

## Current Approved MTFP

6. The current Medium Term Financial Plan as approved in the budget report presented to Cabinet on 24 February 2011 is as follows:

	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000
<b>ESTIMATED BUDGET GAP</b>	<b>158</b>	<b>408</b>	<b>6,272</b>	<b>9,479</b>

Members will recall that the current plan includes the following assumptions:

- Council Tax increases of 3.5% per annum
- A pay freeze in 2012/13, but an increase of 2% per year for 2013/14 and 2014/15
- 2012/13 Revenue Support Grant funding is based on Government funding allocation but future years estimated and could be significantly impacted by local Government resource revenue.

The plan has been rolled forward for an additional year using the same assumptions as above. We have also assumed that the level of Government funding will be the same as 2014/15, but have assumed that Government's support for the 2011/12 Council Tax freeze ceases in 2014/15 as it was only guaranteed for 4 years. This has created a pressure of £1.8m which is included in the above figures. The level of funding could change for 2012/13 following the Provisional Financial Settlement for Local Government, which is expected early in December.

7. Members are also reminded that the current plan also includes a significant level of savings which have been identified through the Council's planned approach to efficiency measures over the past 3 years and these are outlined below.

	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000
<b>Budget Report 2010 / 11</b>				
Supplies & Services freeze	2,600	2,600	2,600	2,600
Vacant posts/turnover freeze				
Recruitment advertising	150	150	150	150
Car Allowances	800	800	800	800
Agency Contracts	100	100	100	100
Procurement of ICT and Telecommunications Equipment	230	230	230	230
EIT Year 1 Reviews / Operational Efficiencies	4,400	4,400	4,400	4,400
<b>Budget Report 2011/12</b>				
EIT Year 2	5,154	6,204	6,204	6,204
Hopper / Identified Savings	1,980	2,130	2,130	2,130
EIT Year 3	1,500	3,000	3,000	3,000
<b>Total Savings included in MTFP</b>	<b>16,914</b>	<b>19,614</b>	<b>19,614</b>	<b>19,614</b>

## Updated Medium Term Financial Plan

8. The plan has been reviewed and there are a number of changes which need to be incorporated into the current plan and these are summarised below:

- Overall the EIT savings are on target to be delivered and in fact additional savings have been generated from EIT and Service reviews and this will generate an additional £1.4m per annum. There are however, some areas where the Council's planned and careful approach means that there will be delays in savings being delivered e.g. FACS review, and these have been incorporated into the plan.
- There are a number of budget adjustments and savings on corporate budgets including the

reduced financial impact to the Council of Housing Stock Transfer outlined in paragraph 4. This includes a pressure associated with AMRA in 2012/13 to 2014/15 due to interest rate levels now being lower than anticipated, although this is expected to recover by 2015/16.

- Members will be aware that following an assessment of the Insurance Fund in 2010/11, it was identified that the contributions made to this fund could be reduced by £1.9m per annum. The fund has again been assessed and it is considered that this resource can continue to be released in the foreseeable future. It has therefore been incorporated as an ongoing saving from 2013/14.
- The increase in Council taxbase means that £186,000 rising to £368,000 in 2014/15 will be generated. There will also be an additional surplus of £500,000 on the collection fund which will be available in 2012/13.
- These additional savings will in part be offset by service pressures:
  - Energy costs – increasing electricity costs will cost the Council £250,000 per annum
  - Waste – there will be a pressure on the waste disposal budget of £800,000 from 2013/14 due to changes in gate fee arrangements.
  - The Council is continuing to experience pressures across Social Care, as outlined in paragraph 2, and the current pressure is expected to continue across the MTFP. Paragraph 4b outlines the position with regard to Social Care funding transfer from Health and we are aware that this is confirmed for 2012/13 and has therefore been built into the plan. It is unclear as to whether these resources will continue into the future, and if this funding is not forthcoming there will be a pressure of £1.7m from 2013/14 to enable the current levels of Social Care investment and support to be maintained.

9. Paragraph 5 outlines that the current plan has assumed a pay freeze in 2012/13. Initial indications are the Employers Organisation are however, currently considering the position nationally and there is a risk that this freeze may not be delivered. In order to be prudent, it is suggested we should incorporate an increase into the plan. We have therefore assumed a 2% increase in 2012/13.

10. Taking account of these changes the updated MTFP position is as follows:

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
<b>Budget Gap per 2011/12 Budget Report</b>	<b>158</b>	<b>408</b>	<b>6,272</b>	<b>9,479</b>
<b>Adjustments</b>				
Additional EIT Savings	(1,213)	(1,453)	(1,453)	(1,453)
Budget Adjustments	136	56	(419)	(1,077)
Taxbase Increase	(186)	(273)	(368)	(368)
Insurance		(1,964)	(1,975)	(1,987)
Pressures	250	2,750	2,750	2,750
2012/13 Pay Award	1,000	1,000	1,000	1,000
<b>ESTIMATED BUDGET GAP</b>	<b>145</b>	<b>524</b>	<b>5,806</b>	<b>8,241</b>

The overall impact of the changes is to reduce the budget gap to approximately £5.8m in 2014/15 rising to £8.2m by 2015/16.

### Council Tax Assumptions

11. As outlined in paragraph 2, the current MTFP has assumed a Council Tax increase of 3.5% in each year and the position outlined in paragraph 9 above incorporates this assumed increase. Members will be aware that in 2011/12, Council Tax was frozen and the equivalent increase (in Stockton's case £1.8m) was funded through Government Grant. This grant was guaranteed for

4 years. The Government have recently indicated that funding will again be available for Council's to freeze Council Tax in the forthcoming year, again with Council's receiving the equivalent of 2.5% increase. Critically however, this is a one year allocation only and if Stockton accepted this funding there would be a significant additional pressure on our MTFP as demonstrated below:

	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000
<b>Current Planned Council Tax Levels</b>				
Opening Council Tax Income	72,020	74,541	77,150	79,850
Increase (@3.5%)	2,521	2,609	2,700	2,795
<b>Council Tax for the year</b>	<b>74,541</b>	<b>77,150</b>	<b>79,850</b>	<b>82,645</b>
<b>Impact of Freeze Funding</b>				
Opening Council Tax Income	72,020	72,020	74,541	77,150
Increase (@3.5% - from 2013/14)	0	2,521	2,609	2,700
Freeze Grant	<b>1,801</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Funding for the Year</b>	<b>73,821</b>	<b>74,541</b>	<b>77,150</b>	<b>79,850</b>
<b>Pressure on MTFP</b>	<b>720</b>	<b>2,609</b>	<b>2,700</b>	<b>2,795</b>

12. Given the level of additional pressure caused by the freeze, for planning purposes the remainder of this report assumes that the freeze is not adopted and that the increase incorporated into the MTFP is maintained. Final recommendations will be made as part of the budget report in February 2012. Members are reminded that an increase of 3.5% would mean 65p per week for a Band D Council Tax and 55p per week for Band A.

### Approach to Efficiency Savings

13. Although the current plan includes savings of almost £20m, it is clear additional savings are required. Whilst all services have now been reviewed through the EIT process, officers have identified a range of areas which are worthy of further exploration.
14. The updated plan has once again identified pressures in energy, waste and social care. Whilst there has been significant efforts to reduce costs in these areas, the level of growth and potential pressures have required over £2.5m plus to be allocated to these areas in each of the last two years. Given the Council's financial position, it is important to do everything possible to avoid future pressures and this indicates a need to have a consolidated and targeted approach to considering options, which maybe radical, to avoid further increases. These areas were also identified as part of Phase 2 of the Council's approach to procurement category management and this would be a key aspect of this work. Whilst these would attempt to reduce costs, given the level of growth in recent years, the initial focus would be to avoid increases and therefore for the purpose of this report, no savings in these areas have been assumed. Given that any changes from these reviews could take time to implement, there is the possibility that growth may occur in the time taken to instigate actions. It is therefore suggested that a sum of £1.5m is earmarked from one-off resources to manage this issue.
15. There are a number of areas where EIT reviews identified potential additional work, and it is suggested that these are now brought forward, along with some cross cutting areas which are worthy of review. These also link with the procurement category management approach and are:
- Transport
  - Street Lighting
  - Subsidies to External Organisations (e.g. TAL)
  - Vehicles and Fuel
  - Fees and Charges

- Terms and Conditions

It is estimated that these areas could contribute approximately £1.5m to the savings target by 2014/15. It is suggested that Members input to the efficiency programme be considered by Executive Scrutiny Committee as part of the development of the 2012/13 Scrutiny programme.

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

16. The position on Reserves and one off resources have been reviewed and the position is outlined below. It is important to recognise however, that these resources are 'one off' and cannot sustain supporting ongoing budget gaps. There is however the option of utilising the resources to invest to generate ongoing revenue savings which can contribute to the financial position.

- Members will recall that resource of £13.8m was earmarked for a transformation reserve across the MTFP to support transition and implementation costs such as redundancy costs and invest to save initiatives. Although the indications so far are that redundancy costs have been managed within services, there is likely to be an increased call on this reserve for Invest to Save activities, particularly if in a number of areas we look to more innovative and radical options for delivering on-going revenue savings.
- A litigation reserve was set aside for single status and litigation costs. Job Evaluation has been successfully implemented across the Council and all appeals heard. Although there are a number of equal pay claims outstanding, it is not anticipated that this level of reserve will be required and this reserve can therefore be reduced. This reserve has now been re-assessed and it can be reduced from £15m to £7m, releasing £8m of one off resources.
- Following the successful transfer of the Council's Housing stock to Tristar Homes/VELA group, the Council will no longer operate the Housing Revenue Account and the balance of £3.5m will transfer to the Council's General Fund and be available to fund one off resources.
- Paragraphs 4 and 5 identify that it is anticipated that £3.4m of balances could be available to be released as a one-off resource.
- Despite the difficult financial climate, the Council Tax collection levels remain above target which is anticipated to generate an additional £1.2m in 2011/12 which will be available.

This would release a total of £16.1m one-off resources. Final decisions will be made as part of the budget report, however, it is suggested that given the revenue position, this should in the main be utilised to release revenue savings. It is estimated that £12m invested could generate £1m in ongoing revenue savings. Further detail of the types of investment will be presented to Members as part of the report. After allowing for the £1.5m provision discussed in paragraph 13, this would leave approximately £2.6m 'one-off' resources available.

17. If these savings were incorporated into the MTFP, the revised position would be as follows:

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
<b>Budget Gap per 2011/12 Budget Report</b>	<b>158</b>	<b>408</b>	<b>6,272</b>	<b>9,479</b>
<b>Adjustments</b>				
Additional EIT Savings	(1,213)	(1,453)	(1,453)	(1,453)
Budget Adjustments	136	56	(419)	(1,077)
Taxbase Increase	(186)	(273)	(368)	(368)
Insurance		(1,964)	(1,975)	(1,987)
Pressures	250	2,750	2,750	2,750
2012/13 Pay Award	1,000	1,000	1,000	1,000
Efficiency reviews		(750)	(1,500)	(1,500)
Investment Income		(1,000)	(1,000)	(1,000)
<b>ESTIMATED BUDGET GAP</b>	<b>145</b>	<b>(1,225)</b>	<b>3,306</b>	<b>5,741</b>

If all of the efficiency savings are delivered the budget gap by 2015/16 would be approximately £5.7m.

### Future Uncertainties and Potential Changes to Budget Position

18. Members will be aware of the ongoing Review of Local Government Finance which focuses on Business Rate Retention. At this stage, it is not possible to forecast the impact of changes on the Council. The Government had indicated that meetings will be held with local Government representatives over the next six months, to discuss further detail. It is unlikely however that we will find out the impact until late in 2012. There are also a range of other uncertainties which could impact on the Council's financial position moving forward.

**Resource Levels in 2015/16.** – 2015/16 is outside of the Governments current 4 year spending review period and not withstanding the uncertainty surrounding the review of local government finance, the figures included above assume no reduction in funding for the Council. Given the current levels of growth in the economy and the overall economic climate, the potential for a resource reduction must now be considered. If we were to receive a 5% reduction, this would equate to an additional pressure of £3.2m in 2015/16.

**Council Tax Benefit System.** Members will be aware of the localisation of Council Tax benefit, which incorporates a reduction in funding of 10% which equates to £1.7m for this Authority. Depending on the scheme developed, there is a potential pressure on the medium term financial plan through the scheme itself either not delivering the full £1.7m saving or creating a difficulty in collection which will impact on the Council's collection fund. The worst case scenario is that the full impact of the reduction would be a call on Council resources.

**New Homes Bonus** – It is still unclear whether the Council will benefit from additional new homes bonus in each year of the medium term financial plan, and if so what level of resource could be available. Based on current projections of increased levels of Council Tax income, this could generate £500k in 2011/12 rising to £1.9m in 2015/16.

Although these can only be indicative figures at this stage, any or all of these potential changes could have a significant impact on the future medium term financial plan, however they can not be relied upon to resolve the gap of £5.7m by 2015/16. In fact, if the pressures materialise without the potential resources, then this gap could rise to over £10m.

Members will also be aware that there was also a reduction in specific grants in 2011/12 which meant a reduction in funding of approximately £10m, including a reduction of £3m in Early Intervention grant and plans are in place to manage this reduction. This report assumes there are no further reductions in levels of specific grants. There are also a number of other changes which could impact on the Council's financial position including:

- Transfer of Public Health Responsibilities and Funding
- Academy developments and funding
- Service specification policy changes (e.g. Munro Review)

### Plans for addressing future budget gap

19. Discussions on next years pay award are currently underway and a series of regional roadshows are being held by the Employers Organisation to seek views of Local Authorities, with some Authorities already identifying a preference for a further pay freeze. A further years pay freeze would generate approximately £1.4m per annum, with this reducing to £1m if staff earning below £21,000 per annum were protected. Officers will continue to participate in the discussions as part of the national process and also locally with Unions, and will provide Members with an update as part of the February report.
20. The Council could consider developing detailed plans to address the estimated gap in 2015/16 now. However, given the levels of uncertainty and the work currently ongoing, it is suggested that this is delayed and addressed as part of the 2013/14 budget cycle when some of the uncertainties are known.

### Capital

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

	Approved Budget £000's	Revised Budget £000's	Outturn £000's	Variance £000's
Children, Education and Social Care	13,335	13,335	11,682	(1,653)
Development & Neighbourhood Services	23,926	24,246	23,864	(382)
Resources	3,576	3,876	3,804	(72)
Total Programme	40,837	41,457	39,350	(2,107)

### CESC

£(1,653)k – There has also been some re-profiling of schemes which will mean that costs associated with Bewley Primary, and the Glebe will be incurred in 2012/13.

### DNS

This is due to the re-profiling of vehicle replacements (£570,000). These will now be acquired in 2012/13 and then funded by the vehicle replacement reserve.

£130k – Additional resources have been secured from PCT to allow additional investment in Disabled Facility Grants and some expenditure has been re-classified as capital from within revenue MTFP.

### Capital Resources Available

22. Through a combination of capital receipts and unallocated capital resources, the Council has approximately £800,000 of available Capital resources. This could be supplemented by the £2.6m remaining overall monies to provide £3.4m available for investment.

## Future Capital Programme

23. The Council has a significant number of capital investment priorities and key aspects of the Council's future Capital programme are:

- Stockton Town Centre
- School Developments

24. A separate report will be presented to Cabinet to 8 December 2011 outlining the progress and overall financial position in relation to Stockton Town Centre. Members will recall that the previous reports have identified that the VAT shelter would be utilised to fund both Housing and Town Centre regeneration.

25. Members will also recall a report was presented to Cabinet in October outlining the Council's approach to capital investment in schools. Key issues in relation to the position on school funding are:

- We are awaiting notification of funding bids for 4 schools in the Borough as part of the Governments priority schools building programme.
- We are awaiting notification of funding allocation for investment in schools over the medium term.
- Work is ongoing to prioritise maintenance requirements at schools and also to assess the options for reconfiguration to address pupil number growth.

A further report will be presented in the new-year outlining the position and this will then be incorporated into the Council's Capital Programme.

26. There are however a number of other potential calls on Capital/One off Resources. Members will be aware there has been investment in a number of areas over recent years, however the following items are only funded up until the current financial year. Whilst we need to be mindful of the potential requirement for Town Centre and Schools, there is the opportunity to continue with one or more of the schemes, either at the current, or a reduced level. Given the levels of investment in these areas, the following options could be considered:

Cemeteries	-	no longer allocated resources
Community Participation budget	-	continue at current level of £400,000 for 3 years
Maintenance	-	continue at a reduced level of £300,000 per annum for 2 years to reflect impact of asset review
Aids and Adaptations	-	continue at reduced level of £150,000 for 2 years

Members will also be aware that there will be a number of high profile events planned for 2012/13 to celebrate the Olympic Games and 25<sup>th</sup> Anniversary of SIRF. There will be inevitable one-off costs associated with these events estimated at approximately £300,000.

27. As part of the regeneration of Thornaby Town Centre, there is a requirement for further road realignment works. This scheme would also reduce congestion which is critical to the Major Bus Scheme and an investment of £300,000 would allow the Council to access further funding of £950,000 to allow the scheme to progress. There is also a Tees Valley broadband infrastructure project, led by TVU, which requires Council Match Funding of £140,000.

28. If the above schemes were supported, the one-off funding available would be approximately £600,000 of one-off resources available. It is suggested that this resource would be retained whilst plans surrounding Stockton Town Centre, Schools Capital and the library/contact facility in Billingham are developed.

## **NEXT STAGES**

29. Officers will continue to update the financial position in preparation for the budget report in February 2012. Discussion sessions will be arranged during January to update Members on the position.

## **FINANCIAL AND LEGAL IMPLICATIONS**

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

## **RISK ASSESSMENT**

31. 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**

32. The report supports the Sustainable Community Strategy.

## **EQUALITY IMPACT ASSESSMENT**

33. 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**

34. Not applicable.

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