

## AGENDA ITEM

### REPORT TO EXECUTIVE SCRUTINY COMMITTEE

21 FEBRUARY 2017

### REPORT OF SENIOR MANAGEMENT TEAM

## FINANCIAL UPDATE & MEDIUM TERM FINANCIAL PLAN

### SUMMARY

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

### RECOMMENDATIONS

1. That the Medium Term Financial Plan (MTFP) and the current level of General Fund balances be noted.
2. That the key issues from the Local Government Finance Settlement and the emerging issues for the MTFP are noted.
3. That the revised Capital Programme attached at **Appendix A** be noted.

### DETAIL

#### FINANCIAL POSITION TO 30 SEPTEMBER 2016

#### GENERAL FUND

1. The following table details the projected budget outturn position for each directorate in 2016/17, based on information to 30<sup>th</sup> September 2016. The reasons for any significant variances (In excess of £100,000) are set out for each directorate below. Officers will continue to manage budgets carefully and explore opportunities to reduce the projected pressure. At the current time however, this pressure will require to be funded from revenue balances.

Directorate	Annual Budget £'000	Projected Outturn £'000	Projected Variance Over/(Under) £'000
Children's Services	33,041	34,949	1,908
Adults and Health	70,265	69,253	(1,012)
Community Services	18,200	19,110	910
Economic Growth & Development	13,967	14,402	435
Culture, Leisure and Events	8,097	8,123	26
Finance & Business Services	7,873	7,791	(82)
HR, Legal and Communications	3,462	3,408	(54)

<b>Democratic Services, Xentrall and Corporate areas</b>	14,971	14,789	(182)
<b>Xentrall</b>	0	0	0
<b>Total</b>	<b>169,876</b>	<b>171,825</b>	<b>1,949</b>
<b>Projected savings on organisation wide elements:-</b>			
<b>Staff Travel &amp; Subsistence/Staff turnover/vacancies</b>		(535)	(535)
<b>Revised Total</b>	<b>169,876</b>	<b>171,290</b>	<b>1,414</b>

### **Children's Services**

2. In setting the budget for 2016/17, a sum of £2,226,000 was allocated to fund growth in the costs of Looked After Children (LAC) in recognition of the transition period prior to the delivery of target savings. Evidence from the first half of the financial year suggests that pressures continue to be experienced, particularly relating to the rising number and complexity of external residential placements. Based on current projections, expenditure at year end is expected to exceed the overall budget and growth allocation by £1,480,000. This position would have been considerably worse without the places provided by the Joint Venture with Spark of Genius.
3. The Service has also experienced an increase in specialist domiciliary care, costing £360,000, due to domiciliary care services for children with complex needs and this is due to a small number of children requiring 24/7 care in the home whilst ongoing court proceedings are taking place to determine longer term plans for the children.
4. The expected reduction in Education Services grant in 2016/17, due to schools converting to academies, is currently being offset by vacancies within the Psychology and Advisory Services. Pressures in social care costs, due to the need to employ agency staff, are offset by savings being made in Youth Services due to vacant posts pending the review.

### **Adults and Health**

5. The Service continues to experience an increase in the take up of Direct Payments and Supported Living for Older People, together with growth in Learning Disabilities services, resulting in a pressure of approximately £1,200,000. This is being offset by additional client income of £590,000, reduced costs of residential placements in Mental Health of £510,000 and savings on Housing Related Support in advance of a wider review (£140,000).
6. Public Health funding contributes to prevention agendas across the Authority and a projected underspend of £890,000 is anticipated.

### **Community Services**

7. Pressures evident at the first quarter continue to be experienced. These include:
  - Income levels within HV&E have reduced by £185,000.
  - Members will be aware from previous reports of increased demands and cost pressures within Community Transport. A review of this service has been undertaken and reported to Cabinet, and whilst this identified some savings and a new policy was approved, there is a pressure of £570,000. This will be considered as part of the MTFP.
  - Income generated by the Community Safety Service is £280,000 lower than

expected. This service is currently being reviewed.

These pressures are partly offset by the following:

- The Catering Service continues to perform well, with a surplus of £250,000 projected.
- External work undertaken by Highways Maintenance will generate income of £560,000.

8. Based on information to September 2016, pressures continue to be experienced in respect of Waste Disposal, due to increases in tonnage and reduced recycling income. It is projected that costs will exceed budget by £560,000.

### **Economic Growth and Development**

9. The main variance is in relation to the street lighting LED project. Members will recall from previous reports that this project is investing in the Council's street lighting including changes to LED which will deliver savings of £1.8m per year. Some re-profiling of work has been necessary to co-ordinate with Northern Powergrid who are responsible for the electricity connections. This has led to a delay in delivering some of the savings in the current year, however the Council has now made alternative arrangements for the electricity connections which will assist with minimising further complications of external parties and the project remains on course to deliver the savings across the MTFP.

### **Culture, Leisure and Events**

10. The pressures identified at the first quarter are now largely offset by staff savings due to vacancies.

### **Finance & Business Services**

11. No significant variances identified in the first six months of the financial year.

### **HR, Legal and Communications**

12. No significant variances identified in the first six months of the financial year.

### **Democratic Services, Xentrall and Corporate**

13. Funding and expenditure for Corporate items is accounted for under this Directorate, together with the budget position for Democratic Services and Xentrall.

14. As reported previously, the Council is experiencing a significant reduction in the level of income it receives on investments following the European Referendum decision and the recent Bank of England base rate cut. A shortfall of a minimum of £200,000 is anticipated in 2016/17. In year this shortfall in investment income will be offset by underspending against other corporate budgets, but the long term impact is expected to be significantly greater.

### **Service Reviews**

16. Members will recall that as part of the Council's managed approach to delivery savings, a range of savings and reviews were agreed by Cabinet and Council in September 2015. Excellent progress is being made against the reviews and updates will be provided within the MTFP report.

17. As part of the programme, there were a number of reviews where it was agreed that further reports would be provided to Cabinet. A number of updates have been provided in

respect of reviews completed and ongoing including:

- Care for Your Area
- Housing
- VCSE Support
- Community Transport
- Libraries
- Youth Services
- Childrens Centres

18. A review is also underway within Community Safety Services. This will re-organise the service to target resources on areas of the Borough in most need and deliver savings and resolve the budget pressure outlined in Paragraph 7.
19. Additional savings are expected from re-commissioning a range of services and reviewing how a number of time limited schemes are funded. This saving will be included in the budget report.

### **Managed Surplus**

20. The report to Cabinet in September 2016 set out the position regarding the remaining balance of managed surplus funds. In summary, of the remaining balance, £1,234,000 is earmarked to support specific expenditure in future years (2017/18 onwards), leaving a small unallocated balance of £81,000. This remains the latest position.

### **Overall Revenue Position/General Fund Balances**

21. This report documents continued evidence of a number of financial pressures in 2016/17. These areas are subject to rigorous management review and mitigating actions are being taken wherever possible. However, it is prudent to set out how such pressures would be funded and this is addressed in paragraph 24 below.
22. A number of the emerging issues will also have a financial impact across the period of the MTFP and these are addressed in the update to the MTFP.
23. The Council aims to retain General Fund balances at a recommended level, currently £7,905,000. As reported to Cabinet previously, the level of balances currently exceeds the recommended level by £1,459,000 and this sum is therefore available to support the MTFP.
24. This report identifies that expenditure is projected to exceed budget in 2016/17 by £1,414,000 for the reasons identified. Remedial action will be taken to mitigate this figure as far as possible, but should this not be possible, the shortfall will be funded from available balances as set out below:

	<b>£'000</b>
Available balances in excess of required level	1,459
Projected Call on Balances in 2016/17	(1,414)
Revised level of available balances	45

### **MEDIUM TERM FINANCIAL PLAN 2017 - 2021**

25. Work is underway in updating the MTFP which will be presented to Cabinet and Council in February and briefing sessions will again be available for all members to attend. There are

some emerging issues which will need to be considered as part of the update and these are outlined below.

### **Provisional Local Government Finance Settlement**

26. The Provisional Local Government Finance Settlement was announced on 15 December and the key issues which impact on the plan are as follows:

**New Homes Bonus** - DCLG announced their long awaited response to the consultation on the New Homes Bonus, together with 2017/18 allocations. The number of years that the scheme will be based upon (currently 6 years' in 2016/17) will reduce to 5 years in 2017/18 and 4 years from 2018/19 onwards. Crucially, the scheme will now also only reward growth in homes above 0.4% per annum. The impact on Stockton is a significant reduction in NHB income across the MTFP. The government is also considering options to further reduce NHB for homes built after appeal and where a council is deemed not to have a robust local plan.

**Adult Social Care Support Grant** - The changes to the New Homes Bonus Scheme have allowed the government to divert funding to a new Adult Social Care Support Grant. This funding is to be distributed based on the adult social care relative needs formula and is for 2017/18 only. Stockton will receive an allocation of £849,000.

**Council Tax and Adult Social Care Precept** – Members will recall that Government introduced a precept of 2% on Council Tax to support Adult Social Care and indicated that this would be set at 2% per year until 2019/20. The Provisional Settlement changes the terms of this precept for the period 2017/18 to 2019/20. Local authorities will now be able to increase the Social Care Precept by up to 3% per annum in 2017/18 and 2018/19. However, authorities that go ahead with the 3% increase each year for 2017/18 and 2018/19 will not be able make a further increase in 2019/20 (i.e. the total allowable increase over the three-year period remains at 6%).

Overall this means that if we introduce the Government's changes we will see a reduction in funding across the MTFP.

27. To ensure that councils are using income from the precept for adult social care, councils will be required to publish a description of their plans, including changing levels of spend on adult social care and other services. This must be signed off by the Section 151 Officer. The government intend to provide further guidance to adult social care authorities on the conditions of the scheme in the near future.
28. Whilst there is no long term benefit to front loading the increase, it would provide additional resource in the next two years to partly offset the reductions in New Homes Bonus payments. This will be considered further in the Budget report.
29. If we were to change to the new Government proposed levels of Social Care precept, the implications of the settlement are as follows:

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Adult Social Care Precept	(748)	(1,573)	0	0
<b>Government Funding Reductions :</b>				
New Homes Bonus	1027	794	1,152	1,592
Adult Social Care Support Grant	(849)	0	0	0
<b>Total</b>	<b>(570)</b>	<b>(779)</b>	<b>1,152</b>	<b>1,592</b>

### **Changes to Expenditure Plans**

30. The current expenditure position in the MTFP is being reviewed, taking into consideration the position outlined in the current years financial performance covered in this report. There are a number of emerging issues which will need to be incorporated.

Pension Contributions – an actuarial review has been undertaken of the Teesside Pension Fund and the rates will increase by 1.5% over the next three years which will mean a pressure of £900k per annum.

Investment income – the current economic outlook continues to indicate no improvement in interest rates and this will create a pressure on the Council. We are however exploring alternative investment opportunities, such as property funds, with our new Treasury Management advisors to try and mitigate the impact and further details will be presented as part of the report.

Service Pressures – members will be aware from this and previous reports to cabinet of a number of pressure areas including Looked After Children, DOLS, Community Transport and waste disposal. In addition, members will be aware of the on-going negotiation of fees for Adult Social Care providers and we will need to incorporate the financial implications into the spending plans.

31. In order to mitigate the impact of the pressures above, officers are exploring introducing changes to the Minimum Revenue Provision (MRP) calculation. This is a complicated calculation which, simplistically, is the allocation made to repay debt. Many councils have changed to an alternative repayment profile, using an annuity method, linking the repayments to the remaining useful lives of the capital investment. This has the dual advantages of setting a fixed date by which the Capital Financing Requirement (CFR) will be repaid and reducing costs over the medium term.

## **CAPITAL**

32. The current Capital Programme is set out at **Appendix A** and summarised in the table below.

### **Capital Programme - September 2016**

<b>CAPITAL PROGRAMME 2012-2019</b>	<b>Current Approved Programme £'000</b>	<b>Programme Revisions £'000</b>	<b>Revised Programme £'000</b>
Schools Capital	16,533	0	16,533
Housing Regeneration & Town Centres Schemes	16,051	7	16,057
Transportation	19,614	349	19,964
Other Schemes	34,079	207	34,286
<b>Total Approved Capital MTFP</b>	<b>86,277</b>	<b>563</b>	<b>86,840</b>

33. The main revisions to the programme (those exceeding £100,000) are set out below.

#### **New Schemes**

A Section 106 footpath/cycleway Ingleby Barwick Manor Free School has been added to the capital programme.

Works to install a new synthetic bowling green in John Whitehead Park is being managed by the Council (£122,000), with external funding secured by the Bowling Club.

## **COMMUNITY IMPACT IMPLICATIONS**

34. N/A

## **FINANCIAL IMPLICATIONS**

35. To summarise the projected financial position for 2016/17 and to update the MTFP accordingly. Also to set out the key issues arising from the Provisional Local Government Finance Settlement as they may impact on the MTFP.

## **LEGAL IMPLICATIONS**

36. None

## **RISK ASSESSMENT**

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

## **COUNCIL PLAN POLICY PRINCIPLES AND PRIORITIES**

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

## **CORPORATE PARENTING IMPLICATIONS**

39. Not applicable

## **CONSULTATION INCLUDING WARD/COUNCILLORS**

40. Not applicable.

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## Appendix A

<b>CAPITAL PROGRAMME 2012-2019</b>	<b>Current Approved Programme</b>	<b>Programme Revisions</b>	<b>Revised Programme</b>	<b>Expenditure April 2012 - Sept 2016</b>
<b>SCHOOL CAPITAL</b>				
School Investment Programme	16,532,904	0	16,532,904	4,751,623
<b>SCHOOLS CAPITAL</b>	<b>16,532,904</b>	<b>0</b>	<b>16,532,904</b>	<b>4,751,623</b>
<b>HOUSING REGENERATION &amp; TOWN CENTRES SCHEMES</b>				
Housing Regeneration	6,303,262	6,660	6,309,922	3,666,680
Stockton Town Centre Schemes	8,331,213	0	8,331,213	2,052,091
Billingham Town Centre Schemes	73,460	0	73,460	5,000
Other Regeneration Schemes	1,342,881	0	1,342,881	128,218
<b>HOUSING REGENERATION &amp; TOWN CENTRES SCHEMES</b>	<b>16,050,816</b>	<b>6,660</b>	<b>16,057,476</b>	<b>5,851,989</b>
<b>TRANSPORTATION</b>				
Local Transport Plans	7,949,015	6,570	7,955,585	701,226
Other Transport Schemes	6,953,480	0	6,953,480	5,061,242
Developer Agreements	3,655,749	342,630	3,998,379	2,602,331
Tees Valley Bus Network Initiative	1,056,085	0	1,056,085	1,024,092
<b>TRANSPORTATION</b>	<b>19,614,329</b>	<b>349,200</b>	<b>19,963,529</b>	<b>9,388,891</b>
<b>OTHER SCHEMES</b>				
Private Sector Housing	3,130,441	0	3,130,441	967,476
Building Management & Asset Review	2,562,379	0	2,562,379	1,566,626
ICT & Infrastructure	495,215	0	495,215	365,504
Parks, Museums & Cemeteries	737,215	206,836	944,051	427,386
Energy Efficiency Schemes	13,240,000	0	13,240,000	9,102,890
Other Schemes	13,913,974	0	13,913,974	1,103,175
<b>OTHER SCHEMES</b>	<b>34,079,224</b>	<b>206,836</b>	<b>34,286,060</b>	<b>13,533,057</b>
<b>Total Approved Capital MTFP</b>	<b>86,277,273</b>	<b>562,696</b>	<b>86,839,969</b>	<b>33,525,560</b>