

16 January 2019		ITEM: 10
Decision: 110495		
Cabinet		
Medium Term Financial Strategy Update		
Wards and communities affected: All	Key Decision: Key	
Report of: Councillor Shane Hebb, Deputy Leader and Portfolio Holder for Finance		
Accountable Assistant Director: Jonathan Wilson, Assistant Director - Finance		
Accountable Director: Sean Clark, Director of Finance and IT		
This report is public		

Executive Summary

This report presents the latest version of the Medium Term Financial Strategy (MTFS) (appendix 1) and has been updated since the version presented to Cabinet on 12 December 2018 to reflect the Cabinet's recommendation of a zero percentage council tax increase in 2019/20.

Service Review proposals have been developed and are summarised in the body of this report. No further savings are being proposed at this time due to the success of the investment approach endorsed by both Cabinet and Council in October 2017.

Cabinet should note that the Investment Strategy is just one element of the move towards financial self-sustainability and that Council committed to following all other streams towards this aim.

The Council Spending Review "Service Review Boards" have continued to develop cross cutting expenditure savings along with an enhanced focus on income generation and their proposals have now been allocated to services and are set out in appendices 2 and 3 so as to inform Cabinet of overall changes to Directorate budgets. These are draft and will be updated in future reports as allocations are refined.

1 Recommendations:

- 1.1 That Cabinet note the assumption of a 0% Council Tax increase for 2019/20; and**
- 1.2 That Cabinet note this draft budget and ask Corporate Overview and Scrutiny Committee to comment and make recommendations back to Cabinet in February ahead of Full Council.**

2 Introduction and Background

- 2.1 All Members are aware of financial pressures that all councils have felt in previous years and that all face a challenge to become financially self-sustainable.
- 2.2 The MTFS presented to Cabinet on 12 December 2018 showed a balanced budget for part way into the forthcoming decade, based on a number of assumptions that, when delivered, puts Thurrock Council in a stronger position than most for the challenges ahead when the Revenue Support Grant discontinues and to meet the challenges of Business rates Retention that may bring less certainty to council funding over the medium term.
- 2.3 These assumptions are based on driving cost reductions through reducing staff costs, improved procurement, efficiencies through changing the ways the council works such as utilising digital channels and income generation through council tax, fees and charges and investments.
- 2.4 A key change to the MTFS considered on 12 December 2018 is the decision to recommend a zero percentage council tax increase for 2019/20 that reduces income by £2.1m in that and subsequent years.
- 2.5 The Council Spending Review “Service Review Board” has undertaken a number of cross cutting reviews challenging current delivery models, structures and assumptions with a view to improve outcomes and identify efficiencies. The board has a savings target of £0.902m in 2019/20 which is to be delivered following the implementation of the following review outcomes:
 - Children’s Social Care - £0.797m;
 - Transport - £0.060m; and
 - Planning - £0.063m.
- 2.6 Together these form an overall package that not only balance the budget but allows the council to invest in enhancing existing services and providing new services where a priority.
- 2.7 Before considering future years it is important to recognise any impacts from the current year. Cabinet have received two update reports in recent months with the most recent report on 12 December 2018 setting out net pressures of £0.500m. Main areas of concern are within Children’s, Environment and General Fund Housing Services as well as growing pressures relating to “No Recourse to Public Funds”. This latter pressure reflects the Council’s responsibilities to children that have entered the country but have no legal jurisdiction to reside. As such, the family is not able to access the normal range of financial support but the council must ensure the welfare of any children and thus their wider family.

2.8 To recognise the above, relevant growth has been included within the MTFS to meet the ongoing pressures.

3 Draft 2019/20 Budget and Future Forecasts

3.1 The MTFS attached at Appendix 1 sets out a balanced budget for four of the five year period based on the assumptions set out in the body of this report and appendices.

3.2 The summarised budget position for the medium term now stands at:

Narrative	2019/20	2020/2	2021/2	2022/2	2023/2
	£'000	1 £'000	2 £'000	3 £'000	4 £'000
Net Additional (Reduction) in resources	3,493	(1,790)	(1,668)	(2,114)	(1,927)
Inflation and other increases	3,895	2,958	3,081	3,210	3,345
Treasury and Capital Financing	(11,478)	(2,178)	(336)	(1,224)	365
Demographic and Economic Pressures	3,000	2,200	2,200	2,200	2,200
Services Design	(2,226)	(900)	(1,000)	(1,000)	0
Position before carry forward	(3,315)	290	2,277	1,072	3,983
C/f Position	(2,488)	(5,803)	(5,513)	(3,237)	(2,165)
Working Total	(5,803)	(5,513)	(3,236)	(2,165)	1,817

3.3 The budget surplus in each year should only be used for one off expenditure and/or as a contribution to reserves. By not committing this surplus to ongoing expenditure the surplus carries forward to the subsequent year.

3.4 The scale of these surpluses provide the Council with further stability against any budget fluctuations whilst also offering the opportunity to major investment in the borough.

3.5 The draft Local Government Finance Settlement was announced on Thursday 13 December 2018. The announcement confirmed grant levels as set out in this and previous versions of the MTFS.

4 Council Tax and Future Funding

4.1 Cabinet will be aware that Thurrock Council has the lowest council tax in Essex and one of the lowest of all Unitary authorities throughout the country. Whilst there is no desire or need to change this position, officers' advice is clear that council tax increases are required and this is echoed in the Director of Finance's s25 Statement in recent years.

4.2 The assumptions at the start of the municipal year within the MTFS was a 2.99% council tax increase in 2019/20 (4.98% in 2018/19) and 1.99% thereafter.

- 4.3 Whilst surplus balances would suggest to most that increases are not required, Members have considered the following:
- 4.3.1 Advice from CIPFA is clear that investments should not solely be used to replace existing funding streams but for additionality;
 - 4.3.2 The Comprehensive Spending Review that will be carried out by the government next year will assume that the council has increased council tax by allowable levels and so the amount the council can retain from its business rates will be reduced accordingly – the government will not replace any income foregone;
 - 4.3.3 Whilst the Adult Social Care precept was welcome to provide much needed funding, the amount raised was reduced compared to the majority of other top tier authorities due to the low council tax base. It appears clear that additional precepts may well become part of local government funding going forward;
 - 4.3.4 Following the above, it is still unclear how local government will be funded going forward. One aspect that is clear though is the direction of travel across the UK is for councils to rely on locally raised taxation; and
 - 4.3.5 As other grants, such as public health, become part of mainstream funding councils will see a switch of statutory services currently being funded centrally needing to be funded locally.
- 4.4 Having considered the advice as set out above, the Cabinet has chosen to recommend a zero percentage council tax increase and figures have been amended accordingly.

5 Issues, Options and Analysis of Options

- 5.1 This report sets out the changes to the current year budget that are proposed for 2019/20. The impact on services is limited compared to previous years and allows for significant growth within the council's frontline services.
- 5.2 Council tax increases will always be recommended by officers, due to their ability to continue towards financial self-sustainability.
- 5.3 The report also sets out surpluses over the four year period of the MTF5. It is recommended that they only be used for one off expenditure as any commitment to ongoing expenditure will impact on future years as the budgets become a core requirement.

6 Reasons for Recommendation

- 6.1 The Council has a statutory requirement to set a balanced budget annually and to review its adequacy of reserves. This report sets out a balanced budget for 2019/20 and maintains the £11m level for the General Fund Balance.

7 Consultation (including Overview and Scrutiny, if applicable)

- 7.1 The budget planning governance structure includes involvement and consultation with officers, Portfolio Holders and Members. The process includes the Council Spending Review Panel, made up of cross-party Group Leaders and Deputies who meet regularly during the budget planning period and ahead of key decision points.
- 7.2 The draft budget will be considered by Corporate Overview and Scrutiny Committee on 31 January 2019.

8 Impact on corporate policies, priorities, performance and community impact

- 8.1 There are increases to frontline services where pressures have been identified in the current year that will help the council to deliver both its statutory services and priority areas.
- 8.2 The surpluses will also allow for additionality in services through enhancement, provision of new services or, indeed, a major capital investment in the borough.

9 Implications

9.1 Financial

Implications verified by: **Sean Clark**
Director of Finance and IT

Council officers have a legal responsibility to ensure that the Council can contain spend within its available resources. Regular budget monitoring reports will continue to come to Cabinet and be considered by the Directors' Board and management teams in order to maintain effective controls on expenditure. Austerity measures in place are continually reinforced across the Council in order to reduce ancillary spend and to ensure that everyone is aware of the importance and value of every pound of the taxpayers money that is spent by the Council.

Whilst this draft budget report sets a balanced budget, it does not include a council tax increase and so reduces the council's ability to maximise council tax streams going forward in its aim to become financially self-sufficient. Each 1% is circa £0.7m that is then lost to the income stream for perpetuity at a time where the government has made clear that councils will need to finance services through local revenues from both council tax and business rates.

The government in setting its grant support for the coming year has made the assumption that this funding would be realised and this assumption will also influence the Comprehensive Spending Review in 2019 that will determine the amounts of business rates that the Council will be able to retain for the delivery of local services over the period 2020-2023.

Recent announcements from CIPFA has raised concerns over the amount of property and other investments that local authorities are carrying out and the advice is clear that there needs to be more tangible benefits to the local authority area and its residents as opposed to purely financial gain. The government, in its announcement of the draft finance settlement, acknowledged this position and left the possibility of a future discussion with the Treasury open. Thurrock Council's investments do fall within the accepted parameters when considering the allocation of surpluses to enhance and/or provide new services.

Cabinet should note that even without investment targets included, the budget remains in balance thus demonstrating that the targets are not simply replacing a council tax increase.

9.2 Legal

Implications verified by: **David Lawson**
Head of Legal & Governance, & Monitoring Officer

There are no direct legal implications arising from this report.

There are statutory requirements of the Council's Section 151 Officer in relation to setting a balanced budget. The Local Government Finance Act 1988 (Section 114) prescribes that the responsible financial officer "must make a report if he considers that a decision has been made or is about to be made involving expenditure which is unlawful or which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency to the authority". This includes an unbalanced budget.

9.3 Diversity and Equality

Implications verified by: **Natalie Warren**
Community Development and Equalities Manager

There are no specific diversity and equalities implications as part of this report. A comprehensive Community and Equality Impact Assessment (CEIA) has been completed for council tax increases.

9.4 Other implications (where significant – i.e. Staff, Health, Sustainability, Crime and Disorder)

Budget surpluses to date have been used to support action against Anti-Social Behaviour and to secure more police officers within the borough. The surpluses have also allowed increased activity within Environmental Services whilst also investing in social care to support the borough's vulnerable.

10 Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Budget working papers held in Corporate Finance
- Budget Review Panel papers held in Strategy and Communications

11 Appendices to the report

- Appendix 1 – Medium Term Financial Strategy
- Appendix 2 – Savings by CSR Board
- Appendix 3 – Indicative Service Budget Impact 2019/20

Report Author:

Sean Clark

Director of Finance and IT

MEDIUM TERM FINANCIAL STRATEGY

Narrative	2019/20	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000	£000
		75% BRR			
1. Local Funding					
Council Tax Base / Charge	(606)	(1,939)	(1,999)	(2,065)	(2,127)
Council Tax Social Care Precept	(48)	(48)	(49)	(49)	(50)
	(654)	(1,988)	(2,047)	(2,114)	(2,177)
Business Rates Precept	(378)	(658)	(500)	(500)	(250)
2. Total Government Resources					
Revenue Support Grant	4,000	658	6,039		
Transfer to funding formula under 75% retention	0	0	(6,039)		
New Homes Bonus	122	0	500	500	500
Other Grants	403	198	379	0	0
	4,525	856	879	500	500
Net Additional (Reduction) in resources	3,493	(1,790)	(1,668)	(2,114)	(1,927)
3. Inflation and other increases					
Pay award at 2%, Increments and legislative changes	3,150	2,214	2,281	2,350	2,421
Contractural and non contractual	746	744	799	859	924
	3,895	2,958	3,081	3,210	3,345
5. Treasury					
Investment income	(14,297)	(3,818)	(3,214)	(3,756)	(1,700)
Interest Costs	2,819	538	2,570	2,500	2,065
MRP	0	1,102	308	32	0
Treasury and Capital Financing	(11,478)	(2,178)	(336)	(1,224)	365
6. Demographic and Economic Pressures	3,000	2,200	2,200	2,200	2,200
7. Services Design Principals and Strategic Boards	(2,226)	(900)	(1,000)	(1,000)	0
Position before carry forward	(3,316)	290	2,277	1,071	3,983
C/f Position	(2,488)	(5,803)	(5,513)	(3,237)	(2,165)
Working Total	(5,803)	(5,513)	(3,237)	(2,165)	1,817

SAVINGS BY CSR BOARD

Board	Proposal	2019/20
Procurement	Savings to be delivered through effective procurement and contract management	105
Commercial	Further income through the expansion and development of traded services	270
Commercial	Growth in fees and charges income reflecting 18/19 forecasts and review of fees and charges, mainly through volume increases as a direct result of service areas understanding and acting upon market and competitor information	100
ICT / Digital	Legacy Application Rationalisation and Unified Communications	130
People	Savings to be delivered through ongoing review of employee related costs including reducing use of high cost agency staff, effective attendance management and reviewing overtime arrangements	500
Property	Rental income stretch target - annual increase in rent roll through lease reviews and renewals	200
Service Review	Service Review savings to be identified through ongoing review process	920
TOTAL		2,225

Indicative Service Budget Impact 2019/20

Directorate	Service	2018/19 Net Current Budget (September 2018) £000	2018/19 Forecast & Carryforward Adjustment £000	MTFS Change in Resources 2019/20 £000	MTFS Growth, Inflation & Other Increases 2019/20 £000	Baseline Budget 2019/20 £000	Commercial Savings £000	Customer & Demand Management Savings £000	ICT/ Digital Savings £000	People Savings £000	Procurement Savings £000	Property Savings £000	Service Review Savings £000	Total Savings £000	Indicative Budget 2019/20 £000
Environment and Highways	Environment & Highways	1,313	(55)		143	1,401				(2)				(2)	1,399
	Highways, Fleet and Logistics	7,217	502		279	7,998	(24)			(22)				(46)	7,952
	Street Scene and Leisure	17,520	834		1,358	19,712	(165)			(31)				(256)	19,456
	Unallocated Surplus / (Deficit)	0	(1,281)			(1,281)									(1,281)
	Environment and Highways Total	26,050	0	0	1,780	27,830	(183)	0	0	(115)	0	0	0	(304)	27,526
Place	Assets	5,563	(241)		38	5,366		22		(5)		(200)		(183)	5,183
	Economic Development	546	(88)			458	(20)			(2)				(22)	436
	Lower Thames Crossing	449	(337)			112								0	112
	Planning, Transportation & Public Protection	3,202	538			3,740	(76)			(23)			(63)	(162)	3,578
	Unallocated Surplus / (Deficit)	0	(304)			(304)									(304)
Place Total	9,766	(432)	0	38	9,372	(74)	0	0	(30)	0	(200)	(63)	(367)	9,005	
Children's Services	Children and Family Services	28,902	609		401	29,912	(3)			(37)	(5)		(797)	(908)	29,004
	Central Administration Support and Other	1,382	(284)			1,098				(7)				(7)	1,091
	Learning & Universal Outcomes	5,103	(1,167)		5	3,941	(116)			(11)				(127)	3,814
	School Transport	750	410			1,160							(60)	(60)	1,100
	Unallocated Surplus / (Deficit)	0	15			15									15
Children's Services Total	36,137	(417)	0	406	36,126	(125)	0	0	(115)	(5)	0	(857)	(1,102)	35,024	
Adults, Housing and Health	External Placements	23,029	(208)			22,821				(2)	(100)			(102)	22,719
	Provider Services	10,027	25		4	10,056	(19)			(145)				(164)	9,892
	External Commissioning	2,495	(16)			2,479	(2)			(4)				(6)	2,473
	Public Health	75	(75)			0								0	0
	Better Care Fund	1,346	(1,346)			0								0	0
Community Development & Libraries	1,733	4			1,737	(10)				(2)			(12)	1,725	
Unallocated Surplus / (Deficit)	0	270			270									270	
Adults, Housing and Health Total	38,705	(1,346)	0	4	37,363	(31)	0	0	(153)	(100)	0	0	(284)	37,079	
Housing General Fund	Homelessness	522	(35)		180	667				(4)				(4)	663
	Private Sector Housing	321	0			321	(1)							(1)	320
	Travellers	(109)	(5)		75	(39)								0	(39)
	Unallocated Surplus / (Deficit)	0	40			40									40
	Housing General Fund Total	734	0	0	255	989	(1)	0	0	(4)	0	0	0	(5)	984
Finance, IT and Legal	Corporate Finance	2,010	(85)			1,925		50		(8)				42	1,967
	Cashiers	65	0			65								0	65
	Chief Executive	352	(1)			351				(1)				(1)	350
	ICT	3,439	0			3,439			(50)	(7)				(57)	3,382
	Revenue and Benefits	1,927	(10)			1,917				(12)				(12)	1,905
	Legal Services	1,714	47			1,761	(75)			(19)				(34)	1,667
	Democratic Services	199	(11)			188								0	188
	Members Services	721	15			736								0	736
	Electoral Services	477	(44)			433				(1)				(1)	432
	Unallocated Surplus / (Deficit)	0	89			89									89
Finance, IT & Legal Total	10,904	0	0	0	10,904	(25)	0	(50)	(48)	0	0	0	(123)	10,781	
HR, OD and Transformation	HR & OD	4,297	(150)			4,147	(54)			(7)				(61)	4,086
	Unallocated Surplus / (Deficit)	0	13			13									13
	HR&OD Total	4,297	(137)	0	0	4,160	(54)	0	0	(7)	0	0	0	(61)	4,099
Strategy, Communications and Customer Services	Corporate Strategy & Communications	1,741	(146)		7	1,602	(20)			(16)				(36)	1,566
	Social Care Performance	382	0			382				(3)				(3)	379
	Unallocated Surplus / (Deficit)	0	146			146									146
SCCS Total	2,723	0	0	7	2,730	(20)	0	0	(19)	0	0	0	(39)	2,691	
Commercial Services	Commercial Services	683	(10)			673				(2)				(2)	671
	Unallocated Surplus / (Deficit)	0	10			10									10
	Commercial Services Total	683	0	0	0	683	0	0	0	(2)	0	0	0	(2)	681
Central Expenses	Corporate Finance	(15,040)	1,330	150	(1,739)	(15,239)	149			(7)			142	(15,157)	
	2019/20 Savings to be Allocated	0				0				(80)				(80)	
	Unallocated Surplus / (Deficit)	0	1,002			1,002								(80)	1,002
Central Expenses Total	(15,040)	2,332	150	(1,739)	(14,297)	149	0	(80)	(7)	0	0	0	62	(14,235)	
Revenue Funding	Council Tax Income	(65,403)	0	(2,673)		(68,082)								0	(68,082)
	Grant Income	(3,418)	0	375		(3,043)								0	(3,043)
	NNDR Income	(35,434)	0	(378)		(35,812)								0	(35,812)
	Revenue Support Grant	(10,638)	0	4,000		(6,638)								0	(6,638)
	Revenue Funding Total	(114,959)	0	1,324	0	(113,635)	0	0	0	0	0	0	0	0	(113,635)
Grand Total	0	0	1,474	751	2,225	(370)	0	(130)	(500)	(105)	(200)	(320)	(2,225)	0	

