

10 January 2018		ITEM: 14 Decision 0110456
Cabinet		
Medium Term Financial Strategy Update		
Wards and communities affected: All	Key Decision: Key	
Report of: Councillor Shane Hebb, Portfolio Holder for Finance		
Accountable Assistant Director: Sean Clark, Director of Finance and IT		
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This report is public		

Executive Summary

This report presents the latest version of the Medium Term Financial Strategy (MTFS) (appendix 1) and sets out the changes since the last published version considered by Cabinet on 11 October 2017.

At that meeting, Cabinet agreed to endorse an investment approach to close the budget gaps where possible and this was further supported by Full Council on 25 October 2017. This report sets out the progress made from that approach.

In addition to the savings proposals that were set out in the report to Council in February 2017, Service Review proposals are being 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.

Transformation Board proposals have been allocated to services and are set out in appendix 2 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.

In addition, the report sets out the impact of some Minimum Revenue Provision changes that have been agreed with the external auditors.

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 2018/19, an increase to £11m for the General Fund Balance and an additional reserve to support the Council in reducing the net budget over the medium term.

1 Recommendations that Cabinet:

- 1.1 Notes the assumption of a 3% Council Tax increase to provide additional funding towards the cost of Adult Social Care;**
- 1.2 Notes that, in line with previous reports, this report assumes a 1.99% general Council Tax increase but that the local government settlement allows for an increase up to 2.99%;**
- 1.3 Determines how to utilise the expected one off surplus balances in both 2017/18 and 2018/19;**
- 1.4 Endorses the use of the reclassified Minimum Revenue Provision as set out in section 4; and**
- 1.5 Notes 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 the 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 11 October 2017 showed pressures of £20.8m between 2018/19 and 2020/21 that, after CSR identified savings, reduced to a net three year pressure of £14.9m. The assumptions have now been updated to reflect current information, including the impact of investment decisions. Key changes include:
 - a) Improved forecasts for investments;
 - b) Assumed income from a second Thurrock Regeneration Ltd scheme;
 - c) A reduction to transformation savings in 2018/19 after an officer challenge process on deliverability and duplication; and
 - d) A reduction in the prudential borrowing impact of financing the new environment fleet set out in section 4.
- 2.3 Council tax assumptions included within the MTFS include:
 - a) A 3% Adult Social Care precept in 2018/19 that is fully passed onto the service; and
 - b) A 1.99% general council tax increase in each of the three years 2018/19 – 2020/21.

- 2.4 The draft Local Government Finance Settlement was announced on 19 December 2017. Key points to note include:
- a) That there are no changes to core grant and business rates assumptions from that previously reported;
 - b) That the council is still waiting on notification of the Education Support and Housing Benefit Administration Grants. These currently total some £1.25m and a 25% reduction has been assumed; and
 - c) That the general council tax increase allowed before a referendum is required has been increased to 2.99% for each of the next two years.
- 2.5 Whilst this report sets out a balanced budget for the next two years, Members need to consider the fact that there is still a significant budget gap in year three and for the following years. It is important to build a sustainable income base for the future from both ongoing investments and the council tax base.
- 2.6 Thurrock Council still has the third lowest council tax amongst all Unitary Authorities and, subsequently, the third lowest budget. Increasing the council tax base is an important element of financial sustainability and spending power figures published by government assumes the full increases.
- 2.7 Whilst it is acknowledged that any increase in household bills is difficult, the impact of an additional 1% to a 2.99% increase is as follows:
- a) The council would raise an additional £620k per annum, an additional £1.25m if the maximum increase was supported for each of the next two years;
 - b) These amounts would add to the surplus position set out in section 3 and be available for one off expenditure; and
 - c) Equates to a maximum weekly increase of 21 pence for over 70% of council properties, less where households are in receipt of Local Council Tax Scheme support.
- 2.8 After the endorsement of the Finance Peer Review, the council continued with the Council Spending Review (CSR) approach that concentrates on meeting the budget pressures through:
- a) Increased income – this can be through fees and charges, the trading of core services and investments from the treasury or property function;
 - b) More or same for less – focussing on better value from contracts and wider procurement, reducing spend on agency staff and more efficient processes; and
 - c) Reducing the growth pressures in demand led services – such as concentrating on early intervention.

- 2.9 This is underpinned by a detailed review of all services and is delivered through a number of officer Boards that ultimately brings proposals through the CSR to Overview and Scrutiny Committees and the Cabinet.
- 2.10 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 13 December 2017 setting out net pressures of £0.475m. Main areas of concern are within both Children's and Environment Services. To recognise this, £2.5m has been included within the MTFS as growth to meet any ongoing pressures.

3 Draft 2018/19 Budget and Future Forecasts

- 3.1 The MTFS attached at Appendix 1 sets out net pressures before investments of £16.2m. This figure assumes a number of savings from the Transformation Boards that were, in the main, identified during 2016/17 and included within the MTFS presented to Council in February 2017.
- 3.2 In addition, cross cutting service reviews are focused on four key areas for 2018/19 resulting in an target income growth/operating cost saving of £930k:

Service Area	Current Budget	Target Income Growth/Operating Cost Saving	Comments
ICT	£3.9m – central ICT spend	£170k	£20k Income £90k Procurement £60k ICT Structure
Transport	£3.6m (General Fund)	} } } £760k across these three service areas } }	The projects are in discovery phase to determine how the target saving will be achieved against the three areas
Children's Social Care	£28m		
Business Resource	This spend is still being assessed as it is spread across a variety of service areas		

- 3.3 Following the Council meeting on 25 October 2017, officers have been actively following a number of investment opportunities that have not only significantly contributed to the 2018/19 budget but also realised unbudgeted income in 2017/18.

3.4 Along with income from a second Thurrock Regeneration Ltd (TRL) scheme, the summarised budget position for the medium term now stands at:

	2018/19 £m	2019/20 £m	2020/21 £m
MTFS Budget Pressures	5.90	6.21	4.13
Surplus Brought Forward		(2.49)	(0.03)
Known Investments	(7.85)	(3.70)	-
Thurrock Regeneration Ltd	(0.54)	(0.05)	(0.01)
Total	(2.49)	(0.03)	4.09

3.5 As can be seen, supporting an investment approach to accompany the CSR approach has delivered a surplus budget for 2018/19 and 2019/20.

3.6 Points to note:

- The budget surplus in 2018/19 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 2019/20 and provides a second year balanced budget;
- As previously reported, investments should be a balanced portfolio of cash (loan type) investments and property related. Although the former are sound investments, they are generally short in life and so should complement property related investments that deliver a longer term income streams; and
- Income relating to Thurrock Regeneration Ltd (TRL) currently reflects just one additional scheme.

3.7 This balanced investment approach is required to make further headway into 2020/21 and beyond.

3.8 In addition to the forecast surplus in 2018/19, the investments will deliver unbudgeted income in the current financial year estimated at circa £2m. Again, this can be allocated to one off expenditure and/or a contribution to reserves.

4 Minimum Revenue Provision

4.1 Members will be aware that officers have identified ways of reducing the annual Minimum Revenue Provision (MRP) budget requirements in recent years.

4.2 In recent months, officers have been working on further re-profiling of the MRP requirements that will allow a one off transfer from the council's unusable reserves. This has recently been agreed with the council's external

auditors but the transfer can only be used to support the council's financial sustainability objective.

- 4.3 The sum agreed with the auditors is £13m with the allocation agreed as follows:

Allocated to:	£m
General Fund Balance – the Administration made increasing the General Fund Balance a priority – this will increase the balance from £8m to £11m as at 31 March 2018	3.0
Pay for the new Environment Fleet expenditure in 2017/18 outright instead of through Prudential Borrowing. This reduces ongoing expenditure by circa £0.8m and has been reflected in the attached MTFS	7.5
Earmarked Reserves to meet implementation of Service Review findings and to support further Transformation Projects	2.5
	13.0

5 Issues, Options and Analysis of Options

- 5.1 This report sets out the changes to the current year budget that are proposed for 2018/19. Due to the adoption of an investment approach, the impact on services is limited compared to previous years and allows for significant growth within the Adult's, Children's and Environmental services.
- 5.2 Council tax increases are recommended and, indeed, required to continue towards financial self-sustainability by 2020. The ability to increase the core council tax element by 2.99% is welcomed and would go some way towards achieving financial sustainability in the medium to long term.
- 5.3 The report also sets out surpluses in both the current financial year and 2018/19. Cabinet are asked to consider how these balances should be utilised. It is recommended that they only be used for one off expenditure and/or a contribution as any commitment to ongoing expenditure will increase the budget deficits in 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 2018/19, an increase to £11m for the General Fund Balance and an additional reserve to support the Council in reducing the net budget over the medium term.

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 23 January 2018.

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

- 8.1 The implementation of previous savings proposals has already reduced service delivery levels and our ability to meet statutory requirements, impacting on the community and staff. There is a risk that some agreed savings may result in increased demand for more costly interventions if needs escalate particularly in social care. The potential impact on the Council's ability to safeguard children and adults will be kept carefully under review and mitigating actions taken where required.
- 8.2 There are increases to both the Adults' and Children's budgets and the MTFS also provides additional funding for the Environment Service to meet current pressures and those expected in the future as contracts are renewed.

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 during this period of enhanced risk. 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.

This draft budget report sets out a balanced budget for 2018/19 and identifies funding to be used for one off expenditure for the council's priorities.

The ability to increase council tax by 2.99% needs to be carefully considered and should be discussed at both the Corporate Overview and Scrutiny Committee and Cabinet to inform the Council budget setting meeting.

In addition, the report sets out an increase to the General Fund Balance of £3m to £11m and sets aside funding to facilitate additional work towards achieving financial self-sustainability.

9.2 Legal

Implications verified by: **David Lawson**
**Assistant Director of Law & Governance and
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) will be completed for any specific savings proposals developed and informed by consultation outcomes to feed into final decision making. The cumulative impact will also be closely monitored and reported to Members.

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

Any other significant implications will be identified in any individual savings proposal business case to inform the consultation process where applicable and final decision making.

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 – Summary of CSR Savings
- Appendix 3 – Draft allocation of growth and savings to services

Report Authors:

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MEDIUM TERM FINANCIAL STRATEGY

Narrative	2018/19	2019/20	2020/21
	£000	£000	£000
Local Funding			
Council Tax Base / Charge	(1,898)	(1,966)	(2,025)
Council Tax Social Care Precept	(1,869)	0	0
Council Tax Collection Fund Surplus	558	0	0
	(3,209)	(1,966)	(2,025)
Business Rates Growth	(933)	(378)	(658)
Business Rates - Collection Fund Deficit	(1,773)	0	0
	(2,706)	(378)	(658)
Total Government Resources			
Revenue Support Grant	3,962	4,000	658
Transfer to funding formula under 100% retention	0	0	0
New Homes Bonus	673	122	0
Other Central Grants - ESG & HB and Ctax Admin Subsidy	375	300	300
	5,010	4,422	958
Net Additional (Reduction) in resources	(904)	2,079	(1,726)
Inflation and other general increases			
Pay award at 2%, Increments and legislative changes	2,181	2,098	2,098
Waste contract inflation	403	371	389
Non Contract Inflation - Utilities and Fuel and Oil	100	100	100
Levy adjustment	45	54	0
	2,729	2,623	2,587
Demographic, Economic and Capital Growth:			
Adult Social Care Demand linked to ASC precept	1,869	0	0
Contingency to Meet Growth Pressures	4,802	3,740	2,500
	6,671	3,740	4,164
Services Design Principals and Strategic Boards			
Procurement Total	(70)	(105)	0
Commercial Total	(572)	(371)	(100)
Customer & Demand Management Total	(100)	0	0
Digital Total	(207)	(130)	0
People Total	(500)	(500)	0
Property Total	(275)	(200)	0
Service Reviews	(870)	(920)	(800)
	(2,594)	(2,226)	(900)
Total Savings to Identify	5,902	6,215	4,126
C/f Position		(2,488)	(26)
Cash Investments	0	0	0
Thurrock regeneration ltd loan arrangements - Belmont Only	(540)	(53)	(14)
Other known property related investments	0	0	0
Known Investments	(7,850)	(3,700)	0
	(8,390)	(3,753)	(14)
Working Totals	(2,488)	(26)	4,086

SAVINGS BY CSR BOARD

Board	Proposal	2018/19	2019/20	2020/21
Procurement	Savings to be delivered through effective procurement and contract management	70	105	-
Commercial	Further income through the expansion and development of traded services	302	271	-
Commercial	Growth in fees and charges income reflecting 17/18 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	270	100	100
Customer & Demand Management	Customer Services Strategy	100	-	-
ICT / Digital	Citizen Journeys - "Enabling citizens and customers to do business with the council digitally"	37	90	-
ICT / Digital	Legacy Application Rationalisation and Unified Comms	110	40	-
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	500	-
Property	Rental income stretch target - annual increase in rent roll through lease reviews and renewals	200	200	-
Property	Corporate Landlord model - reduction in running costs through economies of scale	75	-	-
Service Review	Service Review savings to be identified through ongoing review process	930	920	800
		2,594	2,226	900

Indicative Service Budget Impact 2018/19

Directorate	Service	2017/18 Net Current Budget (September 2017)	2017/18 Carryforward adjustment £000	MTFS Change in Resources 2018/19 £000	MTFS Growth, Inflation & Other Increases 2018/19	Baseline Budget 2018/19 £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 2018/19 £000
Environment and Highways	Environment	16,342			440	16,782	(106)			(90)				(196)	16,586
	Transportation & Highways	6,189	(52)		19	6,156				(7)				(7)	6,149
	Environment and Highways Total	22,531	(52)	0	459	22,938	(106)	0	0	(97)	0	0	0	(203)	22,735
Place	Planning & Growth	2,998				2,998	(10)			(22)				(32)	2,966
	Regeneration	720				720	(95)			(4)				(99)	621
	Assets	1,659			25	1,684				(6)		(275)		(281)	1,403
	Place Total	5,377	0	0	25	5,402	(105)	0	0	(32)	0	(275)	0	(412)	4,990
Children's Services	Care & Targeted Outcomes	28,018	(15)		1	28,004	(17)			(178)	(10)			(205)	27,799
	Central Administration Support and Other	1,357	(193)			1,164				(9)				(9)	1,155
	Learning & Universal Outcomes	6,616	(89)		4	6,531	(58)			(19)				(77)	6,454
	School Transport	805				805					(55)			(55)	750
	Children's Services Total	36,796	(297)	0	5	36,504	(75)	0	0	(206)	(65)	0	0	(346)	36,158
Adults; Housing and Health	External Placements	21,824			1,869	23,693	(7)				(100)			(107)	23,586
	Provider Services	9,625	(39)		3	9,589	(1)			(94)				(95)	9,494
	External Commissioning	1,914				1,914	(2)			(2)				(4)	1,910
	Public Health	424	(424)			0								0	0
	Community Development & Libraries	1,834	(212)		1	1,623				(6)				(6)	1,617
	Adults; Housing and Health Total	35,621	(675)	0	1,873	36,819	(10)	0	0	(102)	(100)	0	0	(212)	36,607
Housing General Fund	Homelessness	479				479				(5)				(5)	474
	Private Sector Housing	1,775				1,775				(2)				(2)	1,773
	Travellers	(75)			4	(71)	(46)							(46)	(117)
	Housing General Fund Total	2,179	0	0	4	2,183	(46)	0	0	(7)	0	0	0	(53)	2,130
Finance and Information Technology	Corporate Finance	1,950				1,950	(190)			(9)				(199)	1,751
	Cashiers	70				70								0	70
	Chief Executive	197				197				(1)				(1)	196
	ICT	3,883				3,883			(110)	(11)				(121)	3,762
	Revenue and Benefits	1,718				1,718			(12)	(5)	(5)			(22)	1,696
	Democratic Services	190				190				(1)				(1)	189
	Members Services	722				722								0	722
	Electoral Services	440				440								0	440
	Finance and Information Technology Total	9,170	0	0	0	9,170	(190)	0	(122)	(27)	(5)	0	0	(344)	8,826
HR; OD and Transformation	HR & OD	4,466	(7)			4,459				(6)				(6)	4,453
	HR; OD and Transformation Total	4,466	(7)	0	0	4,459	0	0	0	(6)	0	0	0	(6)	4,453
Strategy, Communications and Customer Services	Corporate Strategy & Communications	1,693				1,693	(20)	(100)	(25)	(6)				(151)	1,542
	Social Care Performance	898				898	(20)			(2)				(22)	876
	Strategy, Communications and Customer Services Total	2,591	0	0	0	2,591	(40)	(100)	(25)	(8)	0	0	0	(173)	2,418
Legal	Legal Services	857				857				(11)				(11)	846
	Legal Total	857	0	0	0	857	0	0	0	(11)	0	0	0	(11)	846
Commercial Services	Commercial Services	561				561				(3)	100			97	658
	Commercial Services Total	561	0	0	0	561	0	0	0	(3)	100	0	0	97	658
Central Expenses	Corporate Finance	(6,438)	1,031		7,034	1,627								0	1,627
	Savings to be Allocated	0				0							(930)	(930)	(930)
	Central Expenses Total	(6,438)	1,031	0	7,034	1,627	0	0	0	0	0	0	(930)	(930)	697
Revenue Funding	Council Tax Income	(62,240)		(3,209)		(65,449)								0	(65,449)
	Grant Income	(4,103)		1,048		(3,055)								0	(3,055)
	NNDR Income	(32,708)		(2,706)		(35,414)								0	(35,414)
	Revenue Support Grant	(14,660)		3,962		(10,698)								0	(10,698)
	Revenue Funding Total	(113,711)	0	(904)	0	(114,615)	0	0	0	0	0	0	0	0	(114,615)
	Grand Total	0	0	(904)	9,400	8,496	(572)	(100)	(147)	(500)	(70)	(275)	(930)	(2,594)	5,902