

<b>17 October 2012</b>	<b>ITEM:</b>
<b>Cabinet</b>	
<b>GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY</b>	
<b>Report of:</b> Councillor John Kent	
<b>Wards and communities affected:</b> All	<b>Key Decision:</b> Non-key
<b>Accountable Head of Service:</b> Sean Clark, Head of Corporate Finance	
<b>Accountable Director:</b> Directors' Board	
<b>This report is</b> Public	
<i>If the report, or a part of this, has been classified as being either confidential or exempt by reference to the descriptions in Schedule 12A of the Local Government Act 1972, it is hereby marked as being not for publication. The press and public are likely to be excluded from the meeting during consideration of any confidential or exempt items of business to which the report relates.</i>	
<b>Date of notice given of exempt or confidential report:</b> Not applicable	
<b>Purpose of Report:</b> To update Cabinet on the current budget forecast for 2013/14 and the life of the Medium Term Financial Strategy, including key considerations from 2012/13 and their impact on future years.	

## **EXECUTIVE SUMMARY**

The Cabinet last considered the Medium Term Financial Strategy on 22 February 2012 as part of the Corporate Plan and Medium Term Financial Strategy (MTFS) report. At that time, a budget gap of £2.6m was projected for 2013/14 and a further £10.6m over the following two years.

Over recent months, further pressures have been identified through the monitoring of 2012/13 that have increased these gaps whilst the Star Chamber has identified opportunities to further reduce these gaps as well as confirming areas of growth. This report pulls all of these changes together to set out the current position.

### **1. RECOMMENDATIONS:**

#### **1.1. That the Cabinet:**

- a) **Note the current forecasts and the projected budget gap in 2013/14 of £3.463m and a further projected budget gap of £17.2m over the remaining three year life of the Medium Term Financial Strategy;**
- b) **Note the uncertainty over the level of government grant available for future years, particularly in relation to council tax freeze grant;**
- c) **Note the approach to Treasury Management budgets;**
- d) **Note the assumptions set out within the report;**
- e) **Forwards the proposals to the relevant Overview and Scrutiny Committees for consideration and comment; and**
- f) **Continues to work with officers to identify further options to eliminate the projected budget gaps.**

## **2. INTRODUCTION AND BACKGROUND:**

- 2.1. The current MTFS, attached at Appendix 1, shows a projected budget gap of £3.463m for 2013/14 and a further projected budget gap of £17.2m over the remaining three years of the MTFS.
- 2.2. In recent months, the MTFS has been influenced and amended by a review of 2012/13 and a Star Chamber process led by the Leader of the Council and Chief Executive. The Star Chamber process not only identified opportunities to reduce these projected gaps but also agreed levels of growth from the impact of pressures in 2012/13. A schedule of growth and savings proposals is included at Appendix 2.
- 2.3. This report will also set out other assumptions that have been built into the MTFS.

## **3. 2012/13 IMPACT AND CONSIDERATIONS**

- 3.1. The month 3 budget monitoring report set out significant pressures within the Children's Placement budgets. Further work is being carried out to determine whether there has been a peak in demand that will reduce over the life of the MTFS or whether the current level of placements is likely to be ongoing. At this stage, we are assuming that the budget pressure will remain at the current level and so the MTFS assumes an increase in budget of £3m.
- 3.2. The 2012/13 budget identified £2.7m in Transformation related savings. The month 3 forecast projected that this will be achieved and officers are working on implementing the final aspects to this, especially in the area of Procurement. The schedule at Appendix 3 sets this out along with the plans to achieve a further £4.35m in 2013/14.
- 3.3. The 2012/13 budget included a savings target of £1m from the Serco (then Vertex) contract. The month 3 report identified that £0.45m of this had been achieved and instructed officers to carry on working with Serco to identify the balance. Since that date officers, including the Chief Executive, have met

colleagues from Serco and reviewed a number of other opportunities that, together, more than meet the remainder of the target. Serco are currently working these options up into more detailed business cases and, should these be accepted, will in part bridge the budget gap for 2012/13 but also ensure that the base budget is achieved for 2013/14 going forward. As such, no growth has been added to the MTFS for next year.

#### **4. STAR CHAMBER OUTCOMES**

4.1. In addition to the above, there are a number of additional changes to the MTFS published in February of this year and they are listed in Appendices 1 and 2 and will be considered in more detail by the relevant Overview and Scrutiny Committees in November 2012. Key points to note:

- There remains a demand in resources of an additional £1m per annum for Adult Social Care;
- There is a switch of £350k from revenue funding to capital funding for contributions towards ICT and Disabled Facility Grants;
- There is an assumption that Council Tax exemptions will be removed. This is the subject of a further report on this agenda; and
- As mentioned in section 3 to this report, there is a further £4.35m of Transformation savings assumed (see Appendix 3).

#### **5. OTHER ASSUMPTIONS/CHANGES**

5.1. In terms of other assumptions, the most significant is that around government grant and the future of local government funding. The Council is currently estimating an overall reduction in grant – that is the result of the reduction in formula grant offset by an increase in New Homes Bonus – of £3m. However, reviewing data from various economic advisers suggests that this is the middle ground and could fluctuate significantly in either direction.

5.2. Now that the Chancellor's Autumn Statement has been put back until 5 December 2012, the Council is unlikely to receive any settlement announcement until sometime after this. Should the position be worse, the Council will have to identify further options to reduce net expenditure whilst if it improves, the Council will be in a stronger position for future years.

5.3. The likely change in government support from formula grant to the retention of business rates has not yet been factored in. This is still out for consultation but Members should be clear that, firstly, the Council will not be able to keep all of the business rates that it collects or secondly, the full amount of growth achieved in future years. As the rules and baselines become clearer, a further report will be submitted to Cabinet.

5.4. The 2011/12 and 2012/13 financial years saw the government provide a Council Tax Freeze Grant. The first was guaranteed for the life of this parliament and so has been added as a budget pressure in 2016/17. The

2012/13 grant was only awarded for this financial year and, as there had not been any announcement of an extension, officers had been working on the assumption that this grant would be withdrawn and so included a £1.4m pressure in 2013/14.

- 5.5. The announcement on 7 September 2012 of a further Council Tax Freeze Grant has been further supported by announcements on the HM Treasury website. Up until this point, a Council Tax increase of 2.5% had been factored in for 2013/14, in line with inflation. The MTFS has now been updated on the assumption that the Council would accept the third year Council Tax Freeze Grant of 1%.
- 5.6. The grant is awarded on the basis that there is no increase in Council Tax. Should Members be minded to increase the Council Tax, the announcement on 7 September 2012 also set a referendum level of 2% - that means that the Council could increase Council Tax by 2% but would trigger a referendum should a higher increase be proposed.
- 5.7. Officers are also taking this announcement as an indication that the current Council Tax Freeze Grant will remain for next year as it seems unlikely that the government would provide a 1% grant whilst removing the grant for this year valued at 2.5%. On this basis, the loss of the 2012/13 Council Tax Freeze grant has now been included in 2016/17. Again, it is unlikely that this will be clear until sometime in December 2012 after the Autumn Statement.
- 5.8. Cabinet will be aware that Thurrock has the lowest Council Tax in Essex and one of the lowest amongst all Unitary Authorities. Council Tax increases in the following years are in line with inflation forecasts.
- 5.9. Council officers last received a cost of living pay increase in 2009/10 with 2012/13 being the third pay freeze year. In line with government announcements, the MTFS assumes a 1% cost of living increase in both 2013/14 and 2014/15 and then increases in line with inflation after that.
- 5.10. In line with the majority of Councils in the country, Thurrock currently has a pension fund deficit (the Council's fund is administered by Essex County Council). The fund is revalued every three years with the next revaluation scheduled as at 31 March 2013. This exercise will take a number of months and is likely to lead to an increased contractual contribution from the Council in 2014/15 and for the following years. This is currently estimated at £1m.
- 5.11. Inflation has been included at current and projected rates, for both utilities and contracts.
- 5.12. Further increases in prudential borrowing are currently included. This is largely required to deliver the Transformation Programme, specifically ICT and to start work on Community Hubs and office accommodation. Disposals of assets that could reduce this have not yet been factored in.
- 5.13. Cabinet has previously supported the sharing of the Chief Executive and Monitoring Officer with LBB. Should the respective Councils agree to the

approach of a shared Leadership Team further savings would be achieved. There should be clarity on this and any related savings in early December but, at this stage, the MTFS does not include any savings and these will be estimated and included should the proposals receive Council approval.

- 5.14. Cabinet are aware of the debt restructuring exercise that took place on 13 August 2010. The approach for the remainder of that financial year and for 2011/12 was to keep the budget the same as that set for the higher rates of interest and then to transfer the surplus to general reserves.
- 5.15. Knowing that the optimum level of £8m would be achieved by 31 March 2012, the Council did reduce this budget by £1.7m to protect frontline services in 2012/13 although this still leaves an annual budget surplus of £1m. There are options around the future budgeting for external interest payments;
- That this £1m be removed from the budget. This will have the effect of reducing the budget gap by a similar amount. The downside to this is that when the Council eventually has to fix our rates of interest, the increase required in the MTFS will be that much higher;
  - The other extreme is to budget to fix the debt at this stage. This would add a further pressure to the MTFS at this stage; and
  - The middle ground. Do not reduce the budget and to gradually increase the budget over to the required level over a three to four year period, in line with when interest rates could rise. The annual surplus that this would create could be used to meet one off expenditure in meeting the Council's priorities within the Corporate Plan. It is this latter option that is currently assumed although Members should be aware that should interest rates increase far earlier than widely predicted, the Council would incur an immediate pressure.

## **6. ISSUES, OPTIONS AND ANALYSIS OF OPTIONS:**

- 6.1. The main issue is the remaining budget gap for the next and future financial years. The Cabinet has previously instructed that this budget round should not just balance 2013/14 but result in a balanced MTFS for its current life.
- 6.2. Officers are continuing to work with their Portfolio Holders to identify further options and these will be reported back to Cabinet and considered by the relevant Overview and Scrutiny Committees in due course.

## **7. REASONS FOR RECOMMENDATION:**

- 7.1. The Council is required to set a balanced budget. The majority of the recommendations are for noting as this is largely an update report that is then to be further considered by the Overview and Scrutiny Committees.

## **8. CONSULTATION (including Overview and Scrutiny, if applicable)**

- 8.1. This report and the individual budget assumptions that make up the MTFS will be considered by the relevant Overview and Scrutiny Committees during

November 2012. There will be another round of Overview and Scrutiny budget meetings after the December 2012 Cabinet meeting to consider any further options.

- 8.2. Equality Impact Assessments will identify any other consultation requirements.

## **9. IMPACT ON CORPORATE POLICIES, PRIORITIES, PERFORMANCE AND COMMUNITY IMPACT**

- 9.1. 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.

## **10. IMPLICATIONS**

### **10.1. Financial**

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

This report demonstrates that there is still a significant gap in the projected budget for next year. The report also recognises that there is uncertainty in terms of central government support that could significantly reduce or increase these figures.

It is essential that officers and Members work together to bridge these gaps within the coming weeks to ensure that there is sufficient time to implement and savings proposals in time for the 2013/14 financial year.

### **10.2. Legal**

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

There are no legal consequences at this stage of the planning cycle, however Members are reminded of their duty to set a balanced budget.

### **10.3. Diversity and Equality**

Implications verified by: **David Lawson**  
Telephone and email: **01375652087**  
**dlawson@thurrock.gov.uk**

Any budget proposal should be supported by an Equality Impact Assessment to ensure that the implications of any changed are properly considered. These will need to be issued to the Overview and Scrutiny Committees where appropriate.

10.4. **Other implications (where significant) – i.e. Section 17, Risk Assessment, Health Impact Assessment, Sustainability, IT, Environmental**

Not at this stage.

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

- There are a number of working papers held within the Corporate Finance Section and the various departments.

**APPENDICES TO THIS REPORT:**

- Appendix 1 – Medium Term Financial Strategy
- Appendix 2 – Growth and Savings Proposals
- Appendix 3 – Transformation Savings Proposals

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## MEDIUM TERM FINANCIAL STRATEGY

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
<b>Funding</b>				
Council Tax / Council Tax Grant	580	1,867	2,139	(1,211)
Collection Fund Deficit	(700)	0	0	0
Spend Funded From Formula Grant	(3,000)	(3,000)	(1,500)	(1,500)
Spend from Specific Grants	0	0	0	0
<b>Net (Reduction) / Additional Resources</b>	<b>(3,120)</b>	<b>(1,133)</b>	<b>639</b>	<b>(2,711)</b>
<b>Inflation and other increases</b>				
Pay Increase	607	613	1,856	1,912
Salary Increments	758	768	777	787
Pension Deficit	0	1,000	0	0
Contract Inflation	860	776	802	829
Non Contract Inflation	342	387	438	496
Fees and Charges	(100)	(100)	(100)	(100)
	<b>2,466</b>	<b>3,443</b>	<b>3,773</b>	<b>3,924</b>
<b>Capital Financing</b>				
Prudential Borrowing	1,138	270	402	(168)
Treasury Management	(67)	(9)	(103)	137
Contribution from debt restructuring	0	0	0	0
Pension Contribution	(900)			
	<b>171</b>	<b>261</b>	<b>298</b>	<b>(31)</b>
<b>Growth</b>				
Finance	228	93	0	0
Housing	0	0	0	0
Education and Children's Social Care	3,680	363	250	0
Adult Social Care & Health	1,000	1,000	1,000	0
Regeneration, Highways and Transportation	642	317	316	0
Central Services	0	0	0	0
Environment	93	124	83	53
Transformation and Communities	0	0	0	0
Public Protection	0	0	150	0
	<b>5,642</b>	<b>1,897</b>	<b>1,799</b>	<b>53</b>
<b>Savings</b>				
Finance	(892)	0	0	0
Housing	(148)	0	0	0
Education and Children's Social Care	(300)	(155)	(125)	0
Adult Social Care & Health	(770)	(400)	0	0
Regeneration, Highways and Transportation	(437)	(290)	0	0
Central Services	(410)	0	0	0
Environment	(450)	(50)	(50)	(50)
Transformation and Communities	(4,350)	(300)	0	0
Public Protection	(180)	0	0	0
	<b>(7,937)</b>	<b>(1,195)</b>	<b>(175)</b>	<b>(50)</b>
<b>Total Budget Deficit / (Surplus)</b>	<b>3,463</b>	<b>5,539</b>	<b>5,056</b>	<b>6,607</b>



## GROWTH AND SAVINGS PROPOSALS

		2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
<b>Growth</b>					
<b>Non Discretionary</b>					
Finance & Corporate Governance	- Carbon Reduction Commitment	200	0	0	0
Finance & Corporate Governance	- Borough Elections	0	121	0	0
Finance & Corporate Governance	- CAB Funding - Exit strategy on Performance Grant	28	(28)	0	0
Health and Adult Social Care	- Adult Social Care Demographic Growth	1,000	1,000	1,000	0
Education and Children's Social Care	- Increase Demand in Children Social Care Placements	3,000	250	250	0
Education and Children's Social Care	- Fostering	257	0	0	0
Regeneration, Highways and Transportation	- Return of Major Development Powers from DC	120	32	30	0
Regeneration, Highways and Transportation	- Traffic Management Plan	5	0	0	0
Regeneration, Highways and Transportation	- TAMP Infrastructure Audit	70	0	0	0
Regeneration, Highways and Transportation	- Loss of Morrison Car Park Contract	41	0	0	0
Regeneration, Highways and Transportation	- TTGDC - Regeneration	286	285	286	0
Regeneration, Highways and Transportation	- Flood Water Management Act	120	0	0	0
Environment	- Waste Demographic/Non-household waste	58	59	45	45
Environment	- Street Cleaning Demographic	10	10	8	7.8
Public Protection	- Regulatory Officers - Additional Regeneration	0	0	150	0
		<b>5,195</b>	<b>1,729</b>	<b>1,769</b>	<b>53</b>
<b>Discretionary</b>					
Education and Children's Social Care	- Through Care Service	43	0	0	0
Education and Children's Social Care	- Family Support	76	113	0	0
Education and Children's Social Care	- Adoption and Guardian	249	0	0	0
Education and Children's Social Care	- Senior Practitioner - Community Based Assessments	55	0	0	0
Environment	- Additional Street Cleaning Demands to Reflect DP world and Lakeside	25	55	30	0
		<b>448</b>	<b>168</b>	<b>30</b>	<b>0</b>
<b>Total Growth Requirement</b>		<b>5,642</b>	<b>1,897</b>	<b>1,799</b>	<b>53</b>
<b>Savings</b>					
<b>Efficiency Savings</b>					
Strategic Finance	- Borough Elections	(192)	0	0	0
Strategic Finance	- Senior Management Restructure	(100)	0	0	0
Housing	- Efficiencies in Homelessness Service	(80)	0	0	0
Housing	- Private Sector Housing, Efficiencies within Operations Budget	(68)	0	0	0
Education and Children's Social Care	- Schools Improvements	0	(125)	(125)	0
Education and Children's Social Care	- Home to School Transport	(200)	(30)	0	0
Education and Children's Social Care	- Library	(100)	0	0	0

## GROWTH AND SAVINGS PROPOSALS

		2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Health and Adult Social Care	- Delete section 256 Learning Disability Budget	(145)	0	0	0
Health and Adult Social Care	- Merge IAS / ICS training posts	(25)	0	0	0
Health and Adult Social Care	- High cost Learning Disability Placement Review	(300)	(300)	0	0
Health and Adult Social Care	- Domiciliary Care Purchasing	(200)	0	0	0
Health and Adult Social Care	- Provider Side Efficiency Review	(100)	(100)	0	0
Regeneration, Highways and Transportation	- Planning	(150)	(150)	0	0
Regeneration, Highways and Transportation	- SERT	(60)	0	0	0
Regeneration, Highways and Transportation	- Local Transport Plan	(20)	(20)	0	0
Regeneration, Highways and Transportation	- Central budgets, Planning and Transportation	(120)	0	0	0
Regeneration, Highways and Transportation	- TAMP Infrastructure Audit	0	(120)	0	0
Central Services	- In-Phase IT Saving	(10)	0	0	0
Environmental Services	- Waste Round reconfiguration	(150)	0	0	0
Environmental Services	- Impluse Leisure	(50)	(50)	(50)	(50)
Transformation and Community	- Transformation Project	(4,350)	0	0	0
	<b>Additional Income</b>	<b>(6,420)</b>	<b>(895)</b>	<b>(175)</b>	<b>(50)</b>
Strategic Finance	- Additional Income from Assets Transferred in April	(250)	0	0	0
Strategic Finance	- Rent Review of Commercial Property	(100)	0	0	0
Regeneration, Highways and Transportation	- Breakeven of Resource Centres	(62)	0	0	0
Regeneration, Highways and Transportation	- Development management / pre application charges	(25)	0	0	0
Environmental Services	- Additional work within HRA SLA	(200)	0	0	0
Environmental Services	- External customers, schools and public buildings	(50)	0	0	0
	<b>Alternative Financing</b>	<b>(687)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Central Services	- Reduction in E-Govt Contribution	(100)	0	0	0
Strategic Finance	- Alternative Financing of Revenue Contributions	(250)	0	0	0
Transformation and Community	- Thameside - Alternative Provision	0	(250)	0	0
Transformation and Community	- Grants to vol orgs	0	(50)	0	0
	<b>Service Reduction</b>	<b>(350)</b>	<b>(300)</b>	<b>0</b>	<b>0</b>
Public Protection	- 2012 Olympics	(100)	0	0	0
Public Protection	- Health and safety	(80)	0	0	0
	<b>Policy Decisions</b>	<b>(180)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Central Services	- Cease Council tax exemptions	(300)	0	0	0
		<b>(300)</b>	<b>0</b>	<b>0</b>	<b>0</b>

**GROWTH AND SAVINGS PROPOSALS**

		2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
	Total Savings	(7,937)	(1,195)	(175)	(50)
	Net Growth / (Saving)	(2,295)	702	1,624	3
	<b>(Surplus) / Savings Required to Balance MTFF</b>	3,463	5,539	5,056	6,607

## TRANSFORMATION SAVINGS PROPOSALS

Programme and Project Management	2012/13 - £2.70m	2013/14 - £4.35m
<b>Customer Service</b>	£51k	£487k
<b>Community Hub</b>	£0k	£300k
<b>Centres of Excellence</b> Business support Asset management Complaints Communications ICT	£78k £0k £69K £50k £0k	£164k £100k £0k £100k £200k
<b>Better Buying</b> Procurement MStair Stationery Multi Function Devises	£569k £774k £40k £353k	£2,000k £0k £0k £19k
<b>New Ways of Working</b> IT savings Asset rationalisation	£250k £300k	£300k £500k
<b>Enterprise Resource Planning (ERP)</b>	£166k	£180k
<b>Total</b>	<b>£2,700k</b>	<b>£4,350k</b>