

24 June 2015

ITEM: 15

Council

Cabinet Member Report – Finance & Strategy

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

This report is public.

Introduction

Throughout 2014/15 Cabinet have received updates on the budget position and pressures, actions taken to mitigate those pressures and work being undertaken to shape the council in light of the continuing financial constraints.

The Council has set a balanced budget for 2015/16 having made some difficult decisions and service reductions. The cumulative impact of £83.2m savings over 6 years now visibly impacting on communities.

Looking forward, there are further financial challenges to meet estimated budget deficits of circa £10m per annum. In real terms, the figure is higher when considering service demand pressures within children and adults social care and housing, and legislative changes such as the Care Act.

The Autumn Statement and budget reinforced that there would be further cuts to local government spending and that this would actually be higher than the cuts to date. Our estimates have been reflected in the Medium Term Financial Strategy (MTFS) but I must warn members that this could get worse. Our first indications may well be in the Chancellor's July budget in the coming weeks.

Work has already started on how we can improve the strategic approach to shaping the council in this financial context with leadership group workshops in Strategy Week earlier this month and cross-party consideration of the complexity and scale of the challenge that lies ahead.

This work will seek to develop sustainable and innovative models for our services and a council that is contemporary, digital, empowering and entrepreneurial for the benefit of all Thurrock's residents.

STRATEGY & COMMUNICATIONS

The community vision and priorities were originally agreed unanimously by this chamber in 2012. As Council will know, in February this year, the priorities and associated objectives were refreshed and again, unanimously agreed.

Whilst the priorities did not change a great deal, some of the objectives and approaches to delivering them were amended. This was to reflect the need to change the way communities are supported and services are delivered in light of the budget challenges we face.

To support the delivery of these refreshed priorities, Cabinet earlier this month agreed the Corporate Priority Activity Plan 2015/16. This sets out what the council is going to deliver during 2015/16 to work towards achieving the priorities and how it will monitor progress as part of the corporate strategic planning process.

Key strengths in the borough include the unique growth opportunities and ambitious regeneration projects creating additional employment and bringing communities together. We need to drive growth in our role as champions for Thurrock the place and as local leaders to maximise opportunities and attract inward investment. But there's no doubt our relationship with partners and with the community as a whole is changing.

How we communicate with residents is especially critical at a time of change and service reductions. We must be open and honest, and improve engagement with residents to seek their views on the challenges and choices ahead. This is a priority for 2015/16.

A review of the communications function earlier this year led to a new strategic approach to communications activity. In order to strengthen the way the Council communicates, a number of new outcomes were identified including:

- delivery of a high quality, proactive and responsive but core minimum service
- capacity focused on delivering strategic external communication campaigns supporting the vision and priorities
- ensuring digital channels of communication are embedded including use of social media

One particular challenge for the team was managing the national and local media attention at the count for the local and parliamentary elections in May. Not only did this show the council as professional and well organised, which was praised by the press, it showcased Thurrock as a centre for cultural and creative industries at High House Production Park.

Other large-scale campaigns that the communications team have supported over the last year include the Thames Crossing campaign, including two public meetings and presenting to the Parliamentary Committee.

Thurrock Council has been shortlisted as one of only five finalists in the MJ Awards

2015 in the category of Best Achieving Council. This reflects our shared commitment to delivering the priorities and improvements in service delivery over recent years despite significant budget reductions and increased demand on services.

ASSET MANAGEMENT

The council continues to progress its intention to dispose of those properties it does not need to deliver services and to make better use of the properties it does keep for that purpose.

Under the principles of the disposals protocol agreed by Cabinet in 2014, 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, £5.32m of property sales, recommended by a cross-party Member group and agreed by Cabinet, have now been completed with a further £5m+ in the pipeline for 2015/16.

Disposals in 2014/15, amounting to £2.6m, included transactions to enable the expansion of local business, the development of a brand new nursery in Grays, new GP and community health facilities in Corringham, enabling a local charity to own their offices instead of renting from the Council, and even the transfer of a former school caretaker's house to the housing department for use as affordable housing.

Forthcoming disposals will enable new housing to meet the borough's growth agenda and following Cabinet's agreement to the principle earlier this year, officers are presently working with Impulse Leisure on plans to transfer to them long term stewardship of Thurrock's leisure facilities, together with the responsibility for maintaining these resources.

CORPORATE FINANCE

General Fund

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

- For the fifth year running, come in on budget, despite significant in-year pressures. In total, the council has achieved an operational budget surplus, before exceptional items, of £0.028m;
- Maintained general fund balance at £8m;
- Set aside a further £6.739m to help the council meet its Shaping the Council objectives; and
- Use this fund to provide some transitional funding to those services where cuts may have been too hard too fast.

In July 2014, officers reported that there were additional budget pressures of £2.300m arising from centralised savings targets and an increase in the legal costs of looked after children. That same report launched a number of savings under the Shaping the Council programme that successfully identified proposals to meet those pressures and ultimately helped to deliver a balanced budget for 2015/16.

Housing Revenue Account (HRA)

There was an operating surplus of £2.485m in 2014/15 that has been transferred into the Development Reserve to support new build and estate regeneration.

Final Accounts

I can report that Ernst and Young, our external auditors signed off the Council's accounts in October 2014 with no material issues. Following past problems encountered in 2010/11, I am pleased to report that the auditors specifically stated that *"there has been a real improvement on previous years on financial statement closedown procedures"*.

The auditors noted that *"along with many other local authorities, Thurrock is facing significant financial challenges over the next three to four years. The Authority's external funding sources are reducing and are subject to change and uncertainty in future years"*.

I am further pleased to report that the auditors also showed confidence in our ability to meet this challenge, stating: *"The Authority is clearly aware of the challenges it faces and has continued to develop and refine its Medium Term Financial Strategy over the last year"*.

Finally on this point, I would like to highlight and stress the importance of the following warning from the auditors: *"Members need to be aware of the future financial pressures the Authority is facing and consider carefully the impact of any decisions they make on the ongoing sustainability of the Authority's financial position and its ability to maintain service levels in future years"*.

Capital Expenditure

The total capital expenditure for 2014/15 amounted to £54.436m. Council may like to note that there have been several notable successes during 2014/15 and these are set out in the supporting financial information.

KEY CHALLENGES 2015/16 AND BEYOND

- Ongoing budget pressure and need to find additional savings;
- Risks and opportunities from business rate retention;
- Business Rates appeals;
- Cumulative and ongoing impacts of welfare reform & Care Act;
- Demographic pressures;
- Delivering asset disposal programme in challenging market conditions; and
- Finding a sustainable approach to delivering services in the long term.

Supporting Financial Information:

- 1. Government grant reductions and cost pressures over the period 2010/11 – 2017/18**
- 2. General Fund 2014/15 Outturn**
- 3. Housing Revenue Account (HRA) 2014/15 Outturn**
- 4. Capital 2014/15 Outturn and examples of key capital projects**
- 5. Material Items of Asset Related Income and Expenditure**
- 6. Service Financial Information**

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

	2010/11 – 2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m
Reduced Grant	25.0	9.9	9.1	8.7
Inflation / Service Pressures / Other	36.4	11.9	2.0	2.7
Savings Requirements	61.4	21.8	11.1	11.4
Cumulative Savings	61.4	83.2	94.3	105.7

Notes:

- Inflation – this has largely been limited to contractual annual increased and utilities
- Demographic pressures are largely to support the growing numbers accessing both children’s and adult social care
- Other issues include 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 £83.2m in savings to meet the pressures set out above; and
- The table shows that a further £44.3m is required totalling £105.7m over the 8 year period

2. General Fund 2014/15 Outturn

The financial outturn was reported to Cabinet on 10 June 2015.

Directorate	Revised Budget	Pre - Severance Adjustment		Provision for Committed Severance	Post - Severance Adjustment	
		Outturn	Budget Variance		Revised Outturn	Revised Budget Variance
<i>Service:</i>						
Adults. Health & Commissioning	36.238	36.191	(0.047)	-	36.191	(0.047)
Children's Services	35.506	35.286	(0.220)	0.030	35.316	(0.190)
Environment	22.264	22.379	0.115	0.150	22.529	0.265
SERCO	16.808	16.834	0.026	-	16.834	0.026
Planning & Transportation	8.081	8.032	(0.049)	0.179	8.211	0.130
Chief Executive's Office	6.316	5.641	(0.675)	0.239	5.880	(0.436)
Chief Executive's Delivery Unit	2.868	2.812	(0.056)	0.032	2.844	(0.024)
Commercial Services	2.506	2.447	(0.059)	0.016	2.463	(0.043)
Public Protection	2.098	2.028	(0.070)	0.060	2.088	(0.010)
Treasury Management	1.645	1.596	(0.049)	-	1.596	(0.049)
Housing Services	0.687	0.673	(0.014)	0.018	0.691	0.004
<i>Financed by:</i>						
Budgeted Use of Reserves	(2.468)	(2.468)	-	-	(2.468)	-
Other Non-specific Grants	(3.702)	(3.442)	0.260	-	(3.442)	0.260
NNDR	(31.484)	(31.316)	0.168	-	(31.316)	0.168
RSG	(35.855)	(35.937)	(0.082)	-	(35.937)	(0.082)
Council Tax	(53.365)	(53.365)	-	-	(53.365)	-
Grand Total	8.143	7.391	(0.752)	0.724	8.115	(0.028)

This table above confirms that the Council underspent against the agreed budget envelope by £0.028m.

3. Housing Revenue Account (HRA) 2014/15 Outturn

The variances and impact on Reserves are set out in the tables below:

Service	Revised Budget	Revised Outturn	Revised Variance
Rent and income	(48.181)	(47.986)	0.195
Repairs and maintenance	11.348	11.497	0.149
Supervision and management	10.348	10.020	(0.328)
Financing and overheads	24.655	24.176	(0.479)
Service improvement	0.105	0.133	0.028
New build and regeneration	1.738	(0.312)	(2.050)
Operating Surplus	0.013	2.472	(2.485)

Reserve	Opening	Movement		Closing
		In	Out	
Unallocated HRA Balance	(2.654)	-	-	(2.654)
Development Reserve	-	(2.485)	-	(2.485)
Transforming Homes	(2.293)	(14.157)	16.450	-
One for One Receipts	(3.505)	(2.726)	1.828	(4.403)
Non Ring-fenced capital receipt	(0.753)	(1.324)	1.684	(0.393)

4. Capital 2014/15 Outturn and examples of key capital projects

Table 1 - Capital Expenditure and Sources of Finance 2014/15			
Service	Approved Budget £000's	Total Spend £000's	Variance £000's
Learning & Universal Outcomes	16,208	10,324	5,884
Adult Social Care	168	72	96
Housing General Fund	1,880	1,653	227
Environment	1,025	643	382
Planning and Transportation	5,269	3,328	1,941
Commercial Services	251	176	75
Transformation	6,261	4,000	2,261
Chief Executives Delivery Unit	5,254	3,754	1,500
Housing Revenue Account	29,634	30,486	- 852
Total	65,950	54,436	11,514
Source of Finance			
Prudential Borrowing	21,772	15,190	6,582
Supported Borrowing	43	12	31
Usable Capital Receipts	378	345	33
Earmarked Usable Capital Receipts	5,536	4,836	700
Major Repairs Reserve	16,450	16,450	-
Grants	19,236	15,871	3,365
Developers Contributions	1,194	589	605
Trusts	152	160	- 8
Reserves	1,189	983	206
Total	65,950	54,436	11,514

Examples of key capital projects:

- The completion of new classrooms and facilities at Graham James Primary School, Little Thurrock Primary School, Bonnygate Primary School and Quarry Hill Academy, totalling a gross spend of £8.695m over the period 2013/14 to 2014/15
- £20.267m spent on transforming Council homes, aimed at refurbishing every Council home in Thurrock, maximising energy efficiency and ridding properties of damp and mould
- £3.294m spent on improvements to the highways infrastructure, including improvements to footpaths and cycling facilities
- £0.182 spent on improving children's play areas throughout the borough
- £0.963m spent on improvements to Pilgrims Lane including construction of day rooms and upgrades to the electrical infrastructure

Works in progress - During the year a number of projects commenced which are expected to be completed during the current or next financial year. These projects include:

- Amalgamation works to Tilbury Manor Infants and Junior Schools
- Amalgamation works to Arthur Bugler Infants and Junior Schools
- Expansion works at Purfleet Academy
- The building of a new primary school (by Harris Foundation) in South Stifford
- The building of new Council dwellings at Seabrooke Rise (Grays) and Derry Avenue (South Ockendon)
- Improvement of bus links at Lakeside between Tesco's and Intu
- Transformation works to the Civic Offices to create a connected workplace with the offices being an attractive shared space for services and staff to use as a base, enabling complete flexibility and subsequent increased productivity and also to maximise space

Any unused resources will be carried forward to meet ongoing obligations and new projects.

5. Material Items of Asset Related Income and Expenditure

Expenditure	2013/14 Outturn	2014/15 Outturn
Building Maintenance / Health & Safety Works	864,685	947,864
Rent & Premises Charges	464,921	564,724
Business Rates / Council Tax	1,221,570	877,367
Cleaning / Rubbish Removal	1,016,661	947,366
Grounds Maintenance	1,012,874	1,007,657
Insurance	447,233	305,812
Utilities	1,860,868	1,746,717
Grand Total	6,888,812	6,397,507
Income	2013/14 Outturn	2014/15 Outturn
HRA Rent and charges	(54,150,999)	(54,780,284)
Theatre / Museums / Libraries	(239,072)	(574,896)
Service / Hire Charges /Commercial Rents	(1,601,376)	(1,928,274)
Grand Total	(55,991,448)	(57,283,454)

6. **Service Financial Information Outturn 2014/15**

Portfolio	Cost Centre	Revised Budget	Revised Outturn	Revised Variance
Finance (incl. Strategy & Communications)	DA034 - Corporate Finance	(111)	(130)	(19)
	DA160 - Corporate Asset Manager	(63)	(63)	0
	DA500 - Strategy Team	(81)	(70)	11
	PR001 - Communications	(63)	(59)	4
	PR080 - Non Operational Land & Buildings	47	151	104
	PR081 - Commercial Estates & Properties	(265)	(342)	(77)
	PR082 - Former DC Assets	(750)	(996)	(246)
Total		(1,286)	(1,509)	(223)

The table above details the Outturn position in relation to the budgets held within the portfolio. These cover a number of different directorates, and overall there was a budget underspend of £0.223m, which was part of the Council's overall balanced budget position.

7. MTFS UPDATE

	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000
Local Funding				
Council Tax / Council Tax Grant	(2,117)	(1,335)	(1,362)	(1,368)
Council Tax Collection Fund Surplus	980	0	0	0
Business Rate Growth	(651)	(475)	(1,500)	0
Business Rate - Collection Fund Deficit	(1,000)	(1,000)	0	0
	(2,787)	(2,810)	(2,862)	(1,368)
Total Government Resources				
Revenue Support Grant	9,500	9,000	6,500	1,665
New Homes Bonus	(665)	(529)	(253)	(253)
Other Central Grants	265	228	196	398
	9,100	8,698	6,443	1,810
Net Additional (Reduction) in resources	6,313	5,889	3,581	442
Inflation and other increases				
Pay	1,549	65	831	848
Contract Inflation	829	857	874	892
Non Contract Inflation	496	563	619	681
Fees and Charges	(100)	(100)	(100)	(100)
	2,774	1,385	2,225	2,321
Capital Financing				
Prudential Borrowing & Treasury Management	(971)	1,151	1,011	0
	(971)	1,151	1,011	0
Finance & Education	(480)	(232)	0	0
Housing	0	0	0	0
Adult Social Care & Health	(750)	(750)	0	0
Children's Social Care	(516)	0	0	0
Regeneration	(329)	(35)	0	0
Highways & Transportation	(240)	(510)	0	0
Central Services	(600)	(632)	0	0
Communities & Public Protection	(75)	(75)	0	0
Environment	(1,111)	0	0	0
Total Net Service Reduction	(4,101)	(2,234)	0	0
Demographics	3,000	3,000	3,000	3,000
	3,000	3,000	3,000	3,000
Total Savings to Identify	7,015	9,191	9,817	5,763