

**23 July 2014**

**ITEM: 13**

**Council**

**Cabinet Member Report - Finance**

**Report of:** Councillor John Kent, Leader of the Council and Portfolio Holder for Finance and Education

This report is public.

## **FINANCIAL BACKGROUND**

The delivery of the Council's vision and priorities, as well as the achievements set out below, need to be considered against the backdrop of the national austerity measures and, in particular, how these measures impact on the Council's finances and demands for services.

In the period 2010/11 – 2014/15, the Council has had a reduction in government grants totalling £25.0m that, together with service pressures of £36.4m is mainly due to demographic growth, has required overall savings of £61.4m to be delivered.

The Council has currently set a budget for 2014/15 that requires a £2.4m contribution from reserves – that sum is equivalent to the Council's share of business rates lost from the closure of Tilbury Power Station.

On the subject of business rates, I must also report that this Council has had to make a provision of £12m towards the potential successful business rate appeals by local businesses, of which half will have to be borne by Thurrock Council. A significant proportion of this sum relates to business rates paid before the business rate retention scheme started on 1 April 2013, effectively handing this Council further reductions in core funding over and above the headline grant reductions.

The Chancellor has announced further cuts to the public sector, highlighting a 10% year on year reduction throughout the medium term. This is in line with the Council's Medium Term Financial Strategy that assumes this level of reduction (£9.1m, £8.2m and £6.7m in 2015/16 through to 2017/18 respectively) although, with growth from inflation and more residents requiring services such as social care, the savings required are in the region of £37m for the period 2015/16 through to 2017/18.

## **STRATEGY**

As set out above the reduction in funding is unprecedented requiring a fundamental change in the way the Council approaches addressing the budget gap and in

considering the future shape of the Council going forward. This means that the development and delivery of the vision and priorities and relationship with the Medium Term Financial Strategy (MTFS) is key.

In light of the financial position and MTFS, as part of Strategy Week in June 2014, Directors Board, the Leader and Cabinet members reflected with partners on the community priorities as set out in the Community Strategy (agreed unanimously by Council in September 2012). In July 2014, Cabinet agreed a minor refresh to reflect the ambition and focus for the borough as well as the changing relationship between the Council and the community, and our role in place shaping and enabling community leadership. The revised vision and priorities are being consulted on over the summer and partners asked for their views. However, the consistency in our long term ambition for the people of Thurrock and place has enabled us to make significant achievements even with the financial constraints.

Despite having already saved £50m over the last four years, the year end performance report for 2013/14 showed that 80% of indicators in the corporate scorecard had either been met or were within an acceptable tolerance of their target. 100% of Year 1 deliverables progressed in line with projected timelines or within tolerance showing the Council's continued commitment to achieving the ambitious priorities for the community. Examples include:

Two Thurrock schools named as amongst the best primary schools in the country
Over 600,000 people visited our managed natural areas, including Coalhouse Fort
Over 1700 homes transformed as part of the Housing Transformation Programme
Carer's service rated best in the Eastern region for user experience and support
Completed the Artists' Studios on High House Production Park
Secured funding to deliver the Royal Opera House costume store
Joint best social care services in the country for zero delayed hospital discharges
Council achieved Investors in People Gold status
9.9 million household wheelie bins collected, 15,600 miles of road swept, 3,135 tonnes of street litter collected and 1,150 fly-tips cleared
Level 2 qualifications were above national average for the first time ever
Largest Local Development Order in country for London Gateway logistics park
Legal services awarded Lexcel accreditation & highly commended at MJ Awards

To meet the ongoing budget challenge, Cabinet in July 2014 endorsed efficiency savings and management action being taken in year for 2014/15 and for 2015/16 to partially address the budget gap. Other proposals to reshape and in some cases reduce services are now being reviewed by Overview and Scrutiny committees and by residents and partners as part of the consultation process to inform the difficult budget decisions and tough choices that will need to be made later in the year. There is still more to be done to fully close the gap. Despite the scale of savings already delivered, we face even tougher times ahead with cuts in government support over the next few years representing around 20% of our net budget.

The Year 2 delivery plan agreed by Cabinet in March 2014 will help ensure we continue to focus our resources on delivering positive outcomes for our residents in

line with our priorities and protect frontline services for those most in need.

The Strategy Team will continue to support the organisation to meet the challenge of finding significant savings, shaping services for the future, planning for and mitigating the impact of national policy changes such as the Care Act, Children and Families Act and the cumulative impact of welfare reform. The team provide valuable research and intelligence to inform the evidence base for decision making including analysis and projections for the growing population placing increased demand on services and for specific projects. Recent work has informed the Joint Strategic Needs Assessment, Fairness Commission, NNDR pooling and the Private Sector Housing Strategy.

## **COMMUNICATIONS**

The financial challenge facing the Council is enormous. During a time of significant change excellent communication is needed with a wide range of audiences, both externally and internally, to manage reputation and expectation, create awareness, foster engagement, change perceptions and build and maintain confidence and trust. This is an ongoing process managed through planned, proactive, targeted campaigns as well as effective reactive responses to emerging issues.

A key focus in recent months has been developing our approach to digital communications with the launch of the new website in October 2013 enabling residents to do more for themselves on line. The use of social media continues to develop and will be a priority for communication and engagement over the coming months, with Members supported to maximise the benefits of these tools and also in handling the media.

Supporting our digital communications is our new email subscription service. This allows anyone to subscribe to news emails on topics of interest. Our current topic list includes events, consultations, news, fostering and specific services such as Langdon Hills. The email subscription service is a key tool in enabling channel shift – moving residents to using online services. Currently we have around 13,000 subscriptions.

Alongside the website we launched the new visual identify and branding of the Council. This reflects a distinctive and contemporary style demonstrating both our focus on being a digital council and entrepreneurial approach to achieving our ambitions for Thurrock.

Key campaigns in the last 12 months include:

- Increasing civic pride through the highly successful Civic Awards
- Two year old childcare and early education – multi media campaign to raise awareness of the free childcare entitlement
- Housing fraud and key amnesty – targeted campaigns to tackle housing issues
- Discover Thurrock – major campaign to recruit social workers
- Fostering – continued awareness of our fostering offer
- Environmental reporting and benefit claims online – as part of our online digital offer

- Lower Thames Crossing – continued campaigning (announcement due 15 July)
- Continued work with High House Production Park around cultural entitlement

Over the last three years, communications savings total in excess of £350,000 with additional savings achieved in 2014/15 by transferring responsibility for communications to the Head of Strategy. This has strengthened the Council's approach to strategic planning with a joined up approach to public affairs and raising the profile and reputation of the Council and place.

We are exploring opportunities to deliver more savings through maximising income generation opportunities from sponsorship and advertising as well as the growing demand for filming locations in the region, building on the success of the London Borough of Barking and Dagenham's film office and shared ambition to support the development of creative industries locally.

As in other areas further savings will be required for 2015/16. A communications strategy will be developed to maximise the resources available by ensuring they are targeted on communication and marketing activity that will have the most impact on achieving the community priorities.

## **ASSET MANAGEMENT**

The Council continues to progress its intention to dispose of those properties it doesn't need to deliver services, and to make better use of the properties it does keep for that purpose. In January this year Cabinet agreed a land and property disposals protocol, which is informing this property rationalisation. Under the key principles of this Protocol, while maximising capital income is clearly a significant priority, this is balanced by our need to dispose of property in ways that both supports future service delivery, and adds to the well-being of the Borough's communities;

- To date £3.75m of property sales, recommended by a cross party Member group, and agreed by Cabinet, have now been completed (against a target of £7m by the end of 2014/15).
- Cabinet has also agreed to some land disposals at less than market value, in pursuit of wider strategic objectives. For example we are working with health agencies on the disposal of surplus Council land to support the development of new primary health care facilities, and also with well-established sporting clubs in the Borough on the transfer of recreational land to support their sustainable relocation plans
- As services in the Culver Centre are relocated to alternative locations including High House Production Park, Civic Offices and the planned brand new education building on a disused school site in Tilbury, we are drawing up ambitious plans to use the Culver Centre site to help regenerate the centre of Ockendon.

There remains a lot to do in improving our knowledge of the condition our operational buildings, and establishing cyclical programmes to keep them in good condition. We also need to ensure a consistent approach to letting our property to third parties, and to progress our aspiration to transfer the control of community

buildings to our communities where that works best for all. These and other necessary improvements will be achieved through our increasingly corporate approach to property use and management.

## **CORPORATE FINANCE**

### ***General Fund***

Despite all of the pressures set out above, I am pleased to confirm that the Council has:

- for the fourth year running, come in on budget once again, despite significant in-year pressures;
- maintained the General Fund balance at £8m; and
- set aside reserves to meet the budgeted shortfall in the 2014/15 budget of £2.4m, equivalent to the amount lost to Thurrock Council Tax payers through the closure of Tilbury Power Station.

### ***Housing Revenue Account (HRA)***

Although the Housing Finance Reform that took place in March 2012 meant that the Council had to increase its debt by £160m, it has given this Council exciting opportunities to provide improved or new housing throughout the borough and to stabilise the HRA's financial base. The Council has:

- commenced the new capital programme of £68m over a 5 year period to enhance its existing housing stock;
- committed to providing new affordable housing throughout the borough and has set aside £5.5m as at 31 March 2014 towards capital, regeneration and development; and
- increased its unallocated balances to £2.6m to support any future pressures that may arise from welfare reform.

### ***Final Accounts***

I can report that the external auditors signed off the Council's accounts in September 2013 with no material issues. After the problems encountered in 2010/11, I am pleased to report that significant progress has been made in this area over the last two years with the external auditors reporting "*We would particularly like to highlight the significant improvements in the quality of the accounts and working papers that the Council has submitted for audit for 2012/13. This has resulted in a much reduced number of amendments to the accounts, as reflected in this report. Some further improvement is still required but there has been a real step change in arrangements for 2012/13 compared to previous years*".

### ***Capital Expenditure***

Capital expenditure for 2013/14 totalled £34.6m. Council may like to note that there have been several notable achievements in investment in infrastructure during 2013/14 and these are set out in the supporting financial information.

## **KEY CHALLENGES 2014/15 AND BEYOND:**

- Ongoing budget pressure, latest spending review announcement, etc;
- Risks and opportunities from business rate retention;
- Cumulative impacts of welfare reform changes e.g. size limit rules, benefit cap and Universal Credit, putting pressure on a range of Council services including housing, adult and children's social care, mental health and benefits services, and support and advice services provided by the voluntary sector;
- Pressure from growing population and demographic changes impacting on specific areas of the borough;
- Completion of the service and budget review work to inform decision making for 2015/16 and beyond;
- Identifying and implementing other shared service/partnership opportunities to deliver efficiencies where appropriate;
- Delivering the asset disposal programme in difficult market conditions;
- Maximising the new Council website and digital platform; and
- Introducing and embedding digital by design in everything we do.

## **SUMMARY:**

The Council has worked with Thurrock partners to agree a clear vision and priorities for the Borough. The Council has carried this strategy into its own Corporate Plan setting out ambitious plans for 2014/15 and beyond. Once again this administration has demonstrated strong financial leadership through coming within budget for the fourth year running and taking difficult financial decisions for the future. This creates a strong basis upon which to continue delivering transformation across the Council and to prepare for the very difficult financial decisions to be reached during 2015/16.

## **SUPPORTING FINANCIAL INFORMATION**

1. Government grant reductions and cost pressures over the period 2010/11 – 2017/18
2. General Fund 2013/14 Outturn
3. Housing Revenue Account 2013/14 Outturn
4. Capital 2013/14 Outturn
5. Schedule of Reserves
6. Schedule of Assets and Supporting Financial Information

**1. Government grant reductions and cost pressures over the period  
2010/11 – 2017/18**

	<b>2010/11- 2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Reduced Grant	19.1	5.9	9.1	8.2	6.7
Inflation/Service Pressures /Other	32.2	4.2	6.5	3.6	2.8
<b>Savings Requirements</b>	<b>51.3</b>	<b>10.1</b>	<b>15.6</b>	<b>11.8</b>	<b>9.5</b>
<b>Cumulative Savings</b>	<b>51.3</b>	<b>61.4</b>	<b>77.0</b>	<b>88.8</b>	<b>98.3</b>

Notes:

- Inflation – this has largely been limited to contractual annual increases and utilities;
- Service pressures are largely as the result of growing numbers accessing both Children’s and Adult Social Care;
- Other includes collection fund adjustments, including changes to business rate income;
- Up to the current financial year, the table shows that the Council has had to identify £61.4m in savings to meet the pressures set out above; and
- The table shows that a further £36.9m is required totalling £98.3m over the eight year period.

## 2. General Fund 2013/14 Outturn

The financial outturn was reported to Cabinet on 2 July 2014 and is set out below:

<b>General Fund Outturn by Service Areas:</b>	<b>Revised Budget £'000</b>	<b>Outturn £'000</b>	<b>Variance £'000</b>
Adults, Health and Commissioning	37,219	37,116	(103)
Central Services	21,929	21,783	(146)
Children's Services	34,896	34,765	(131)
Environment	19,095	18,917	(178)
Housing	782	742	(40)
Planning and Transportation	7,913	7,615	(298)
Public Health	(210)	(210)	0
Public Protection	2,815	2,783	(32)
Serco / Corporate Savings	17,352	17,701	349
<b>Operating Net Surplus</b>	<b>141,791</b>	<b>141,212</b>	<b>(579)</b>

This table above confirms that the Council underspent against the agreed budget envelope by £0.579m.

This is despite significant pressures faced during the financial year namely relating to Children's Social Care and corporate savings targets.

### 3. Housing Revenue Account 2013/14 Outturn

The Housing Revenue Account (HRA) shows the income and expenditure incurred on Council housing. The outturn position is shown below:

HRA Outturn by Service Areas:	Revised Budget	Outturn	Variance
	£'000	£'000	£'000
Area Office	1,148	1,126	(22)
Caretaking	1,494	1,512	18
Financing	18,940	18,928	(12)
Grounds Maintenance	1,330	1,251	(79)
Lettings and Allocations	739	651	(88)
Rental Income	(47,093)	(48,256)	(1,163)
Repairs and Maintenance	12,198	12,431	233
Sheltered Complexes	1,272	1,342	70
Central HRA	9,972	10,061	89
<b>Grand Total</b>	<b>0</b>	<b>(954)</b>	<b>(954)</b>

After a favourable level of income against the budget, the HRA generated a surplus in year of £0.95m. A major contributing factor to this was a comprehensive review of the level of housing rent arrears relating to current and former tenants which resulted in a favourable adjustment.

The only area of significant adverse variance was in relation to housing repairs and maintenance. The largest contributing factor was as a result of the number of void properties in exceeded the estimated level on which the budget was predicated. This resulted in an increase in expenditure to meet demand and ensure that the allocation policy was complied with.

The surplus generated in year has increased the level of the HRA general reserve from £1.7m to £2.65m. In addition, the HRA holds a balance in its Major Repairs Reserve of £2.3m towards the enhanced capital programme that has been agreed for the Council's housing stock and the level of reserves available for Capital, Regeneration and Development now stand at £5.5m

#### 4. Capital 2013/14 Outturn

The total capital expenditure for 2013/14 amounted to £34.635m. A summary of this expenditure analysed by service is set out below and also shows the sources of financing:-

Service	Budget £000s	Total £000s	Variance £000s
Learning & Universal Outcomes	7,607	4,882	2,725
Adult Social Care	144	82	62
Housing General Fund	1,992	1,052	940
Housing Revenue Account	18,425	16,451	1,974
Environment	1,210	1,158	52
Planning and Transportation	5,830	5,091	739
Transformation	5,689	5,059	630
Commercial Services	189	56	133
Chief Executives	11	9	2
Chief Executives Delivery Unit	1,434	795	639
<b>Total</b>	<b>42,531</b>	<b>34,635</b>	<b>7,896</b>

Source of Finance	Budget £000s	Total £000s	Variance £000s
Prudential Borrowing	6,294	4,448	1,846
Supported Borrowing (SCER)	715	715	0
Usable Capital Receipts	2,933	2,826	107
Earmarked Usable Capital Receipts	253	228	25
Major Repairs Reserve	15,951	13,660	2,291
Grants	11,061	7,995	3,066
Developers Contributions	1,923	1,444	479
Trusts	183	162	21
Reserves	3,218	3,157	61
<b>Total</b>	<b>42,531</b>	<b>34,635</b>	<b>7,896</b>

The following are key headlines for capital investment:

- A new skills centre was completed at the Hathaway Academy, with a gross spend of £1.67m over the period 2011/12 to 2013/14.
- £1.24m spent on the customer services programme which is delivering the strategic objective to create a great customer experience and achieve the lowest transaction costs possible - enabling those who can to self-serve and providing a consistent response to those least able to meet their own needs.
- £15.49m spent on transforming Council homes, with the replacement of kitchens, bathrooms, electric, boilers, windows and roofs. The transforming homes programme aims to refurbish every Council home in Thurrock and aims to maximise energy efficiency and to rid properties of damp and mould.
- £5.19m spent on improvements to the highways infrastructure, including works to Oliver Road, Arisdale Avenue, drainage works in Orsett and works on the A13 at the Manorway interchange.
- £0.36m spent on improving children's play areas in the borough, including play equipment at Hathaway Road, Parker Road, Hardie Road, Cruick Avenue and Thurrock Park.
- £0.91m spent on grants to the disabled which will fund adaptations to their homes and continued independent living.

## 5. Schedule of Reserves

### TRANSFERS TO/ FROM EARMARKED RESERVES

The Council maintains a number of reserves which have been set up as a means of earmarking resources to meet future spending needs. This note shows details of amounts set aside in the year and of amounts posted back to meet General Fund expenditure during the year.

Balance at 1 April 2012 £000	Net Transfers (In)/Out £000	Balance at 31 March 2013 £000		Balance at 1 April 2013 £000	Net Transfers (In)/Out £000	Balance at 31 March 2014 £000
(7,024)	577	<b>(6,447)</b>	Balances held by	(6,447)	1,628	<b>(4,819)</b>
(1,260)	0	<b>(1,260)</b>	Schools under a Scheme of Delegation Revenue Grants	(1,260)	605	<b>(655)</b>
(1,000)	(1,278)	<b>(2,278)</b>	Budget Management	(2,278)	1,099	<b>(1,179)</b>
(8,442)	6,790	<b>(1,652)</b>	Commuted Sums	(1,652)	127	<b>(1,525)</b>
0	(1,541)	<b>(1,541)</b>	DCLG DC Reserve	(1,541)	1,253	<b>(288)</b>
0	(2,262)	<b>(2,262)</b>	Grant Carried Forward	(2,262)	135	<b>(2,127)</b>
0	(1,000)	<b>(1,000)</b>	School Improvement Reserve	(1,000)	0	<b>(1,000)</b>
0	(2,714)	<b>(2,714)</b>	DSG	(2,714)	(67)	<b>(2,781)</b>
0	(2,791)	<b>(2,791)</b>	Development Reserve	(2,791)	2,791	<b>0</b>
0	0	<b>0</b>	Public Health Grant	0	(1,053)	<b>(1,053)</b>
(6,254)	451	<b>(5,803)</b>	Other Earmarked Reserves	(5,803)	719	<b>(5,084)</b>
<b>(23,980)</b>	<b>(3,768)</b>	<b>(27,748)</b>	<b>Earmarked Reserves</b>	<b>(27,748)</b>	<b>7,237</b>	<b>(20,511)</b>

## 6. Schedule of Assets and Supporting Financial Information

### SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT

The following assets were owned by the Council as at 31 March 2014 and the figures as at 31 March 2013 are shown as comparators:

Property, Plant and Equipment		2012/13	2013/14
	No. of Assets	No. of Assets	No. of Assets
Council Dwellings	Housing and Bungalows	5,519	5,450
	Flats and Maisonettes	3,525	3,511
	Aged Person's Dwellings	1,222	1,222
	Traveller Sites	3	3
Land and Buildings	Sports Centres	3	3
	Village Halls	19	19
	Community Halls	33	33
	Offices/Depots, etc.	19	19
	Car and Lorry Parks	26	25
	Garages	2,745	2,745
	Theatre	1	1
	Schools/Colleges	26	21
	Other Education Assets	17	17
	Residential Homes	3	3
	Other Social Services Assets	4	4
	Libraries	8	8
	Magistrates Court	1	1
	Landfill Site	2	2
	Other Housing Assets	8	7
	Other General Fund Assets	1	1
	Hostels	1	1
Scout Halls	8	8	
Vehicles, Plant, Furniture and Equipment	Vehicles - Non Finance Lease	119	119
	Plant - Non Finance Lease	78	78
	Computer Equipment	7	7
	Equipment - Other	various	various
Community Assets	Parks	138	138
	Burial Grounds	8	8
	Allotment Sites	34	34
	War Memorials	10	10
	Historic Buildings	2	0
Infrastructure	Highways Land and Infrastructure	numerous	numerous
Commercial Properties	Shops	142	142
	Other Commercial	50	50
Assets under Construction		0	0

### ***Material Items of Asset Related Income and Expenditure***

<b>Expenditure</b>	<b>2013/14 Outturn</b>
Building Maintenance / Health and Safety Works	864,685
Rent & Premises Charges	464,921
Business Rates / Council Tax	1,221,570
Cleaning / Rubbish Removal	1,016,661
Grounds Maintenance	1,012,874
Insurance	447,233
Utilities	1,860,868
<b>Grand Total</b>	<b>6,888,812</b>

<b>Income</b>	<b>2013/14 Outturn</b>
HRA Rent and Charges	(54,150,999)
Theatre/Museums/Libraries	(239,072)
Service/Hire Charges	(378,668)
Commercial Rents	(1,222,708)
<b>Grand Total</b>	<b>(55,991,448)</b>