12 February 2014	ITEM: 14 01104271
Cabinet	
2014/15 General Fund Budget Report	
Report of: Councillor John Kent, Leader and Portfolio Holder for Finance	
Wards and communities affected: All	**Key Decision:** Key
Accountable Head of Service: Sean Clark, Head of Corporate Finance	
Accountable Director: Graham Farrant, Chief Executive	
This report is Public	
Purpose of Report: To agree the General Fund revenue and capital budgets for recommendation on to Council on 26 February 2014.	

EXECUTIVE SUMMARY

At their meeting on 27 February 2013, the Council agreed a two year balanced budget covering the financial years 2013/14 and 2014/15. The basis of this was to identify the savings required over two years although these were based on a number of assumptions around growth, grants, NNDR and council tax.

This report comments on those assumptions along with the impact of changes within 2013/14, that has already been reported elsewhere on this agenda, brings together all of the above, and proposes a budget for consideration for onward recommendation to Council for approval. The report covers the General Fund 2014/15 revenue and capital budgets – the Housing Revenue Account (HRA) revenue and capital budgets are included in a separate report on this agenda.

The report also sets out the recommendation for a council tax increase of 1.99% in line with the Medium Term Financial Strategy (MTFS).

1. RECOMMENDATIONS:

Revenue

That Cabinet:

1.1. **Consider and acknowledge the Section 151 Officer's (Head of Corporate Finance's) report on the robustness of the proposed budget, the adequacy of the Council's reserves and the reserves strategy as set out in Appendix 1, including the conditions upon which the following recommendations are made;**

1.2. **Note that, in accordance with Council approvals and the delegated authority given to the Head of Corporate Finance by Council on 22 January 2014, the following be set:**

1.2.1. **The Council Tax Base as 46,444;**

1.2.2. **The Council Tax Collection Fund Balance as a surplus of £1,343,104 apportioned to Thurrock Council (£1,133,555), Essex Police (£142,602) and Essex Fire and Rescue (£66,947);**

1.2.3. **The NNDR Collection Fund Balance as a deficit of £2,065,557 apportioned to Thurrock Council (£1,012,123), Central Government (£1,032,779) and Essex Fire and Rescue (£20,656); and**

1.2.4. **The NNDR 1 at £108,067,652 apportioned to Thurrock Council (£52,953,150), Central Government (£54,033,825) and Essex Fire and Rescue (£1,080,677);**

1.3. **And recommends that Council:**

1.3.1. **Confirm the Council Tax Band D for 2014/15 at £1,147.05, representing a 1.99 percent increase (excluding other preceptors);**

1.3.2. **Approve a General Fund net revenue budget for 2014/15 of £124,240,414 allocated as set out in paragraph 6.2 with further supporting information in Appendix 2;**

1.3.3. **Approve that no Special Expenses be charged for 2014/15;**

1.3.4. **Agree that the use of reserves for their published purpose be agreed as part of the budget including the use of £1.976m to meet the 2014/15 budget deficit;**

1.3.5. **Agree to maintaining an unallocated balance of £8m;**

1.3.6. **Note the growth and savings assumptions that have been built into the proposed budget at Appendix 3;**

1.3.7. **Agree that the 2014/15 budget deficit be underwritten by the use of reserves;**

1.3.8. **Note the Medium Term Financial Strategy as set out in Appendix 4 and instruct officers to identify significant savings to balance the period 2015/16 to 2017/18;**

1.3.9. **Agree that every effort should be made to bring 2015/16 savings forward to reduce the call on reserves in 2014/15;**

1.3.10. **Note the indicative schools' budget as set out in Appendix 6;**

1.3.11. **Considers the precepts for the Fire and Police Authorities when agreeing its Council Tax.**

Capital

1.4. **That Cabinet recommend to Council that it:**

1.4.1. **Approve the new General Fund Capital Schemes and funding of £17.275m for 2014/15 to be added to the current programme as shown in Appendix 7;**

1.4.2. **Agree that the agreement of those items marked * be delegated to Cabinet subject to a business case/report;**

1.4.3. **Agree that the allocation of any Transport and Education capital grants be delegated to Cabinet;**

1.4.4. **Agree that Cabinet can agree schemes to be added to the programme where it can be evidenced that there is a spend to save opportunity;**

1.4.5. **Agree that any unbudgeted contributions from third parties in the way of grants or developers' contributions be deemed as part of the capital programme; and**

1.4.6. **Agree that advances to Gloriana Thurrock Ltd be considered as part of the General Fund capital programme.**

2. THE PROCESS FOR AGREEING THE COUNCIL'S BUDGETS

2.1 The Council must set its annual revenue budget and associated Council Tax by 11 March of the preceding financial year. If, for whatever reason, the Council cannot agree a budget and Council Tax at its meeting on 26 February 2014, Members should be aware that it is unlikely that the Council Tax bills could be sent out in time for April instalments (taking into account the necessary notice period and the time required to print the bills and the accompanying leaflet).

2.2 It is also good practice to approve changes in fees and charges and the capital programme at the same time because there is an interdependency between the three budget streams. The recommended schedule of fees and charges for 2014/15 has been included elsewhere on this agenda.

2.3 The Housing Revenue Account (HRA) budget needs to be agreed in a timely manner to ensure rent increases can be reflected from 1 April of each year. A separate report on this agenda deals with Housing Rents, Charges and HRA revenue and capital budgets for 2014/15.

2.4 This report presents the proposed 2014/15 General Fund revenue and capital budgets for Cabinet's recommendation to Council on 26 February 2014. It builds on a number of budget reports that have been considered by Cabinet over recent months.

2.5 The Head of Corporate Finance's statutory statement on the robustness of the estimates and adequacy of reserves under s25 of the Local Government Act 2003 is included at Appendix 1. This must be considered by Cabinet before recommending the budget to Council. It must also be considered by Council before approving the budget and Council Tax.

REVENUE

3. 2013/14 – 2014/15 BUDGET

3.1 Members are aware of the significant budget pressures that the Council has faced in recent years due to increasing demand in services such as children's social care whilst facing significant funding reductions from central government.

3.1. The Chancellor was clear that these reduction would continue and, indeed, increase, and so members took the view of agreeing a balanced budget for the period 2013/14 and 2014/15 to allow Members and officers to concentrate on the more difficult period of 2015/16 through to 2017/18.

3.2. This meant that savings were agreed in February 2013 that covered that two year period and officers have been working to deliver these. A schedule of the savings over these two years is included at appendix 3 for information.

3.3. These savings were built on a number of assumptions though around:

3.3.1. Growth – these can be amended and will have a corresponding impact on the deficit shown later in this report;

3.3.2. Government grants – these are fixed by Central Government;

3.3.3. NNDR – the Council makes estimates of net growth and bad debt provisions but the proportion that the Council can keep (49%) and the tariff that the Council pays out of this proportion (£29m) is set by Central Government; and

3.3.4. Council Tax – the Council set the council tax base at 46,444 at its meeting on 22 January 2014. The Council needs to set the band D figure, currently £1,124.64. This report assumes a 1.99% increase of £22.41 to £1,147.05 in line with the MTFS but this can be amended and needs to be agreed by Council on 26 February 2014. Any change will have a corresponding impact on the deficit shown later in this report.

4. THE 2013/14 BUDGET POSITION

4.1. Cabinet have received reports on the 2013/14 General Fund budget position. The reports identified significant budgetary pressures in Children's Services, Procurement and the Corporate savings programme.

4.2. The total pressures were set out in an earlier report on this agenda and showed a total pressure of £4.3m at month 6 and identified a further £0.4m as at the month 9 position. This has been mitigated through the following to ensure that 2013/14 net expenditure remains within the budget envelope – in other words, remains a balanced budget:

4.2.1. The two year balanced budget approach created a budget surplus of £1.7m in 2013/14 that was to be set aside to meet a base budget deficit in 2014/15 – using this earlier reduces the pressures in 2013/14 but has a direct impact on 2014/15;

4.2.2. The Government has made a number of decisions to support business through reductions in their business rates. This has a direct impact on the amount that will then be retained by the Council and so the Government is compensating councils through a S31 grant;

4.2.3. Some of the savings agreed for 2014/15 were brought forward into 2013/14 to re-balance the base. As these were originally planned to offset growth and grant reductions in 2014/15, the use of them to balance 2013/14 adds further pressures to 2014/15; and

4.2.4. Reserves, such as the amount received from DCLG to support the transfer of the Development Corporation staff and associated functions, have been used to drip feed resources into the budget over the medium term. These have been brought forward to support the 2013/14 budget and so this form of 'income' is no longer available for 2014/15 as originally planned.

4.3. In summary, the Council has faced pressures of £4.7m in 2013/14 but appropriate action has been taken to ensure that the budget has remained balanced. However, these actions have had an adverse effect on the 2014/15 budget position.

5. THE 2014/15 PROPOSED REVENUE BUDGET

Government Funding – Formula Grant and Business Rate Retention

5.1. Formula Grant now provides approximately 54% (60% in 2013/14) of the funding for the Council's net non-schools revenue budget and so represents a significant factor in determining the Council's revenue budget.

5.2. Until 2013/14, Formula Grant had been the sum of Revenue Support Grant (RSG) and the national reallocation of National Non Domestic Rates (NNDR) (Business Rates). Members will be aware that Thurrock has always been a net contributor of NNDR, collecting over £100m but only receiving £57m back (2012/13 figures).

5.3. The Business Rates Retention scheme follows this approach to a degree – the government assumes a level of business rates available to the authority and then adds RSG and other factors to determine the council's spending power. This comes with both the possibility of risk or reward – if business rates are higher then the authority will benefit more but, if less, the authority will receive less.

5.4. As the government also introduced levies as well as tariffs into the scheme, the treatment of losses and gains are not equitable. For Thurrock:

5.4.1. Every £100k lost against the baseline, the Council loses £49k (49%); but

5.4.2. Every £100k gained against the baseline, the Council gains £27k (27%).

5.5. Members also need to be aware that the government plans to rebase the scheme within the next ten years although the date is uncertain. The worst case scenario is that any gains that the Council has benefitted from in terms of growth could be removed and redistributed nationally. This means that the Council will have to be prudent in its use of any gains so as not to become over reliant.

5.6. For 2014/15, the Council expects to collect in the region of £108m. The Council will first of all be able to keep 49% of this but are then charged a tariff of £23m to retain a net £30m to finance services. The Council also receives RSG of £36m bringing the total amount available for services to £66m. Considering government grants as a total, but stripping out those new grants where there is new expenditure (such as public health), the Council's financial resources have reduced by £6.75m (14.61%) between 2013/14 and 2014/15.

5.7. The forecasts set out in the Chancellor's Autumn Statement have been reflected in the Council's MTFS. A further reduction between 2014/15 and 2015/16 is clearly stated at £10m (a further 22.83%) and the direction of travel over the two years 2016/17 to 2017/18 suggest further reductions of £15m.

Council Tax Base 2014/15 and Estimated Collection Fund Balance 2013/14

5.8. The Council Tax Base for 2014/15 was approved by the Council on 22 January 2014 at 46,444 (equivalent Band D properties). This is an increase of 905 properties over 2013/14 made up of new properties entering the list of 299 and a reduction in those on the Local Council Tax Scheme (LCTS) of 606. This increases the income available to the Council by an amount in excess of £1m.

5.9. The estimated balance on the Council Tax Collection Fund was approved by Council on 22 January 2014. This is the balance between council tax received and precepts paid. The balance estimated as at 31 March 2014 is a surplus of £1.343m and this has largely come from the reduction in those on LCTS and high collection rates. This balance is allocated between Thurrock council, Essex Police and Essex Fire and Rescue. The amount available to Thurrock Council is £1.133m.

5.10. The setting of the estimated balance on the NNDR Collection Fund was delegated to the Head of Corporate Finance as not all guidance had been received at the time of the Council meeting on 22 January 2014. The Head of Corporate Finance has set the balance as a deficit of £2.065m and this is allocated between Thurrock Council, Central Government and Essex Fire and Rescue. The amount chargeable to Thurrock Council is £1.012m.

5.11. The main reasons for this deficit are the closure of Tilbury Power Station (see paragraph 7.6) and the need to set aside a provision for the amount of appeals that businesses have lodged with the Valuation Office.

Council Tax

5.12. The Localism Act 2011 has introduced the concept of a referendum where a proposed Council Tax increase exceeds its excessiveness principles either by the billing authority or one of its major preceptors. The levels of excessiveness for 2014/15 were originally announced at 2.0% for Principal Authorities although, at the time of writing, there is a great deal of discussion in the press that this may well be reduced to 1.5%.

5.13. Thurrock Council has been clear since setting the budget and agreeing the MTFS in February 2013 that it would be proposing a 1.99% increase in Council Tax for 2014/15 and the figures in this report are based on that increase.

5.14. Should a lower limit of 1.5% be enforced then the deficit set out in section 6 will increase by £0.27m.

5.15. Members will also be aware that the government is once again offering councils a freeze grant equivalent to 1% of the council tax receivable before the introduction of LCTS. This equates to £0.6m and if agreed by Council would increase the deficit set out in section 6 by £0.4m.

5.16. However, should Members decide to agree an increase in excess of the referendum limit there remains an onus on the authority to calculate an alternative budget that does not breach the limit. The referendum would have to be held in May and would effectively require a vote between the two potential budgets.

5.17. The total Council Tax payable by tax payers consists of Thurrock Council's element plus the precepts for Essex Fire and Police Authorities (meetings still to be held).

Proposed General Fund Revenue Budget 2014/15

6. Having set a balanced budget for the period 2013/14 to 2014/15 there has been less reports than previous years due to the fact that identifying savings had not been as necessary. Instead reports to:

6.1.1. Cabinet have been through updates on 2013/14 and the impact on 2014/15, council tax and NNDR through the council tax base and collection fund balances and a report on the draft government grant announcement; and

6.1.2. Overview and Scrutiny Committees have not received reports on savings proposals but have instead received reports on areas within their relevant services that are of significant financial interest.

6.2. Considering all of the factors that have been set out in this and previous reports, the proposed net General Fund revenue budget is £124,260,414.

Further details, together with service allocations, are shown in the table below and Appendix 2.

	2014/15 Base
Services	131,638,496
Transformation Savings	(458,000)
Procurement	(791,000)
Shared Services	(1,233,000)
Other non Specific Grants	(3,317,238)
Service Budget Total	**125,839,258**
Levies	542,200
Capital Financing	(2,121,044)
Net Expenditure	**124,260,414**
Finance by:	
Revenue Support Grant	(35,685,845)
NNDR	(31,137,172)
Collection Fund - Council Tax Surplus	(1,132,609)
Collection Fund - NNDR Deficit	1,012,000
New Homes Bonus	(2,067,247)
Reserves	(1,975,951)
To be funded through Council Tax	**53,273,590**

6.3. The key variable features of the proposed budget, include:

- A 1.99% increase in Council Tax;
- A 1% cost of living increase for salaries or wages;
- The growth and savings budget amendments as set out in Appendix 3;
- Inflation only included for those budgets where there is a contractual commitment or, like utilities, where an increase is unavoidable;
- The revenue impact of an overall increase in prudential borrowing, specifically towards ICT, Transformation and public buildings; and
- Savings from a number of initiatives through transformation, procurement and shared services.

6.4. Members will see from the table above that the 2014/15 base budget requires a contribution from reserves of £1.976m to meet the deficit brought about by an accumulation of all of the pressures that have been highlighted in this report. Previous years have seen the Council identify savings to meet these budget deficits but the recommendation for 2014/15 is to meet the deficit from reserves whilst concentrating on the far larger deficits that will arise from 2015/16 onwards.

6.5. This use of reserves is effectively an underwriting. As the Council identifies savings for 2015/16, a number of these will be delivered in 2014/15 and so reduce the call on reserves. Therefore, the focus on the medium term remains the priority.

Medium Term Financial Strategy

6.6. The Council has prepared a high level four year Medium Term Financial Strategy (MTFS) which is reviewed annually. The MTFS for 2014/15 to 2017/18 is included as appendix 4.

6.7. Members will have seen that the Council still faces significant funding gaps in each of the financial years 2013/14 through to 2016/17 and Cabinet has instructed officers to identify options for closing those gaps as a priority.

6.8. The deficit forecasts within the MTFS are as follows:

2015/16	£15.3m
2016/17	£11.7m
2017/18	£9.5m
Total over 3 Years	£36.5m

6.9. The total of these reductions equates to almost one third of the Council's net budget. To achieve this level of reduction is going to require a very different approach to service delivery going forward and will certainly lead to reductions and even the cessation of some services. To maximise the time available to implement these changes, officers plan to bring a report setting out the proposals to Cabinet in July 2014.

Adult Social Care

6.10. Members have received reports at Cabinet, Overview and Scrutiny and the Health and Wellbeing Board on the Dilnot Report. A summary of the Care Bill is as follows:

- Care and support funding reform due to come in to force as of April 2016, will place a cap on eligible care costs of (approximately) £72,000. This may rise with inflation each year.

- Each Service User will have a Care Account (set at £0 as of April 2016) that will capture and accumulate the gross cost of eligible care. When this cap is reached a Service User would no longer have to contribute towards the cost of their care.

- In addition to this the upper capital limit (savings or property), at which point a person can be deemed as having to pay full cost, will increase from £23,250 to approximately £118,000.

- These reforms will increase the numbers of people that will seek help and support from the Authority that may not normally have accessed services in this way due to their savings or asset levels.

6.11. The likely cost to the Council through increased expenditure and reduced income has been estimated as follows:

	2016/17	**2017/18**	**2018/19**
Standard Placements	£0.574m	£0.592m	£0.610m
Dementia Placements	£0.156m	£0.161m	£0.166m
Nursing Placements	£0.063m	£0.065m	£0.067m
TOTAL	£0.793m	£0.818m	£0.843m

6.12. However, as the Government has stated that any cost to councils would be fully reimbursed, the MTFS currently does not assume any costs due to the care Bill. However, officers will continue to monitor progress of the Bill and its implementation and will report back as necessary.

Government Funding – Dedicated Schools Grant (DSG)

6.13. The Dedicated Schools Grant (DSG) was introduced in 2006/07 as a 100% specific grant to fund the schools' budget.

6.14. Since 2013/14 the Grant has been split into three blocks, these are Schools Block, High Needs Block and Early Year Blocks. Whilst the DSG is ring fenced the separate blocks are not ring fenced to each area, however any movement between the blocks would need to be agreed by the Schools Forum.

6.15. The separate blocks of DSG have been calculated based on the 2012/13 spend. The Schools element has then been uplifted by the increase in pupil numbers. There will also be an increase in the Early Years allocation based on the number of pupils in the termly pupil count. Whilst there has been no specific decrease in the DSG, previously the whole of the grant would be uplifted by the population. As the High Needs block represents 16% of the DSG funding, over time there is a concern that as the population increases there will be a shortfall in the available funding for additional support for high needs pupils.

6.16. Within the Schools block, the Local Authority is not permitted to increase he central expenditure, beyond the levels of 2012/13 which relates to prior commitments. All other funding is delegated to schools to manage locally.

6.17. The basis of the pupil count for the grant is the October pupil census, therefore final Schools Block DSG figures was finalised in December, however the High needs element will not be finalised until the end of March, and the Early Years block is adjusted three times a year.

6.18. The Cash increase in DSG is 1.4%, however as this all relates to pupil increases, the increase represents additional allocations to School budgets.

6.19. There is a 2.6% increase in the Primary School population, whilst there have been a 2.8% decrease in the Secondary School population.

6.20. The allocation of funding for Special Schools is no longer included as Schools funding, but is included in the High Needs Block.

6.21. DSG is calculated for all Schools in Thurrock, including Academies , the budgets are calculated using the Thurrock funding formula, the EFA then recoup funding to be distributed to Academies and a net Grant is paid to the Authority. This ensures that Academy and maintained Schools are funded on the same basis.

6.22. The per pupil rate of Schools block DSG paid to Thurrock is £4,432.35, the early years per fte pupil rate is £3,715.04. The total value of the DSG paid for 2014/15 is £127.798m (Gross before Academy recoupment) made up of:-

6.22.1.	Schools Block	£98.682m
6.22.2.	High Needs Block	£20.134m
6.22.3.	Early Years Block	£6.137m
6.22.4.	Additional Allocation*	£2.845m

(*attributable to Early Years Block)

6.23. At the end of 2013/14 all but one secondary School has converted to Academy status, 19 of the 40 Primary Schools and 1 of the 2 special Schools. There are two schools currently investigating the possibility of converting to Academies.

Nb: Neither Gateway Academy or Gateway Free School are part of the DSG Recoupment model, as Academies that were opened before September 2008, have been funded on a different model by the DfE, as have Free Schools that have not been commissioned by the LA

7. RESERVES

7.1. The Council's useable reserves as at 1 April 2013 were £54.11m. However, a number of these reserves are for capital, schools and the HRA. The estimated balance as at 1 April 2014 available for General Fund purposes stands at just £7.11m over and above the General Fund balance.

7.2. The Council set an optimum level of reserves of £8m and this is forecast to still be the balance as at 31 March 2014.

7.3. There is no set formula to determine this balance but it is for the Council's S151 Officer to consider the Council's past financial performance and risk to the budget, not just for the forthcoming year but over the medium term, and then recommend a balance to the Council. It is, however, for the Council to set this balance considering the Council's S151 Officer's recommendation.

7.4. The Council has set and delivered a balanced budget for each of the financial years 2010/11 through to 2012/13. This is forecast to continue for 2013/14. This in itself reduces the risk and traditionally would have given the S151 Officer the opportunity to reduce this balance.

7.5. However, councils are facing a period of significant pressures on frontline services and significant reductions in resources to deliver them. The Council has so far proven that it can meet these challenges and expect to do so going forward, but the S151 Office must acknowledge this as a risk, even if only to hold to be used on a temporary basis to smooth over transitional periods.

7.6. The Council has also seen other pressures in 2013/14 that are totally outside of its control. The closure of Tilbury Power Station loses the Council £1.6m per annum. As this closure took place part way through 2013/14, the element lost in this financial year, circa £0.8m, rolls forward to increase the impact on the Council resources to £2.4m in 2014/15.

7.6.1. There is a general need whilst the Council moves through a period of significant challenge of funding reductions and transformation, to call on reserves to fund severance, transformation, transitional arrangements and spend to save initiatives.

7.7. As set out earlier in this report and appendix 5 the other reserves available to the General Fund are largely committed. This reduces the flexibility in budget management and meeting one off costs putting greater pressure on the General Fund balance.

7.8. Considering the risks and pressures set out above, the recommendation is to maintain the General Fund balance at £8m.

CAPITAL

Background

7.9. Capital expenditure is defined as expenditure incurred on the acquisition or creation of assets needed to provide services, such as houses, schools, vehicles, etc. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services. Capital grants, borrowing and capital receipts can only be spent on capital items and cannot be used to support the revenue budget.

7.10. Under the Local Government Act 2003 each authority can determine how much it can borrow within prudential limits (unsupported borrowing). The government does have powers to limit the aggregate for authorities for national economic reasons. For example, it has set a premium of 1% on Public Works Loan Board rates to deter excess borrowing in the public sector (more recently netted down to just a 0.8% premium).

7.11. Prudential borrowing is not supported financially by either capital or revenue grants and so the full cost is met from Council Tax.

7.12. As Thurrock Council has realised minimal capital receipts in recent years, the capital programme has been largely based on schemes that could be funded through third party contributions, namely government capital grants and developers' contributions. This has resulted in a lack of investment in areas such as ICT and operational buildings as these rarely receive third party contributions of this nature.

7.13. For the last three years, prudential borrowing has been approved to meet these requirements and this is assumed to continue for the life of the MTFS. However, the Asset Management Strategy is now becoming embedded throughout the organisation and a cross party Asset Disposal Working Group are identifying assets for disposal although consideration must also be given to the market at this time.

7.14. £3m in asset sales will be achieved in 2013/14 although the MTFS has assumed that this will be used to repay debt so as to save revenue costs. The Asset Management Strategy is targeting £4m in sales in 2014/15 and these are being assumed available for the Capital Programme.

7.15. The Cabinet has received a number of reports on setting up a wholly owned company, Gloriana Thurrock Ltd, that will build residential properties in the borough where the market has failed. The first scheme is at the planning stage and will be considered by Cabinet in March 2014. The Council will lend finance to Gloriana to build these properties and it is recommended that this loan and provision of equity be delegated to cabinet on a business case basis and be classed as part of the Council's capital programme.

7.16. The proposed additions to the capital programme and funding is included at Appendix 7.

8. ISSUES, OPTIONS AND ANALYSIS OF OPTIONS:

8.1. The report has set out a number of pressures that the Council faces and a number of assumptions. Where there is flexibility for Members, this has been set out in the various sections of the report.

8.2. The main issues are:

8.2.1. Needing to identify the levels of savings required whilst minimising the impact on front line services for the period 2015/16 through to 2017/18; and

8.2.2. Identifying savings from 2015/16 that can be brought forward to 2014/15 to minimise the call on reserves.

9. REASONS FOR RECOMMENDATION:

9.1. The recommendations are to ensure that the Council meets its obligation to set a sustainable and legal budget.

10. CONSULTATION (including Overview and Scrutiny, if applicable)

10.1. There have been a number of budget reports to Cabinet and each of the Overview and Scrutiny Committees have received reports on material areas of expenditure within their service area.

11. IMPACT ON CORPORATE POLICIES, PRIORITIES, PERFORMANCE AND COMMUNITY IMPACT

11.1. The budget provides the finance to meet the Corporate Priorities. Any changes to the budgets may impact, positively or negatively, on the delivery of these priorities and performance with a corresponding impact on the community.

12. IMPLICATIONS

12.1. **Financial**

Implications verified by: **Sean Clark**
Telephone and email: **01375 652010**
sclark@thurrock.gov.uk

These are included in the body of the report.

12.2. **Legal**

Implications verified by: **David Lawson**
Telephone and email: **01375 652087**
dlawson@thurrock.gov.uk

Local authorities are under an explicit duty to ensure that their financial management is adequate and effective and that they have a sound system of internal control and management of financial risk. This budget and strategy report contributes to that requirement although specific legal advice may be required on the detailed implementation of any options agreed as a result.

12.3. **Diversity and Equality**

Implications verified by: **Samson DeAlyn**
Telephone and email: **01375 652472**
SDeAlyn@thurrock.gov.uk

Any changes to the budgets and service provision should consider the impact on diversity and equality. Equality Impact Assessments were carried out for all of the savings that have been incorporated into the draft budget proposals.

12.4. **<u>Other implications</u> (where significant) – i.e. Section 17, Risk Assessment, Health Impact Assessment, Sustainability, IT, Environmental**

The assessment of risks associated with the 2014/15 budget by the Council's S151 Officer is set out in Appendix 1.

BACKGROUND PAPERS USED IN PREPARING THIS REPORT (include their location and identify whether any are exempt or protected by copyright):

- There are various working papers within directorates and accountancy, as well as previous budget reports.

APPENDICES TO THIS REPORT:

- Appendix 1 – Report of the Council's Section 151 Officer under Section 25 of the Local Government Act 2003: Robustness of Estimates and Adequacy of Reserves.
- Appendix 2 – Service Budgets
- Appendix 3 – GF Growth and Savings
- Appendix 4 – Medium Term Financial Strategy
- Appendix 5 – Reserves
- Appendix 6 – Schools' Budget
- Appendix 7 – GF Capital Programme

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THE HEAD OF CORPORATE FINANCE'S S25 STATEMENT

SECTION 151 OFFICER'S STATEMENT ON ADEQUACY OF BALANCES AND THE ROBUSTNESS OF THE BUDGET – BUDGET YEAR 2014/15

Introduction

The Chief Financial Officer is required to make a statement on the adequacy of reserves and the robustness of the budget. This is a statutory duty under section 25 of the 2003 Local Government Act which states the following:

(*1*) *Where an authority to which section 32 or 43 of the Local Government Finance Act 1992 (billing or major precepting authority) or section 85 of the Greater London Authority Act 1999 (c.29) (Greater London Authority) applies is making calculations in accordance with that section, the chief finance officer of the authority must report to it on the following matters:-*

(a) The robustness of the estimates made for the purposes of the calculations; and
(b) The adequacy of the proposed financial reserves.

(2) An authority to which a report under this section is made shall have regard to the report when making decisions about the calculations in connection with which it is made.

This includes reporting and taking into account:

- The key assumptions in the proposed budget and to give a view on the robustness of those assumptions; and

- The key risk areas in the budget and to assess the adequacy of the Council's reserves when reviewing the potential financial impact of these risk areas on the finances of the Council. This should be accompanied by a Reserves Strategy.

This report has to be considered and approved by Council as part of the budget approval and Council Tax setting process.

This document concentrates on the General Fund 2014/15, the Housing Revenue Account and Capital Programme, but in addition it also considers key medium term issues faced by the Council.

Assurance Statement of the Council's Section 151 Officer (Head of Corporate Finance)

The following are the summary assurances and recommendations of the Council's Section 151 Officer (The Head of Corporate Finance). They must be read in conjunction with the supporting statement (from Page 6 of this appendix) which together make up the Section 151 Officer's statutory duty to report under Section 25 of the Local Government Act 2003.

THE HEAD OF CORPORATE FINANCE'S S25 STATEMENT

1. In relation to the 2014/15 General Fund Revenue budget I have examined the budget proposals and I believe that, whilst the spending and service delivery proposals are challenging, they are nevertheless achievable given the political and management will to implement the changes, good management, and the sound monitoring of performance and budgets. I am satisfied that sufficient management processes exist within the Council to deliver this budget and to identify and deal with any problems which may arise unexpectedly during the year.

2. The key process risks in making the above statement are the comparatively low resources within the Council, compared to other Unitary Authorities, dedicated to providing financial support services and advice to managers, which will require the finance teams to be focused on key risk budgets.

3. My recommendations are also conditional upon:

    - The agreement of a Medium Term Financial Strategy and Plan for 2015/16 to 2017/18 that will require significant reductions in net revenue expenditure to deliver a balanced budget for the financial years 2015/16 and beyond.

    - A recognition in the medium term planning approach that the level of reserves and corporate risk assessment need to be regularly reviewed in the light of changing circumstances and that it may not be possible to match the two at any single point in time. The Council needs to show a commitment to maintain reserves at a level which provides adequate cover for most identified risks during the planning period. This approach is pragmatic, and shows a clear commitment to prudent contingency planning. It must be noted, however, that the recommended levels of reserves still leave the Council exposed to the very exceptional risks identified in this review and, if those risks crystallise, to reserves being inadequate.

    - Portfolio Holders, Directors and Heads of Service managing within their cash limits for 2014/15 (and future years covered by the Medium Term Financial Strategy and Plan).

    - Taking every opportunity to meet the Reserves Strategy as a first call on windfall under spends.

    - Not considering further calls on reserves other than for those risks that have been identified, those that could not have been reasonably foreseen and that cannot be dealt with through management or policy actions. The exception to this is where the Reserves Strategy (reviewed annually) is met. Even in those circumstances, it is not prudent to finance ongoing spending from one-off reserves. Any excess reserves should be targeted towards one-off' invest to save', supporting the transition that is required for future service delivery and contributions to fund the Council's capital programme.

THE HEAD OF CORPORATE FINANCE'S S25 STATEMENT

- Where there is a draw-down on reserves, which causes the approved Reserves Strategy to be off target, that this is paid back within three years.

- That the Council has arrangements and resources in place to consider value for money in preparation for future years' budgets.

4. In relation to the adequacy of reserves, I recommend the following Reserves Strategy based on an approach to evidence the requisite level of reserves by internal financial risk assessment. The Reserves Strategy will need to be reviewed annually and adjusted in the light of the prevailing circumstances.

   - An absolute minimum level of General Fund reserves of £5m that is maintained throughout the period between 2014/15 to 2017/18

   - An optimal level of reserves of £8.0m over the period 2014/15 to 2017/18 to cover the absolute minimum level of reserves, in-year risks, cash flow needs and unforeseen circumstances.

   - A maximum recommended level of reserves of £11.0m for the period 2014/15 to 2017/18 to provide additional resilience to implement the Medium Term Financial Plan.

   - A Reserves Strategy to maintain the recommended maximum level of reserves within the relevant period (2014/15 to 2017/18).

   - In relation to the Housing Revenue Account (HRA) my recommendation is that reserves be maintained at £1.7m.

5. The estimated level of unallocated General Fund reserves at 31 March 2014, based on current projections is £8.0m, depending on final spending. Therefore:

   - The absolute minimum level of reserves of £5.0m is currently being achieved.

   - The optimal level of reserves of £8.0m will be maintained by the end of the current year.

   - It is unlikely that the recommended maximum level of reserves of £11.0m will be breached during 2014/15.

6. These recommendations are made on the basis of:

   - The risks identified in the Directors' reviews of their budgets.

   - My own enquiries during the development of the budget.

   - The resilience required to deliver the Medium Term Financial Plan.

THE HEAD OF CORPORATE FINANCE'S S25 STATEMENT

- One-off unallocated reserves not being used to fund new ongoing commitments.

- Reserves in 2014/15 and the foreseeable future being used only where planned and if risks materialise and cannot be contained by management or policy actions.

- That where reserves are drawn down, the level of reserves is restored within three years to that required by the Medium Term Financial Strategy.

7. There are also serious exceptional risks which, if they crystallise, could eliminate the Council's reserves and leave its financial standing seriously in question. These include:

   - Not delivering the planned savings and efficiencies from transformation and new ways of working.

   - Unforeseen impacts arising from the consequences of welfare reform, in particular the Essential Living Fund and the occupancy limitations for Housing Benefits.

   - Unforeseen impacts arising from the governance and financial changes in the provision of public health services.

   - Shortfalls in the reimbursement to Councils from the government with regard to the Care Bill.

   - The impact of the localisation of business rates and the consequences of future changes in the total rateable value of businesses located in Thurrock.

   - Interest rate rises that would reduce the ongoing savings arising from the restructuring of debt carried out in August 2010.

   - Any shortfall against the expected value of assets identified for disposal.

   - Adequacy of contingency funds to meet demographic and economic pressures, especially at this time of significant change.

8. In relation to the General Fund and HRA Capital Programme 2014/15 (including commitments from previous years and new starts):

   - The HRA Capital Programme will need to be contained within total programme costs.

   - The General Fund Capital Budget is based on the best information available in terms of project costs. What is less certain, given the history of cost variations, is the phasing of expenditure.

- The strategic schemes identified in the Capital Programme will be closely monitored in-year.

9. In relation to the medium/long term Capital Programme:

- The delivery of the agreed Capital Strategy and Asset Management Plan is a critical priority to enable the matching of resources to needs and priorities.

Assurance

Given all these factors I, as the Council's Section 151 Officer, consider the estimates for 2014/15 to be sufficiently robust but challenging for approval by the Council. I advise the Council that the General Fund Reserves are currently at the optimum level required to ensure financial stability over the medium term and recommend that the Reserves Strategy be maintained in 2014/15 and the medium term.

THE HEAD OF CORPORATE FINANCE'S S25 STATEMENT

Supporting Statement

Processes

Budget estimates are exactly that – estimates of spending and income made at a point in time and which will change as circumstances change. This statement about the robustness of estimates cannot give a 100% guarantee about the budget but gives Members reasonable assurance that the budget has been based on the best information available at the time.

In order to meet the requirement on the robustness of estimates a number of key processes have been put in place, including:

- The issuing of clear guidance to Services on preparing budgets;
- The development of Council wide risk assessment;
- The use of budget monitoring to identify risk;
- The Council's S151 Officer providing advice throughout the process of budget preparation and budget monitoring;
- The Directors' Board's review of their budgets and budget sensitivities;
- A review of budget proposals by Directors' Board throughout the past year;
- A review of budget information by Executive Members throughout the past year; and
- Enquiries made directly by the Section 151 Officer.

Notwithstanding these arrangements, which are designed to test the budget throughout its various stages of development, considerable reliance is placed on the Directors and Heads of Service having proper arrangements in place to identify issues, project costs, assess service demands, consider value for money and efficiency, and implement changes in their service plans. This work is supported by appropriately qualified and experienced financial staff.

A summary of the key budget assumptions considered by Directorates in terms of assessing the robustness of their budgets were:-

- The treatment of inflation and interest rates;
- The treatment of demand led pressures;
- The treatment of efficiency savings/productivity gains;

THE HEAD OF CORPORATE FINANCE'S S25 STATEMENT

- The financial risks inherent in any significant new funding partnerships, major outsourcing deals or major capital developments;
- The availability of other funds to deal with major contingencies;
- The Directorate's track record in budget and financial management; and
- The Directorate's capacity to manage in-year budget pressures.

The full key budget assumptions and comments by each Director are available from the Head of Corporate Finance and are listed within budget reports.

Corporate and service processes will continue to be improved in future years. Improvement in these processes will assist in prevention or earlier identification of issues to be dealt with in the budget and Medium Term Financial Plan. Nevertheless, in preparing such a complex budget, unforeseen issues will arise throughout the year and in future years.

Robustness of Estimates – General Fund Revenue Budget

The 2014/15 budget and service planning process continues the need to link financial resources to corporate priorities and risks. In addition to improving efficiency, there are clearly choices for the Council in this respect:-

- To increase financial resources to meet demand and reduce risk; or
- To reduce (where possible) service levels and standards, frequency of service delivery, and eligibility for services.

As part of developing the budget, Members of the administration have considered these options and they are reflected in the proposed budget.

Most notably the Council has had to address major cost increases and pressures as well as corporate priorities including:

- Demographic changes for social care;
- Increasing complexity and hence cost of care provision;
- The cost of unsupported borrowing within the capital programme;
- The cost of fixing debt in advance of interest rate rises;
- Shortfalls in income;
- Reductions in grant from government; and
- Increased energy costs.

THE HEAD OF CORPORATE FINANCE'S S25 STATEMENT

These assumptions will require the forecasts for future years to be reviewed early in each financial year leading to more detailed budgets during the autumn of each financial year.

Medium Term Financial Planning

Over the medium term, the Council needs to deliver its Medium Term Financial Plan reflecting the continuing impact of the proposed budget and only minimal growth in relation to issues that are unavoidable. Within the tight financial climate over the medium term it is very likely that service improvement and reasonable Council Tax increases, without key service reductions, will only be achieved through improving efficiency and clear prioritisation.

The Council's Medium Term Financial Strategy shows that further reductions in grant and increased budgetary pressures requires the Council to reduce its net cost by some £35m over the period 2015/16 – 2017/18. It is essential that work continues on identifying what will be a considerable change to the Council's way or working and the experience for our residents.

The aim remains to bring a report with the various options to Cabinet no later than July 2014 to:

- Maximise the time available to implement what will be significant change; and
- To deliver savings within 2014/15 to reduce the call on reserves.

Adequacy of Reserves – General Fund Revenue Budget

Under the Local Government 2003 Act the Secretary of State has reserve powers to set a minimum level of reserves. The most likely use of this power is where an authority is running down its reserves against the advice of their S151 Officer.

Determining the appropriate level of reserves is not a precise science or a formula (e.g. a particular percentage of the Council's budget). It is the Council's safety net for risks, unforeseen events or other circumstances. The reserves must last the lifetime of the Council unless contributions are made from future years' revenue budgets. The minimum level of balances cannot be judged merely against the current risks facing the Council as these can and will change over time.

Determining the appropriate level of reserves is a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions, other earmarked reserves and provisions, and the Council's track record in budget management.

The consequences of not keeping a minimum prudent level of reserves can be serious. In the event of a major problem or a series of events, the Council would run a serious risk of a deficit or of being forced to cut spending during the year in a damaging and arbitrary way.

THE HEAD OF CORPORATE FINANCE'S S25 STATEMENT

The recommendation on the prudent level of reserves has been based on the robustness of estimate information and the Corporate Risk Register. In addition, the other strategic operational and financial risks taken into account when recommending the minimum level of unallocated General Fund reserves include:

- There is always some degree of uncertainty over whether the full effects of any economy measures and/or service reductions will be achieved. Directors have been requested to be prudent in their assumptions and that those assumptions, particularly about demand led budgets, will hold true in changing circumstances;

- The Bellwin Scheme Emergency Financial Assistance to Local Authorities provides assistance in the event of an emergency. The Council is able to claim assistance with the cost of dealing with an emergency over and above a threshold set by the Government;

- The risk of major litigation, both current and in the future;

- Risk in the inter-relation between the NHS and Social Service authorities;

- The risk of losing subsidy arising from outstanding Housing Benefit and Council Tax Benefit Subsidy Claims;

- Unplanned volume increases in major demand led budgets, particularly in children's services;

- The need to retain a general contingency to provide for some measure of unforeseen circumstances which may arise. This part of the reserves is not provided for directly but indirectly on the assumption that the financial risks identified will not all crystallise within the same financial year; and

- The need to retain reserves for general day-to-day cash flow needs. This is minimal given the level of cash the Council holds at any given time.

The analysis would indicate an underlying prudent level of unallocated reserves of £8.0m to be achieved pragmatically over time under normal circumstances (and in addition to school balances).

In relation to the adequacy of reserves, I recommend the following Reserves Strategy based on an approach to evidence the requisite level of reserves by the use of internal risk assessment.

- An absolute minimum level of General Fund reserves of £5m that is maintained throughout the period between 2014/15 to 2017/18;

- A level of reserves of £8.0m over the period 2014/15 to 2017/18 as the optimal level of reserves to cover in-year risks, cash flow needs and unforeseen circumstances;

THE HEAD OF CORPORATE FINANCE'S S25 STATEMENT

- A maximum recommended level of reserves of £11.0m for the period 2014/15 to 2017/18 to provide additional resilience to implement a Medium Term Financial Plan; and

- A Reserves Strategy to maintain the recommended maximum level of reserves within the relevant period (2014/15 to 2017/18).

The estimated level of unallocated General Fund reserves at 31 March 2014, based on current projections, is £8.0m depending on final spending. Therefore:

- The absolute minimum level of reserves of £5m is currently being achieved;

- The level of reserves to meet day to day risk of £8.0m will be maintained; and

- The recommended maximum level of reserves of £11.0m will not be breached in 2014/15.

Despite this, the further exceptional risks identified may have a potential and serious call on reserves. The Council is advised to be cautious about these risks and commit to restoring any drawn down on reserves within a three year period.

In these circumstances, I will require the Council, Cabinet, Directors and Heads of Service:

- To remain within their service budget for 2014/15 and within agreed medium term financial plan targets for future years (2015/16 to 2017/18) with a strict adherence to recovering overspends within future years' financial plan targets;

- To make repayment to reserves over three years should these risks materialise; and

- To direct any windfall revenue savings/under spends to reserves should the General Fund Revenue Strategy require it.

Estimated Earmarked General Fund Revenue Reserves

I have reviewed the Council's earmarked revenue reserves. The amounts held for general fund purposes are minimal and further information is included in appendix 5 to this report. I have taken the opportunity to rationalise the earmarked reserves to support the transition that the Council will be going through over the next four years.

The estimated amount available to the general fund is circa £7m over and above the general balance of £8m although this is largely committed.

Schools' Balances

THE HEAD OF CORPORATE FINANCE’S S25 STATEMENT

Schools’ balances, while consolidated into the Council’s overall accounts, are a matter for Governing Bodies. Nevertheless, under the Council’s Scheme for Financing Schools the Council has a duty to scrutinise whether any school holds surplus balances. To that effect the Council’s Scheme for Financing Schools will be amended in line with the requirements of the Secretary of State for Education with minor amendments agreed by the Schools’ Forum.

I am satisfied that the arrangements in place are adequate.

The Capital Budget

Projects included in the Capital Programme were prepared by Heads of Service and Managers in line with financial regulations and guidance. All projects were agreed by the relevant member of Directors’ Board and Executive Member and are fully funded for their estimated cost.

Projects have been costed at outturn prices with many subject to tender after inclusion in the programme. This may lead to variance in the final costs.

Services are required to work within the given cash envelope so any under or over provision must be found within these limits.

Capital Programme Risks

The risk of the Council being unable to fund variations in the programme is minimal mainly due to phasing of projects. The Council is able to freeze parts of the programme throughout the year to ensure spend is within the agreed financial envelope, although this will have service implications. A further key risk to the capital programme is the ability of the Council to fully deliver it within the agreed timescales.

In relation to the General Fund and HRA Capital Programme 2014/15 (including commitments from previous years and new starts):

- The HRA Capital Programme will need to be contained within total programme cost by delaying or stopping specified schemes if necessary;

- The General Fund Capital Budget is based on the best information available in terms of project costs. What is less certain, given the history of underspends, is the phasing of expenditure; and

- The strategic schemes identified in the Capital Programme will be closely monitored in-year.

Appendix 2

SERVICE BUDGETS

	Rounded 2014/15 Base Budget Final
Adults, Health & Commissioning	38,351,329
Business Services	561,019
Chief Executive's Delivery Unit	2,335,023
Chief Executive's Office	11,180,738
Children's Services	45,883,589
Corporate Income & Expenditure	(3,128,319)
Environment and Public Protection	21,549,244
Housing	2,486,607
Planning & Transportation	12,944,602
SERCO	(525,336)
Services Total	**131,638,496**
Transformation Savings	(458,000)
Procurement Savings	(791,000)
Shared Services	(1,233,000)
Other Non Specific Grants	(3,317,238)
Levies	542,200
Capital Financing	(2,121,044)
Revenue Support Grant	(35,685,845)
Business Rates	(31,137,172)
Collection Fund - Council Tax Surplus	(1,132,609)
Collection Fund - Business Rates Deficit	1,012,000
New Homes Bonus	(2,067,247)
Reserves	**(1,975,951)**
To be funded through Council Tax	(53,273,590)
Grand Total	**0**

GENERAL FUND GROWTH AND SAVINGS

	Savings	Growth
Learning and Universal Outcomes (Education and Children's Social Care)		
Home to School Transport	(30,000)	
Reduction in Staffing	(100,000)	
Reduction in Discretionary Transport	(300,000)	
School Improvements	(125,000)	
Premises Costs	(65,000)	
Libraries	(80,000)	
Removal of substantive intensive support team post	(65,000)	
Reduction of EY/Child Care Training posts	(30,000)	
Staffing Reduction	(30,000)	
Removal of Contracts and Performance Manager	(55,000)	
Reduction in NEET project work	(41,000)	
Reduction in NEET project work	(40,000)	
Reduction of 1 FTE employer engagement post	(35,000)	
Remove 0.5 FTE IAG/Foundation Learning post	(15,000)	
Reduction of equipment budget		
Reduction in improvement and IST consultant time	(15,000)	
Reduction of senior tutor posts in Thurrock Music Services	(15,000)	
Reduction in consultancy support to Elective Home Education		
Travellers education	(10,000)	
Reduction in Above	150,000	
	(901,000)	**0**
Care and Targeted Outcomes (Education and Children's Social Care)		
Adoption and SGO Allowances	(200,000)	
Social worker service for disabled children	(200,000)	
Supervised Contact	(100,000)	
Emergency Duty Team	0	
Increase Demand in Children Social Care Placements		650,000
Fostering		250,000
	(500,000)	**900,000**
Adjustment for 2013/14 In-year Savings	311,000	
PORTFOLIO TOTAL - Education and Children's Social Care	**(1,090,000)**	**900,000**
Chief Executive Delivery Unit (Regeneration, Highways and Transportation)		
Reduction in project budget, shared services and associated restructuring	(99,775)	
Bring Forward DCLG Grant		48,000
TTGDC - Regeneration		235,000
	(99,775)	**283,000**
Planning and Transportation (Regeneration, Highways and		

GENERAL FUND GROWTH AND SAVINGS

<u>Transportation)</u>		
Restructuring	(85,000)	
TAMP Infrastructure Audit	(120,000)	
Return of Major Development Powers from DC		32,000
Bus Subsidy	(250,000)	
	(455,000)	**32,000**
Adjustment for 2013/14 In-year Savings	60,000	
PORTFOLIO TOTAL - Regeneration, Highways and Transportation	**(494,775)**	**315,000**
<u>Environment</u>		
Street Cleaning Demographic		10,000
Additional Street Cleaning Demands to Reflect DP world and Lakeside		5,000
Waste Demographic/Non-household waste		59,000
Impulse Leisure	(50,000)	
Defer Street Cleaning growth	(10,000)	
	(60,000)	**74,000**
	60,000	
PORTFOLIO TOTAL - Cleaner, Greener Safer	**0**	**74,000**
<u>Housing</u>		
Homelessness - alternative provision of accommodation	(50,009)	
PORTFOLIO TOTAL Housing	**(50,009)**	**0**
<u>Corporate Savings</u>		
Shared Services	(1,000,000)	
Insurance	(200,000)	
Delivered through efficiencies derived from Oracle learning manager/ Performance Manager	(30,000)	
Adjustment for 2013/14 In-year Savings	57,000	
PORTFOLIO TOTAL - Central Services	**(1,173,000)**	**0**
<u>Adult Social Care</u>		
High cost LD Placement Review	(300,000)	
Placement Review Programme	(500,000)	
Provider Side Efficiency Review	(100,000)	
In-house service provision review	(100,000)	
Further Charging	(75,000)	
Collins House Review	(100,000)	
Review of the meals on wheels service	(100,000)	
Adjustment for 2013/14 In-year Savings	355,000	
PORTFOLIO TOTAL - Adult Social Care & Health	**(920,000)**	**0**

Appendix 4

MEDIUM TERM FINANCIAL STRATEGY

	2013/14 Budget	2014/15 £000		2015/16 £000		2016/17 £000		2017/18 £000	
Balance Brought Forward					**1,976**		**0**		**0**
Local Funding									
Council Tax / Council Tax Grant	(51,219)	(2,055)		(1,265)		(1,291)		(1,317)	
Collection Fund (Deficit) / Surplus	400	(1,533)		1,533					
Collection Fund (Deficit) / Surplus - Business Rates	0	1,012		(1,576)					
	(50,819)		**(2,576)**		**(1,308)**		**(1,291)**		**(1,317)**
Total Government Resources									
Revenue Support Grant	(43,445)	7,759		10,036		8,611		6,809	
New Homes Bonus	(1,314)	(753)		(1,133)		(413)		(154)	
Specific Grants - Ring Fenced	(7,270)	(856)		100		0		0	
Specific Grants - Non Ring Fenced	(3,381)	(257)		105		0		0	
	(55,410)		**5,893**		**9,108**		**8,198**		**6,655**
Funding Assumptions									
Business Rate Changes	(29,469)	(1,354)		(341)		(951)		(1,075)	
	(29,469)		**(1,354)**		**(341)**		**(951)**		**(1,075)**
Net Additional (Reduction) in resources	**(135,698)**		**1,964**		**7,459**		**5,956**		**4,263**
Inflation and other increases									
Pay Increase / Increments / Adjustments		750		756		762		768	
Salary Increments		768		777		787		797	
Contract Inflation		776		802		829		857	
Non Contract Inflation		387		438		496		563	
Fees and Charges		(100)		(100)		(100)		(100)	
			2,581		**2,673**		**2,774**		**2,885**

Appendix 4

MEDIUM TERM FINANCIAL STRATEGY

	2013/14 Budget	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Capital Financing					
Prudential Borrowing & Treasury Management	2,399	(96)	1,626	2,023	1,297
		(96)	**1,626**	**2,023**	**1,297**
Adult Social Care & Health	**37,974**				
- Growth		463			
- Saving		(920)			
		(457)	0	0	0
Central Services	**10,135**				
- Growth		243			
- Saving		(2,805)			
		(2,562)	0	0	0
Cleaner, Greener Safer	**20,901**				
- Growth		74	233	0	0
- Saving		0			
		74	233	0	0
Education and Children's Social Care	**46,563**				
- Growth		1,236	250	0	0
- Saving		(1,090)	(125)	0	0
		146	125	0	0
Housing	**2,524**				
- Growth		0			
- Saving		(50)			
		(50)	0	0	0
Regeneration, Highways and Transportation	**15,203**				
- Growth		315	316	0	0
- Saving		(495)			

Appendix 4

MEDIUM TERM FINANCIAL STRATEGY

	2013/14 Budget	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
		(180)	316	0	0
Demographic Pressures			1,000 1,000	1,000 1,000	1,000 1,000
	133,299	**(3,029)**	1,674	1,000	1,000
DCLG Grant Utilisation	0	556			
Use of Reserves	0	(1,976)			
		(1,420)	**0**	**0**	**0**
Total Savings to Identify	**0**	**0**	**15,408**	**11,753**	**9,445**

RESERVES

The Council holds a number of reserves, some of which can be used and some of which are technical accounting reserves that cannot be used. These are formally categorised on the Balance Sheet as Usable and Unusable Reserves and cover both the GF and the HRA.

The balances as at 31 March 2013 are as follows:

Usable £54.11m

Unusable £362.29m

For reference, the unusable reserves cover entries such as changes to the valuations of properties, the amount calculated as the Council's share of the pension deficit (£158m) and funding set aside annually for the repayment of debt governed by legislation).

Usable Reserves

These are first split down as follows:

Reserve	£m	Use
GF Balance	8.00	Available for the GF – set by Council on the advice of the S151 Officer – no set formula, need to consider own Council's risk.
HRA Balance	1.70	Available for the HRA – set by Council on the advice of the S151 Officer – no set formula, need to consider own Council's risk.
Earmarked Reserves	27.75	Mix of GF, HRA and Education related – set aside for a specific use – generally there is flexibility here to add to the GF or HRA balance or set aside for a different purpose.
Capital Receipts Reserve	1.39	Can only be used to finance the capital programme – already committed.
Major Repairs Reserve	3.10	Can only be used to finance the HRA capital programme – already committed.
Capital Grants Unapplied	12.17	These are ring fenced grants received before 31 March 2013 but to be spent after that date. Funding is transferred as expenditure is incurred or repayment is required.
	54.11	

RESERVES

Earmarked Reserves

These are split down as follows and include the estimated balance as at 31 March 2014 and whether flexible for GF use:

	Mar 13 £m	Mar 14 £m	Use	GF Flexibility
Schools	6.45	N/A	Schools end of year balances	No
Corporate Plan	0.55	0.55	Support the delivery of the Council's objectives	Yes
Economic Development	0.76	0.70	Support ED activity	Yes
Budget Pressures	2.28	2.28	To meet pressures that come from demand, timing on savings, etc	Yes
ICT	0.82	0.00	To pump prime ICT initiatives	Yes, but will be fully spent
Building Control	(0.03)	N/A	Statutory Trading Ac	No
Capital Related	1.38	0.88	To finance the capital programme	Yes – but current programme would have to finance through either capital receipts or prudential
Historic Buildings	0.06	0.00	Earmarked for work ref State Cinema	N/A – already spent
Land Charges	0.07	0.10	National court proceedings challenging fees – Council could have to make repayments	No
Commuted Sums	1.65	N/A	Developers contributions to ongoing maintenance (verges etc)	No – governed by agreements
Local Strategic Plan	0.22	0.00	Financing various community activity	Yes
DC Transfer	1.54	N/A	To meet staffing/operational costs related to the transfer of the DC staff and activities.	No – will be spent by 2014/15

Appendix 5

RESERVES

	Mar 13 £m	Mar 14 £m	Use	GF Flexibility
Grants	3.52	N/A	Ring fenced grants received but not yet spent	No
Local Safeguarding Children's Board	0.11	N/A	Third party contributions not spent as at 31 March	No
Safeguarding	0.01	N/A	Held on behalf of the Board	No
HR/OD	0.18	0.18	To meet HR/OD requirements during this period of change	Yes
Regeneration	0.16	0.00	To support the planning of regeneration schemes	N/A – already spent
DC Receipts	0.89	0.89	Provisionally to part finance Purfleet	Yes – but full cost of Purfleet would have to be met from capital receipts or prudential
NEETS	0.30	0.30	To support work with NEETS	Yes
School Improvement	1.00	1.00	To support schools in improvement programmes	Yes
Flood Defence	0.33	0.33	To carry out survey work	Yes - Non ring fenced grant from government
DSG	2.71	N/A	Unspent DSG earmarked for schools	No
Housing Development	2.79	N/A	Surplus HRA balances set aside for development	No
	27.75			

RESERVES

Summary and Approach

Considering the above, the estimated available balance available to the General Fund with flexibility is as follows:

	Mar 14 £m	GF Flexibility
GF Balance	8.00	Yes
Corporate Plan	0.55	Yes
Economic Development	0.70	Yes
Budget Pressures	2.28	Yes
Capital Related	0.88	Yes – but current programme would have to finance through either capital receipts or prudential
HR/OD	0.18	Yes
DC Receipts	0.89	Yes – but full cost of Purfleet would have to be met from capital receipts or prudential
NEETS	0.30	Yes
School Improvement	1.00	Yes
Flood Defence	0.33	Yes - Non ring fenced grant from government
	15.11	

With the risk evidenced by the closure of the Tilbury Power Station, I still consider £8m to be a prudent level for the GF Balance. There is also the need to protect ourselves against any shortfall in an ambitious saving programme going forward.

Demands and other considerations against the £15.11m already include:

1. *£1.4m for Europa;
2. *The 2014/15 budget deficit (range £1.7m to £2.7m);
3. Commitment to School Improvements and NEETS – only agreed in Feb 2014;
4. *Pump priming SELEP, Change Programme, etc;
5. *Severance Costs;
6. World War 1 - £50k (meet from Corporate Plan Reserve);
7. *Tiger Programme £50k; and
8. *Funding of transformation team (though trying to capitalise).

The approach I am taking is to roll a number of the reserves into one to manage the ad hoc demands etc going forward so that we are clear how much is available. Those items marked with a * will need to be met from this balance which will be topped up with any underspends etc. The above then translates into:

	March 2014 £m		March 2014 £m
GF Balance	8.00	NEETS	0.30
Corporate Plan	0.55	School Improvement	1.00
Budget Management	5.26	Total	15.11

SCHOOLS' BUDGETS

2014/15 Schools Funding	£000's
DSG Schools Block	98,682
Transferred from High Needs (Note a)	1,264
Maintained for Central Spend	(1,546)
	98,400
Retained for School Growth (Note b)	700
Exceptional High Needs (Note c)	500
Distributed to Schools	97,200

a) Schools have been transferred funding from the High Needs block to fund the extra responsibility of funding low level high incidence SEN pupils.

b) Growth Funding will be allocated to Schools in year, where the school has an additional class required in September due to pupil demand. This funding is not allocated for general in year pupil movement. A growth policy has been approved by the DfE, and any remaining balance at the end of the year, must be returned to the Schools block.

c) Money has been retained, but will be allocated to individual Schools in year to cover the costs of High needs where the school has a disproportionate number of high needs pupils.

2014/5 Estimated High Needs Block Spend	£000's
Special Schools	6,500
Resource provisions	3,000
Independent/ NM Special School	2,500
Pupil Referral Unit/EOTAs	2,000
SEN Transport	1,200
Schools top up	2,570
Nursery SEN	500
Post 16 top up	600
Transferred to Schools block	1,264
Total	20,134

2013/14 Early Years Block Spend

All of the Early Years Block spend will fund the free 15 hour p/w placements
For 2, 3 and 4 year olds delivered at either a School, Private, Voluntary or independent early years setting.

GENERAL FUND CAPITAL PROGRAMME - ADDITIONS

Service	Column1	2014/2015 Budget	2015/2016 Budget	2016/2017 Budget	Funding Source
Childrens Services					
- Bid - Early Years I.T. Module		45.0	-	-	Prudential/Cap Rccts
- Bid - Grangewaters		350.0	-	-	Prudential/Cap Rccts
- Bid - Fire Alarms and Emergency Lighting in Libraries		30.0	-	-	Prudential/Cap Rccts
- Basic Need Schools Grant (DOE) - (estimate)		-	3,800.0	3,800.0	Government Grant
- Capital Maintenance Schools Grant (DOE) - (estimate)		1,032.0	1,000.0	1,000.0	Government Grant
- Schools Devolved Formula Capital Grant (DOE) - (estimate)		250.0	200.0	200.0	Government Grant
Adult, Health & Commissioning					
- Bid - Care and Support System		75.0	45.0	-	Prudential/Cap Rccts
Environment					
- Bid - Improvements to Leisure Buildings		980.0	200.0	100.0	Prudential/Cap Rccts
Planning & Transportation					
- Road Maintenance Grant (DFT) - (estimate)		1,612.0	1,600.0	1,600.0	Government Grant
- Integrated Transport Grant (DFT) - (estimate)		1,235.0	1,200.0	1,200.0	Government Grant
Housing General Fund					

GENERAL FUND CAPITAL PROGRAMME - ADDITIONS

Service	Column1	2014/2015 Budget	2015/2016 Budget	2016/2017 Budget	Funding Source
- Disabled Facility Grants (CLG) (14/15 confirmed)		416.0	416.0	416.0	Government Grant
Commercial Services					
- Bid - Civic Offices/Thameside*		300.0	300.0	300.0	Prudential/Cap Rccts
Transformation / ICT					
- Bid - Transformation/ICT*		3,000.0	2,500.0	2,500.0	Prudential/Cap Rccts
Chief Executive Delivery Unit					
- Bid - Improvements to Village Halls*		200.0	200.0	200.0	Prudential/Cap Rccts
- Bid - Purfleet Regeneration*		5,000.0	6,000.0	5,600.0	Prudential/Cap Rccts
- Bid - PRU Relocation*		2,500.0	-	-	Prudential/Cap Rccts
- Bid - Grays South and Rail Station Regeneration*		250.0	3,065.0	3,065.0	Prudential/Cap Rccts
Total		**17,275.0**	**20,526.0**	**19,981.0**	

<u>Funding</u>					
Childrens Services					
Prudential/Cap Rccts		425.0	-	-	
Government Grant		1,282.0	5,000.0	5,000.0	

Appendix 7

GENERAL FUND CAPITAL PROGRAMME - ADDITIONS

Service	Column1	2014/2015 Budget	2015/2016 Budget	2016/2017 Budget	Funding Source
Adult, Health & Commissioning					
Prudential/Cap Rccts		- 25.0	45.0	-	
Section 106		100.0	-	-	
Environment					
Prudential/Cap Rccts		980.0	200.0	100.0	
Planning & Transportation					
Government Grant		2,847.0	2,800.0	2,800.0	
Housing General Fund					
Prudential/Cap Rccts		-	-	-	
Government Grant		416.0	416.0	416.0	
Commercial Services					
Prudential/Cap Rccts		300.0	300.0	300.0	
Transformation					
Prudential/Cap Rccts		3,000.0	2,500.0	2,500.0	
Chief Executive Delivery Unit					
Prudential/Cap Rccts		7,950.0	9,265.0	8,865.0	

GENERAL FUND CAPITAL PROGRAMME - ADDITIONS

Service	Column1	2014/2015 Budget	2015/2016 Budget	2016/2017 Budget	Funding Source
Total Funding		**17,275.0**	**20,526.0**	**19,981.0**	

Funding Summary				
Prudential/Cap Rccts		12,630.0	12,310.0	11,765.0
Section 106		100.0	-	-
Government Grant		4,545.0	8,216.0	8,216.0
Total Funding		**17,275.0**	**20,526.0**	**19,981.0**