FINANCE AND POLICY COMMITTEE AGENDA

2 August 2013

at 10.30 am

in the Council Chamber, Civic Centre, Hartlepool

MEMBERS: FINANCE AND POLICY COMMITTEE

Councillors C Akers-Belcher, Dawkins, Jackson, James, A Lilley, Payne, Richardson, Simmons, Thompson and Wells

1. APOLOGIES FOR ABSENCE

2. TO RECEIVE ANY DECLARATIONS OF INTEREST BY MEMBERS

3. MINUTES

None.

4. BUDGET AND POLICY FRAMEWORK ITEMS

4.1 Medium Term Financial Strategy (MTFS) 2014/15 to 2016/17 – *Corporate Management Team*

5. KEY DECISIONS

None.

6. OTHER ITEMS REQUIRING DECISION

6.1 Banking Arrangements – *Chief Finance Officer*

7. ITEMS FOR INFORMATION

None.

8. ANY OTHER BUSINESS WHICH THE CHAIR CONSIDERS URGENT

9. LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006

EXEMPT ITEMS

Under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information as defined in the paragraphs referred to below of Part 1 of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006

ITEMS FOR INFORMATION

Date of next meeting – 8 August 2013 at 2.00 pm in the Council Chamber, Civic Centre, Hartlepool

FINANCE AND POLICY COMMITTEE

2nd August 2013

HARTLEPOOL BOROUGH COUNCIL

Report of: Corporate Management Team

Subject: MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2014/15 to 2016/17

1. TYPE OF DECISION/APPLICABLE CATEGORY

Budget and Policy Framework decision.

2. PURPOSE OF REPORT

2.1 The purpose of this report is to:-

i) Update Members on the Council's financial position and the budget deficits forecast for 2014/15 to 2016/17; and

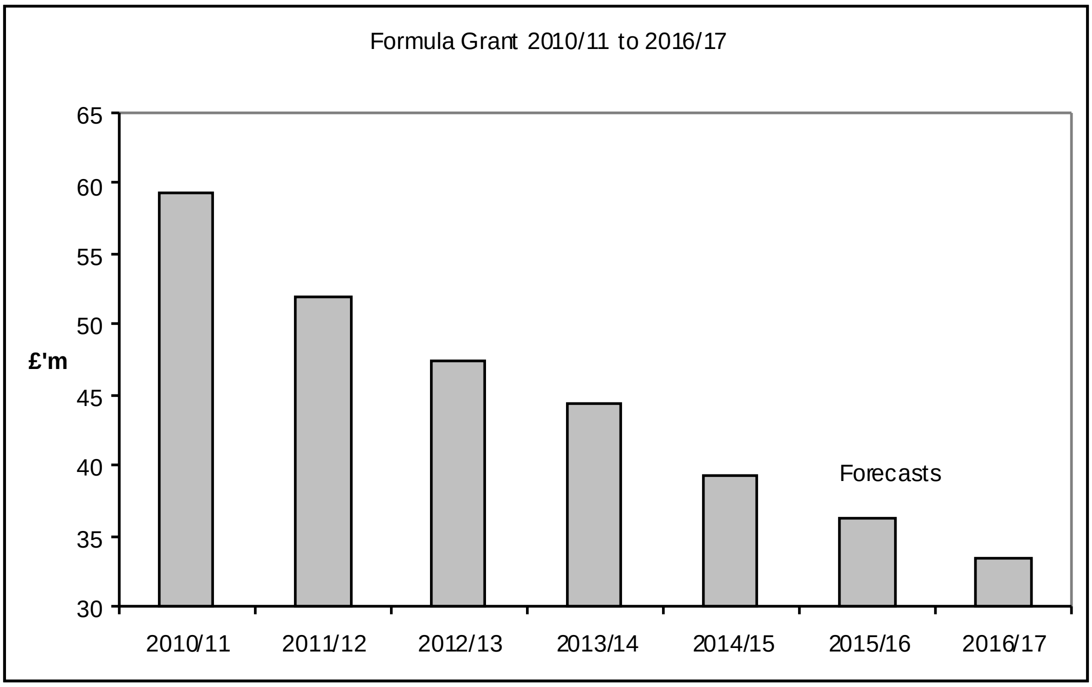
ii) To enable Members to approve the recommended approach to be adopted for managing the 2014/15 budget deficit, including the detailed savings proposals to be referred to individual Policy Committees for consideration.

3. BACKGROUND AND GOVERNMENT SPENDING PLANS 2014/15 ONWARDS

3.1 This is the second of a series of detailed budget reports which will be submitted to this Committee during the current financial year to enable Members to develop and approve the final 2014/15 budget proposals to be referred to full Council in February 2014. The first report was considered at the May meeting and outlined the scale of the budget deficits facing the Council over the next three years and enabled Members to make some initial decisions to underpin the development of the Council's financial plans, whilst recognising that these may need to be revised if circumstances change.

3.2 The previous MTFS report was submitted to full Council in February 2013 and provided a comprehensive assessment of the financial challenges and risks facing the Council over the 4 years commencing 2013/14. In summary the report advised Members that the Council is facing the most challenging financial position since becoming a unitary authority in 1996, which reflects:

- The scale of Government cuts in core General Fund grants confirmed for 2013/14 and 2014/15. It is anticipated these cuts will continue in the following two years. The June 2013 Spending Review announcement confirmed the overall level of cuts for 2015/16 and further details are provided later in the report. The previously forecast grant cuts are summarised below and it should be noted the 2015/16 and 2016/17 forecast will be updated when more information on the impact of the recent Spending Review announcement on individual Councils is known;



- The abolition of the national Council Tax Benefit system and the transfer of financial responsibility for Council Tax Support to individual Councils, with a 10% national funding cut. The actual cut for Hartlepool was around 13% when account is taken of actual support previously provided under the former national Council Tax Benefit scheme. There is a risk further grant cuts are made in this area in future years if the Government determines to implement further cuts in the Welfare Budget. In addition, the Government's decision to mainstream this grant and include it within the core revenue grant from 2014/15 increases financial risk for areas serving more deprived communities, including Hartlepool, as reductions in core revenue grant have historically had a disproportionate impact on these areas;

- The implementation of the Business Rates Retention system, which will transfer significant financial risks to individual Councils. Under the new system a 'safety net' system will operate which will require individual Councils to fund the first 7.5% of in-year reductions in business rates from their own resources. Additional Government support will only be paid for shortfalls above this threshold. For Hartlepool this equates to an annual risk of around **£1.9 million** in 2014/15 and future years. This is a significant risk for Hartlepool owing to the potential impact of in-year reductions in the business rates paid by the Power Station, which contributes **17%** of the total Business Rates collected by the Council;

- Individual Councils face potential costs relating to 50% of back-dated Business Rates appeals. The Government has set aside some funding for this issue nationally, although it is not yet clear if this will be sufficient at an individual authority level. This is also a significant risk for the Council as the Power Station has a number of outstanding appeals and further information is provided later in the report;

- The impact of cuts in specific grants, including a cut in the Early Intervention Grant from £6.440m in 2012/13 to £4.789m in 2014/15, a cut of £1.651m (25%).

3.3 The February 2013 MTFS provided the strategy for managing the 2013/14 budget, which recognised that budgets and financial risks need to be managed over a number of years. The report outlined that further cuts in core budgets of between **£17.426m and £19.426m** will have be made before the start of 2016/17. These forecasts include the impact of the 2013/14 Council Tax Freeze grant being removed in 2015/16. The Council will also need to manage cuts in specific grants.

3.4 In developing a strategy to address the core budget deficit there are a range of inter-linked and inter-dependant issues to consider in rolling forward the Council's financial plans, covering

- Spending Review 2013;
- One-off resources available to manage risks and / or support Council priorities, including the 2014/15 General Fund budget;
- Business Rates Risks;
- General Fund Revenue Budget 2014/15 to 2016/17;
- Strategy for bridging 2014/15 budget deficit;
- Council Tax 2014/15 and 2015/16;
- Review of Reserves; and
- Strategy for managing capital risks.

3.5 The following paragraphs provide more information on each of these issues to the extent this is currently possible. Further updates will be provided to future meetings when more information becomes available.

3.6 Spending Review 2013

3.7 The Chancellor's June 2013 Spending Review announcement builds on the March 2013 budget statement and provided further information on the level of Public Sector spending for 2015/16. The Spending Review confirms that Education, Health and International Development will be protected in 2015/16. These areas account for around 55% of Government expenditure (based on Departmental Expenditure Limits). Protection of these areas means that cuts in other areas of the public sector will again be higher in

2015/16 and the Spending Review detailed the cuts in funding for Government departments. Five areas will face cuts of 10% in 2015/16, namely:

- Cabinet Office;
- HM Treasury;
- Department for Communities and Local Government ;
- Local Government; and
- Justice.

In relation to other areas of Government spending the Spending Review provides details of the cuts by department which range from 1.5% to 9.6%.

3.8 The following paragraphs provide specific information on Spending Review announcements affecting Local Authorities.

3.9 **Core Local Government Grant**

3.10 The previous MTFS report recommended that budget plans should be developed on the basis of grant cuts of 7.5% in 2015/16 and 2016/17. This forecast is lower than the 10% cut announced in the June 2013 Spending Review. If a cut of 10% is applied to Hartlepool's 2015/16 grant this would increase the budget deficit by a further £1 million.

3.11 However, the position is not that straightforward as there are a number of other factors within the Spending Review which need to be taken into account in assessing the impact on the budget forecast for 2015/16. Owing to the uncertainty of these issues, which may either have a positive or negative financial impact on Hartlepool, it is recommended at this stage that the existing planning assumptions of grant cuts of 7.5% in both 2015/16 and 2016/17 still provide an appropriate planning basis. Further information will be reported as soon as it is available and the budget forecast updated accordingly. It needs to be recognised that if the actual grant cuts for 2015/16 are higher than forecast, additional budget cuts will need to be implemented. The areas where further information and assessment of the impact on Hartlepool are needed are detailed below:

- The statement in the Spending Review that **'the Government will consult on the local government finance settlement for 2015/16 in the normal way, recognising that some local authorities are more dependent on central government funding than others'**, which potentially may benefit Hartlepool. Members are well aware that over the last three years the Council has suffered disproportionate grant cuts compared to other areas.

  It is hoped that Government recognition that some local authorities are more dependent on central government funding will provide a fairer settlement in terms of the cuts implemented in 2015/16 and future years.

  From a practical perspective the impact of the Spending Review statement on individual Councils will not be known until November 2014 when the Government issue the provisional 2015/16 Local Government

Finance settlement. At this stage there is no information available to assess the potential impact on Hartlepool.

- The baseline that 2015/16 grant cuts will be applied to.

  It is uncertain which baseline the Government will use for determining the cut in individual authorities grants. Previous reports have highlighted the risk if the funding provided for Local Council Tax Support schemes is included in the baseline. The planning assumptions used for the development of the 2014/15 to 2016/17 Local Council Tax Support scheme assumes that after the initial national grant cut implemented in 2013/14 this grant will be frozen in the three years commencing 2014/15. This is still an appropriate planning assumption, although it remains a potential financial risk.

  The other risk area relates to the treatment of retained Business Rate income in determining 2015/16 grant cuts. Whilst this income should be protected from the grant cuts in 2015/16, this may result in a higher percentage cut in the remaining core funding to achieve the 10% reduction in total local Government funding.

- The level of cuts which will be implemented in 2016/17.

  There is no information on grant cuts for 2016/17 and these details will not be known until after the 2015 General Election. As Public Spending cuts are anticipated to continue after the General Election an assessment needs to be made within the MTFS of forecast grant cuts to enable work to begin on the development of a strategy to address this situation. The current planning assumption of a 7.5% cut in this year is still considered appropriate.

3.12 In addition, any savings from the continued public sector pay cap will need to be allocated to offset higher employers National Insurance costs. In the March 2013 Budget the Chancellor announced that from April 2016 (a year earlier than previously indicated) employers and employees will face increased National Insurance contributions as a result of changes to the Second State Pension. This is a significant issue and it is estimated that Public Sector employees will pay increased National Insurance contributions of £3.3 billion a year. The overall effect on Government finances will be neutral, although this will pass an additional significant cost on to Councils.

3.13 **Council Tax Referendum Threshold and Council Tax Freeze grant**

3.14 The Government has indicated that they intend to set Council Tax referendum thresholds at 2% for 2014/15 and 2015/16. This threshold was anticipated in the indicative Council Tax increase set for 2014/15 earlier in the year of 1.99%, but for 2015/16 is lower than the previously approved indicative Council Tax of 2.5%.

3.15 The continued restriction of Council Tax will be welcomed by households, who face continued inflationary pressures on their budgets whilst also facing pay restraint, including public sector employees. However, at a time of continuing significant grant cuts, inflationary budget pressures on non pay budgets and increased service demand on a range of services (particularly demand lead services for older people and an increasing number of Looked after Children) the continued restraint of Council Tax is a further financial challenge for Councils to manage. As previously reported the Council Tax freeze grants are only paid for a limited time and when this funding is removed the shortfall cannot be made up by increasing Council Tax and additional budget cuts then need to be made. Therefore, these arrangements only provide a temporary deferment of budget cuts and increase the cuts which will need to be made in future years. This increases future financial risk as it is becoming increasingly difficult to make further budget cuts from a significantly reduced budget.

3.16 The implication of Hartlepool either increasing Council Tax by the planned indicative increase of 1.99% in 2014/15, or freezing Council Tax are detailed later in the report.

3.17 The Government has stated '**this settlement supports those local authorities who have kept Council Tax down since 2011-12 by continuing to provide for previous Council Tax Freeze Grants in their 2015-16 settlement'**. The Council should benefit from this proposal as Council Tax has been frozen in each of the last three years. In line with previous Government announcements the current MTFS is based on this funding ceasing in 2014/15. However, it is not exactly clear how this funding will feed through at a local level and how this will link with the higher national 2015/16 grant cuts detailed in the previous section. Therefore, at this stage it is recommended that these issues are reviewed when the detailed 2015/16 budget is developed and more information is available from the Government in relation to these proposals.

3.18 The current Spending Review does not address what will happen to the additional one-off funding provided for 2015/16 after the May 2015 General Election. Therefore, when the Government consults on the 2015/16 Local Government Finance Settlement the Council will need to put forward a case to make this funding permanent on the basis of the Government's own argument of rewarding those Local Authorities which keep Council Tax down. The Council's case will also need to argue that it would be inappropriate to penalise those authorities (and the communities they serve) that have acted responsibly during a period of economic uncertainty and financial hardship for many households and to permanently compensate these areas for ongoing reductions in Council Tax income arising from previous Council Tax freezes. Ideally this funding should be in addition to the national funding allocation for Local Authorities, rather than top sliced from this allocation, although the second option would be preferable to the funding just being withdrawn in 2016/17.

3.19 **Other funding announcements**

3.20 The Spending Review also provided details of national funding of £3.8 billion to be provided as a pooled budget for health and social care from 2015/16 to deliver better outcomes and greater efficiencies through more integrated services for older and disabled people. This money will be shared between the NHS and Local Authorities with spending plans to be agreed by Health & Wellbeing Boards. The £3.8 billion includes continuation of the existing NHS transfer to adult social care as set out in the 2010 Spending Review (£900m nationally, approximately £1.8m for Hartlepool) but further work is required to understand the other elements that make up the £3.8 billion, which includes funding to support carers. It is not clear how much of this funding will cover existing commitments funded by councils and how much is new money. There is also a further £200m to be made available in 2014/15 to 'accelerate transformation' but no further detail has been made available as yet. A detailed assessment will need to be made when there is more information available.

3.21 Additional national funding will also be provided to extend the Troubled Families Programme (£200 million in 215/16). Detailed information is also needed to assess the potential impact on Hartlepool.

4. One-off resources available to manage risks and / or support Council priorities

4.1 The May 2013 MTFS report identified one-off resources from a range of measures which should provide uncommitted one-off funding of £2.64m as summarised below:-

	£'000
<u>2012/13 Uncommitted outturn</u> The final 2012/13 Financial Management report forecast an uncommitted under spend in the range of £0.16m to £0.94m. The range reflected seasonal and demand led expenditure. The final under spend was £0.68m, net of provision made for potential litigation costs arising from Planning Committee decisions which was not previously anticipated when the forecast outturns were prepared.	680
<u>Uncommitted Equal Pay Provision</u> Work completed on assessing historic Equal Pay risks has identified that the provision previously set aside should not be needed and can now be taken into account. Releasing this money is not completely without risk, although this is currently assessed as extremely low. Therefore, given the other pressures facing the Council it is recommended this funding is released. It was provisionally anticipated this would release £0.9m.	860

The final amount available at the end of 2012/13 is £0.86m and it is anticipated this reduction can be offset from the 2013/14 outturn.	
<u>2013/14 Outturn</u> An initial assessment of the forecast 2013/14 budget outturn has also been undertaken and this has identified a range of forecast budget savings, as detailed in Appendix A. Taking account of these issues at this very early stage of the financial year is not without risk as the Council needs to manage a wide range of demand led and seasonal budgets and these issues will be closely managed and monitored during 2013/14. Since preparing the initial outturn forecast a range of potential income shortfalls in the current year have been identified in relation to Building Control income and Hartlepool Maritime Experience. These shortfalls reflected continued economic uncertainty and previous year's income shortfalls in other areas have been funded on a temporary basis. It is expected that the shortfalls in 2013/14 can be managed without impacting on the forecast overall underspend of £1.1m. However, it is recommended that if resources are available in the current year that these should be set aside to manage the continuation of these shortfalls in 2014/15. An initial assessment indicates that between £0.15m and £0.2m may be needed. This will provide a longer lead time to develop a permanent solution and / or for the economy to recover. In line with the recent Council resolution the forecast 2013/14 underspend excludes the Members Allowances savings which will be set aside in a ring fenced Living Wage reserve until such a time as the Council has consulted on the merits of introducing a 'Living Wage' in Hartlepool.	1,100
Total one-off resources	2,640

4.2 The May 2013 MTFS report also recommended a strategy for allocating these one-off resources to manage a range of measures as detailed in the following table. These proposals are designed to manage the specific Business Rates risks facing the Council, to provide funding to manage the Local Council Tax Support scheme, to support the 2014/15 Revenue budget and the Highways Maintenance programme.

	£'000
Business Rates risks See section 4.3.	900
Support of Local Council Tax Support scheme The initial Local Council Tax Support scheme approved by the Council has sought to partly mitigate the cut in Government grant on working age households through a combination of using one-off resources and a permanent budget pressure. However, this strategy recognised that the Council would not be able to mitigate this impact on a permanent basis and the cut in support for working age adults would need to increase over a number of years to 20%. This is the increase the other Tees Valley Authorities implemented in 2013/14. It was initially anticipated that Hartlepool would need to implement a 20% reduction in 2016/17. As previously reported allocating the additional one-off funding of £0.86m will enable the Council to review the level of Council Tax Support to be provided in 2014/15 to 2016/17. The scheme for 2013/14 limited the cut in support to 8.5% and it was forecast that this would not be sustainable. Therefore, it was anticipated the cut in support in 2014/15 and 2015/16 would need to increase to 15% and in 2016/17 to 20%. The availability of this funding and the Leader's proposals to use the residual Family Poverty Reserve (£0.15m) to support the LCTS in 2014/15 enables the Council to consider lower reductions in Council Tax support over the next three years. There are a range of options for Members to consider, including potential reductions in support of 8.5% in 2014/15, 12% in 2015/16 and 15% in 2016/17. A detailed report on the development of the Local Council Tax Support scheme for 2014/15 and future years will be submitted to a future meeting of the Committee to enable Members to determine a preferred scheme, pending confirmation of the actual grant funding for 2014/15.	860
Support of 2014/15 Revenue budget This funding will reduce the cuts which need to be implemented in 2014/15 and provide a longer lead time to identify permanent budget cuts. The implications of using this one-off funding are detailed later in the report.	680

Support for Highways Maintenance Programme The Leader of the Council asked officers to examine the implications of enhancing the existing 5 year planned highways maintenance programme. Allocating £0.2m towards this programme will enable some year 2 schemes to be brought forward. It should be noted that significant funding would be required to address highways conditions issues which have arisen over a number of years. In the current financial climate this will not be possible without an adverse impact on other services.	200
Total Commitments	2,640

4.3 Business Rates risks

4.4 The key risk relates to the level of the 'safety net' trigger point which will increase to £1.9m in 2014/15 (£1.7m in 2013/14) and the impact of unplanned closures at the Power Station. In 5 of the last 7 years there have been unplanned shutdowns and over time this risk will increase. It is therefore not a case of 'if', but 'when' this financial risk will arise. A reserve of £1m has previously been set aside to manage this risk, but this will only provide funding for an unplanned closure of around 5 months. Given the history of closures over the last seven years it is recommended that a higher risk reserve is needed.

4.5 In addition to this ongoing risk there is also a risk in relation to the potential cost of successful back-dated rateable value appeals by the Power Station. Given the increase in the rateable value in 2010 it is expected there is a high probability this appeal will be successful. At this stage it is not possible to quantify this risk or the level of Government funding which will be provided towards funding this one-off cost.

4.6 A recent meeting with the Council's allocated Valuation Office liaison officer confirms the outcome of this appeal will not be known in the near future and a decision may not be made for a number of years, owing to the number of outstanding appeals at a national level and the particular complexity of this appeal. This position increases uncertainty and potentially increases financial risk to the Council that Government funding does not cover the full cost of the back dated element of a successful appeal. Of more financial significance to the Council the delay in this appeal means there is uncertainty over the level of Business Rates retained by the Council, as a successful appeal will result in a reduction in Business Rates paid by the Power Station. At this stage this potential income loss cannot be quantified. However, the longer this appeal remains outstanding the greater the financial risk to the Council if the appeal is successful. The Valuation Office has provided the following information which puts the Rateable Value of the Power Station and the financial risk to the Council into context:

- Hartlepool Power station has the 3rd highest gross rateable value of all Power Stations in England;
- Hartlepool Power station has the 7th highest gross rateable value in England.

4.7 As reported previously the factors in relation to the Power Station put the **Council in a unique position** in terms of managing the ongoing risk of unplanned shutdowns and the outstanding appeal. This means the Council is managing significant financial risks in relation to a single business rate payer, which accounts for **17%** (£2.45m) of the retained annual Business Rates, as highlighted in the following table.

Summary of Business Rate income retained by the Council

Type of Business	Number of Business Rate payers	Percentage of total annual Business Rates Collection	Estimated 50% share of business rates retained by the Council
Nuclear Power Station	**1**	**17%**	**£2.45m**
Large Industrial Businesses	7	12%	£1.73m
Supermarkets	3	11%	£1.58m
Large Retail Stores	6	4%	£0.58m
Public Sector	3	3%	£0.43m
Sub Total – top twenty	**20**	**47%**	**£6.77m**
Small and Medium Enterprises	2,480	53%	£7.63m
Total	**2,500**	**100%**	**£14.40m**

4.8 The meeting with the Valuation Office also highlighted an additional risk in relation to national appeals lodged by the major supermarkets against increased Rateable Values. Locally this may be a significant issue as 3 supermarkets account for 11% of the total Business Rates income retained by the Council. This position further underlines the financial risk which has transferred to individual Councils as a result of the re-localisation of Business Rates.

4.9 In view of these significant financial risks it was previously recommended that a further £0.9m is reallocated to manage these risks over the period of the MTFS. This will increase the value of the Business Rate risk reserve to £1.9m. In relation to the impact of unplanned Power Station closures it is hoped that this reserve will be sufficient to cover any income shortfall below the 'safety net limit' for the period of the current MTFS, which will hopefully avoid the need to make additional in-year budget cuts over the next few years, although this cannot be guaranteed. In the unlikely event that the whole of the reserve is not committed over the period of the MTFS any unused resources will need to be carried forward to manage this ongoing risk, which will increase as the Power Station ages. It needs to be recognised that it will become increasingly difficult to set aside resources in future years to manage this increasing risk owing to the impact of ongoing significant grant cuts.

4.10 The risks in relation to the Business Rates have been highlighted in a written submission and a meeting with Brandon Lewis, Parliamentary Under-Secretary of State. In response the Minister has subsequently stated that the safety net arrangements 'will provide support for authorities who experience a significant decline in business rates income, for example as a result of unplanned outage at large power stations'. From the Council's perspective this statement does not alter the fundamental financial risk facing the Council in relation to the power station and underpins the recommended strategy of earmarking resources to manage this risk.

4.11 **Core Revenue Support Grant and linkages to Education Service Grant**

4.12 Since the May MTFS report was prepared further work has been completed to assess the impact of changes in the Council's core Revenue Support grant and linkages to the Education Services Grant (ESG), previously known as the Local Authority Central Services Education Grant (LACSEG). This work has also reviewed those areas funded from the ESG grant.

4.13 In terms of the grant changes and linkages to the core grant allocation these are better for 2013/14 and 2014/15 than initially assessed when the current years budget was prepared. At that time the Government indicated the ESG would be top sliced from the Revenue Support Grant and for planning purposes this reduction was reflected in the MTFS. Following clarification of the initial funding announcements by the Government it is now clear this planning assumption was too pessimistic and the Council will receive higher funding in 2013/14 and 2014/15 than anticipated**. These changes retain funding which it was anticipated would be top sliced from previous Revenue Support Grant allocation and did not impact on the funding available for schools from the Dedicated Schools Grant, which is a separate ring fenced grant.** The level of the additional funding retained by the Council in these years will depend on the number, timing and type of schools (i.e. primary or secondary) which convert to academies in 2013/14 and 2014/15. For planning purposes conversion rates of 50%, 75% and 100% have been used to assess the potential financial impact to the Council.

4.14 In addition, the Council also benefitted from the **refund of Core Revenue Support grants** deducted in 2011/12 and 2012/13 by the Government to transfer funding from Local Authorities to academies. These arrangements meant Hartlepool lost funding even though it had no academies in these years. These resources had previously been earmarked to mitigate the anticipated impact of the ESG reductions in 2013/14 and future years. The actual amount refunded for 2012/13 is slightly higher than the provisional allocations provided by the Government. These changes return funding top sliced from previous Revenue Support Grant allocations **and did not impact on the funding available for schools from the Dedicated Schools Grant.**

4.15 In total these proposals provide a **one-off benefit** of between £2.72m and £3.6m **as the Council's core Revenue Grant will not be cut to the extent forecast in February 2013**. The range of this one-off benefit reflects the forecast rate for schools converting to academies.

	Academy conversion rate 2014/15 – **50%**	Academy conversion rate 2014/15 – **75%**	Academy conversion rate 2014/15 – **100%**
2013/14	2,230	2,230	2,230
2014/15	1,370	930	490
Forecast one-off funding	3,600	3,160	2,720

4.16 The changes to the ESG mean that if all schools convert to academies the Council will receive a residual ESG of £0.214m per year, based on current Government proposals. This amount is provided to fund the statutory functions remaining with Councils, which includes the Director of Education and associated direct support costs, prosecutions for non-attendance, child employment enforcement, maintenance and development of local school funding formula and Standing Advisory Council for Religious Education. The residual grant allocation will not be sufficient to cover the costs which remain with the Council. Therefore, whilst the Council will receive a one-off benefit in 2013/14 and 2014/15, the linkages between these changes and the Revenue Support Grant mean there will be a small ongoing budget pressure in 2015/16 of £50,000, increasing to £185,000 in 2016/17. These pressures are included in the updated forecast detailed later in the report.

4.17 In terms of developing a strategy for using these one-off resources it is recommended that the Council only commits the lower forecast of £2.72m until the actual position is more certain and the funding has been received by the Council. It is also recommended that this funding is allocated to support the revenue budget and reduce the scale of the cuts which need to be implemented. The initial budget proposals recommended in May proposed using one-off resources of £0.68m in 2014/15 (as detailed in paragraph 4.2). It is recommended that this amount is increased by £0.32m, which increases the one-off resources used to support the 2014/15 to £1m. This amount can then be sustained in 2015/16 and 2016/17 using the resources identified in paragraph 4.15. A further £0.4m will then be available to support the 2017/18 budget. In total these proposals commit £2.72m of the forecast resources as follows:

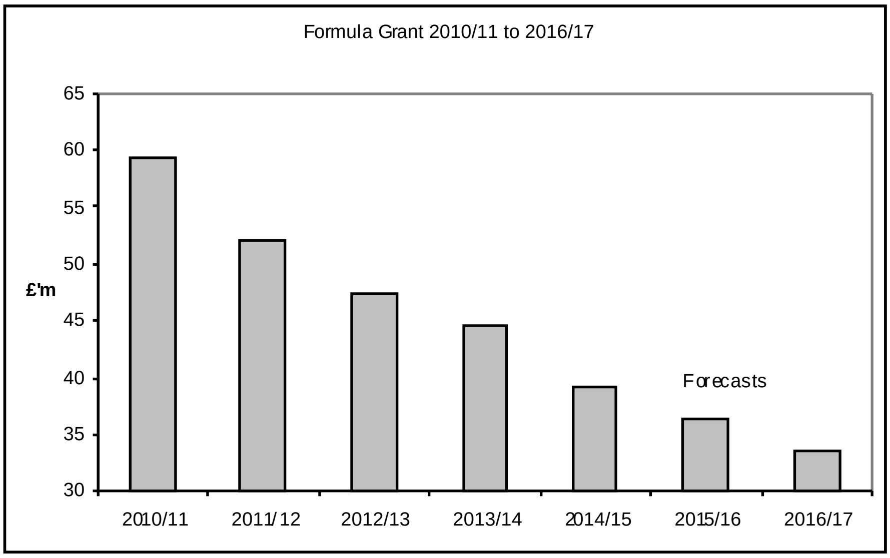
Year funding allocated to support	£'m
2014/15	0.320
2015/16	1.000
2016/17	1.000
2017/18	0.400
Total	2.720

4.18 The proposal to allocate £0.4m to support the 2017/18 budget is designed to phase the impact of this temporary funding being withdrawn and the resulting need to make permanent budget cuts. As detailed earlier in the report the above proposals only commit the minimum one off funding and the Council may actually have a further £0.880m to support the 2017/18 budget. This cannot be guaranteed at this stage and is therefore not a recommended planning assumption. However, in view of this position Members may not wish to commit one-off resources of £0.4m to support the 2017/18 budget and may wish to use this funding to support other one-off priorities. In financial planning terms if this option is adopted this will increase the cuts which need to be made in 2017/18 by £0.4m, if only the minimum resources are achieved.

5 General Fund Revenue Budget 2014/15 to 2016/17

5.1 Previous MTFS reports identified the scale of the budget deficits facing the Council from 2013/14 as a result of continuing cuts in Government grants. For 2014/15 the deficit reflects the **actual two year settlement** confirmed by the Government in January 2013. For 2015/16 and 2016/17 it is anticipated there will be further cuts in Government grants. As highlighted earlier in the report the June 2013 Spending Review indicated that the national cut in grant for Local Authorities will be 10% for 2015/16. However, the Spending Review statement did recognise that some Councils are more dependent on Government grant cuts and on this basis it is hoped that Hartlepool will receive a lower cut than the national cut in funding for local authorities. Therefore, for planning purposes the forecast cuts of 7.5% in each of these years remain appropriate.

5.2 As highlighted in the following table the Government grant received by the Council in 2014/15 is **34% (£20.127 million)** lower than it was in 2010/11, before the current programme of spending cuts commenced. By 2016/17 it is forecast the ongoing grant will be **43% (£25.783 million) lower than it was in 2010/11 - which is unprecedented.**



5.3 As part of the planned approach to managing ongoing Government grant cuts the budget for 2013/14 was balanced through a combination of permanent budget cuts (£3.7m) and the planned use of one off resources (£2.3m). The MTFS recognised that the use of one off resources **does not provide a sustainable financial solution** to address the permanent grant cuts and was designed to provide a longer lead time to implement a permanent strategy. It was recognised that the Council would need to begin implementing even more difficult measures than have been necessary over the past 3 financial years from 2014/15. Furthermore, 2014/15 would be a watershed year for the Council as it would determine the approach to be adopted for the following 2 financial years.

5.4 The previous MTFS report detailed the budget deficits for the period 2014/15 to 2016/17. The 2014/15 deficit is based on an indicative Council Tax increase of 1.99% (2.5% for 2015/16 and 2016/17). The Government has now issued details of the Council Tax referendum trigger points and the level of Council Tax freeze grant for 2014/15 and 2015/16. Therefore, the indicative Council Tax increases for these years need to be reviewed and this issue is covered later in the report.

5.5 On the basis that the previously announced 2014/15 grant cut is not changed and the anticipated annual grant cuts in 2015/16 and 2016/17 of 7.5% it was previously reported that the Council faces a budget deficit over the next three years of **£19.426m**, as summarised below, which equates to a reduction in the existing budget of 21% before the start of 2015/16.

	2014/15 £'000	2015/16 £'000	2016/17 £'000	Total £'000
Indicative Council Tax increases	1.99%	2.5%	2.5%	
Forecast Budget Deficits - Based on provisional 2014/15 grant cuts and annual grant cuts of **7.5%** for 2015/16 and 2016/17	8,524	6,227	4,675	19,426

5.6 In terms of measures to reduce the ongoing budget deficits the following factors can be taken into account:

- ICT saving;
- Public Health Funding;
- Review of Planning Assumptions.

These issues are covered in detail in the following paragraphs.

5.7 ICT saving

5.8 A part year saving of £0.3m has already been anticipated in the base budget from 2013/14 and from 2014/15 a full year savings target of £0.7m had been set as a key component of the competitive dialogue. As reported to the Committee on 28 June 2013 a preferred bidder has now been approved and it is anticipated that the full year savings target will be marginally exceeded in 2014/15 with increasing savings achieved over the lifetime of the contract. These additional savings have been reflected in the updated MTFS forecasts.

5.9 These savings have been factored down to provide a small contingency provision, which was included in the financial evaluation of all submissions pending the completion of the detailed contractual due diligence. This work will be completed over the next few months and it should therefore be possible to determine if this contingency is needed before the final budget proposals are referred to full Council in February 2014.

5.10 In addition, potential rental income is anticipated and these savings have been built into the 2014/15 budget to reduce the forecast deficit.

5.11 **Public Health Funding**

5.12 From 1 April 2013 Local Authorities became responsible for managing Public Health and received a ring fenced grant to pay for these services. As reported previously the Council has received a better than expected initial grant allocation for 2013/14 and 2014/15. However, there is a risk that in future years this grant allocation will be reduced through the Government's 'pace of change' agenda which will seek to equalise Public Health funding.

5.13 Detailed work to determine contractual commitments against the ring fenced Public Health grant is nearing completion, which commits the majority of the available funding.

5.14 An assessment has also been completed to identify those existing Council services which contribute towards delivering the Public Health agenda and should therefore now be funded from the Public Health Grant, rather than the General Fund budget. In total this has identified costs of £0.5m which should be funded from the Public Health Grant from 1 April 2013.

5.15 In 2013/14 it is recommended this saving is earmarked to manage in-year Public Health risks in the first year of operating these services. In the event these monies are not needed in 2013/14 it is recommended that they are set aside to manage ongoing financial risk in this area.

5.16 In relation to the position for 2014/15 it is recommended that the eligible costs currently charged to the General Fund are charged to the Public Health Grant. The resulting reduction in General Fund costs of £0.5m can then be allocated to reduce the 2014/15 budget deficit. It needs to be recognised that beyond 2014/15 this approach is not without risk as Public Health funding allocations may be cut, which would then increase the budget deficit in 2015/16.

5.17 **Review of Planning Assumptions**

5.18 A detailed assessment of the initial planning assumptions for 2013/14 had been undertaken to reflect changing circumstances and a range of budget reductions were reported to the Committee in May 2013. Some of these factors arise from current economic conditions and whilst it is possible to take a permanent saving in 2014/15 the position may change in the medium term, which may increase a future years' budget deficit. Conversely, if these 'contingency' budgets are maintained the Council will underspend, which will mean that permanent cuts are made earlier than necessary. Balancing these issues is not easy and the key issue for Members to recognise is the potential financial risk in future years. These issues are detailed in Appendix B and total £1.870m, as summarised below:

Changes in Planning Assumptions – reported 31.05.13	**Decrease in budget deficit £'000**
Reduce budget provision for April 2014 Pay award from 2.5% to 1%	600
Gas and Electric Budgets	150
Job Evaluation budget	150
Insurance Premium saving	60
General Fund Public Health Contribution	40
Members Allowances *	0
Accommodation budgets	170
Employers' Pension Contribution saving (provisional estimate)	250
Terms and Conditions Review	200
Senior Management Structure Review (provisional estimate)	250
Total	**1,870**

* In line with the recent Council resolution the revised planning assumptions exclude the Members Allowances savings which will be set aside in a ring fenced living wage reserve until such a time as the Council has consulted on the merits of introducing a 'Living Wage' in Hartlepool.

5.19 As detailed in the May 2013 MTFS update report work on preparing the 2014/15 budget has commenced earlier than in previous years. Since this report was prepared further work has been completed on a range of factors which also reduce the 2014/15 budget deficit. These reductions are offset by the deletion of the proposed collaboration savings and terms and conditions savings. In overall terms these issues increase the budget gap by £73,000, as detailed below. These additional changes need to be seen in the context of the reductions identified in the previous paragraph of £1.870m.

Additional changes in Planning Assumptions – identified since 31.05.13 MTFS update report	**Increase/ (decrease) in budget deficit £'000**
Reduction in 2012/13 and 2013/14 budget pressures (as detailed in Appendix C)	(223)
Reduction in provision for 2014/15 budget pressures (paragraph 5.20)	(30)
Reduction in External Audit Fees	(19)
Increase of forecast IT procurement saving - This additional saving forecast saving in 2014/15 above the previously set savings target for this area £700,000	(25)
Increase in Senior Management Structure savings - As detailed in the previous paragraph an initial saving in this area of £250,000 was included in the updated MTFS. The Chief Executive's final proposal will achieve a full year saving of £330,000, which enable an additional £80,000 to be built into the MTFS.	(80)
Sub Total	**(377)**
Deletion of forecast collaboration saving - Previous reports indicated that achieving these savings would be extremely challenging and this risk was recognised when the 2012/13 budget was approved. At that stage the MTFS forecast assumed that the full year saving of £250,000 would be achieved in 2014/15. This proposed saving is now not achievable and alternative proposals have been developed, including the Senior Management Structure savings.	250
Deletion of forecast Terms and Conditions saving - This area is more challenging than anticipated and changes will take longer to agree and implement than initially envisaged. Therefore, at this stage it is not recommended that savings in this area can be anticipated in 2014/15.	200
Total	**73**

5.20 The initial budget forecast for 2014/15 included provision of £1m for potential budget pressures. Actual pressures of £0.97m have been identified as detailed in Appendix D, which enables a small reduction in the 2014/15 budget deficit of £30,000 to be achieved. It should be noted that the budget forecast for 2015/16 and 2016/17 include no provision for potential budget pressures and if such unavoidable commitments arise in these years this will increase the budget deficits which need to be bridged by the Council.

5.21 It should also be noted that a budget pressure of around £0.5m per year in relation to services for Older People is currently not reflected in the General Fund budget forecasts. It is anticipated that over the next three years (2014/15 to 2016/17) this pressure will be offset from Social Care funding transferred from the NHS. In addition, a specific reserve has previously been earmarked to temporarily manage increased in-year demand from an aging population above the level forecast in the base budget. Whilst, this strategy should avoid an additional unfunded budget pressure over the period of the MTFS this is an increasing risk in future years due to demographic pressures.

5.22 In relation to planning assumptions underpinning the 2015/16 and 2016/17 budgets there are a range of factors detailed in the June 2013 Spending Review, together with other issues where more information is needed to assess the impact on the Council. At this stage it is assumed that at best these changes will be neutral, although there is a risk these changes will increase the current forecast deficits. These factors cover the following issues:

Positive Factors for budget forecasts

- The Spending Review Statement – 'The Government will consult on the local government finance settlement for 2015/16 in the normal way, recognizing that some local authorities are more dependent on central government funding than others';
- Continuation of Public Sector pay freeze;
- Future years' New Homes Bonus; and
- Council Tax base and Collection Fund.

Negative Factors for budget forecasts

- Actual Grant cuts for 2015/16 and future years;
- Business Rates Risks – appeals and safety net shortfalls;
- Local Council Tax Support scheme – increased demand;
- Increase in National Insurance costs from April 2016; and
- Council Tax Referendum Thresholds and Council Tax freeze grant.

6. Strategy for bridging 2014/15 budget deficit

6.1 The May 2013 MTFS report recommended that the 2014/15 budget deficit could be reduced by reflecting the revised planning assumptions and using one off resources. These measures reduce the budget cuts which will need to be made in 2014/15. However, the use of one off resources is not a permanent solution to the grant cuts facing the Council and simply defers some of the budget cuts until a future year. The proposed use of £1m of one-off monies in 2014/15, 2015/16 and 2016/17 (detailed in paragraph 4.17) enables the Council to protect this level of service for three years, although this will increase the cuts which need to be made in 2017/18 when this funding is no longer available.

6.2 On the basis of adopting this strategy the Council can reduce the initial 2014/15 budget deficit from £8.524m to £4.594m as summarised below:

Revised budget deficit 2014/15

	£'000	£'000
Budget Deficit reported February 2013		**8,524**
Public Health Funding		(500)
Full Year ICT saving (includes potential rental income)		(500)
Initial Changes in Planning assumption (paragraph 5.18)		(1,870)
Additional Changes in Planning assumptions (paragraph 5.19)		73
Net Budget Gap 2014/15		**5,727**
Initial One-off funding (paragraph 4.2)	(680)	
Additional One-off funding (paragraph 4.15)	(320)	
Use of residual balance of 'Savings implementation reserve'	(133)	
Total use of one-off funding		(1,133)
Permanent budget cuts to be implemented 2014/15		**4,594**

6.3 Detailed departmental savings proposals with a total value of £4.376m are provided in Appendices E to G as follows:

- Appendix E - Chief Executives Department
- Appendix F - Child and Adult Services Department
- Appendix G – Regeneration and Neighbourhoods Department

6.4 In terms of the impact of these proposals on staffing levels, it is anticipated that this will be greater than in previous years, although these details are still being worked on. In financial terms it is anticipated that the costs of redundancies/early retirement in 2014/15 will be higher than in previous years and these costs will be funded from the Redundancy/Early Retirement reserve. It is also anticipated that the numbers of redundancies/early retirement will increase in 2015/16 and 2016/17 as it will become increasingly difficult to avoid reducing staffing budgets which account for around 56% of the total budget. The Corporate Management Team will continue to seek to mitigate the numbers of compulsory redundancies through a combination of:

- seeking voluntary redundancies and / or early retirements, where this is compatible with service needs and the required pay back period can be achieved. This will be progressed over the summer by seeking potential volunteers to allow for better planning and consideration of options;

- actively managing vacancies recruitment and redeployment, including providing training where this will enable employees to take up alternative roles. In response to the Leader's suggestion the Corporate Management Team will also develop proposals for using the uncommitted 'Corporate Training' reserve of £49,000 to provide additional apprenticeship opportunities.

6.5 Assuming the proposed departmental savings are implemented there is a net unfunded deficit for 2014/15 of £0.218m. At this stage it is anticipated that this amount can be bridged from the 2014/15 New Homes Bonus which will be payable for 7 years commencing 2014/15. This income is not yet guaranteed and will depend on the share of the national New Homes Bonus funding the Council receives, although at this stage this is a reasonable planning assumption. It should be noted that this proposal will mean that in 2014/15 total support for the core revenue budget from the New Homes Bonus will be £1.4m.

6.6 As reported previously the New Homes Bonus is funded by top slicing the national funding for Local Authorities. Whilst it is forecast the Council will receive a total New Homes Bonus payment of £1.4m in 2014/15, this needs to be seen in the context of the permanent cut in the Council's core grant which in 2014/15 is forecast to be £20m (34%) less than it was in 2010/11.

6.7 The Government has indicated they will be consulting on the operation of the New Homes Bonus from 2015/16, including a proposed top slice of £400 million from the national allocation towards the Single Growth Fund. As the New Homes Bonus has already been funded by top slicing the national Revenue Support Grant this additional top slice will have a detrimental impact on local authority funding in future years as this funding will not be available to support the core revenue budget. A cautious approach has been taken in the MTFS budget forecasts and future New Homes Bonus payments have not been anticipated in 2015/16 and 2016/17.

6.8 The Leader has also requested that the Corporate Management Team undertake a review of overtime budgets to determine if there are more cost effective ways of working, including the potential to provide redeployment opportunities for staff affected by the need to make permanent budget reductions over the next three years. This review will also consider those situations where overtime remains the most cost effective way of providing services and meeting peaks in demand, or seasonal demands, where it would not be cost effective to employ full time employees and/or it is not possible to recruit suitability qualified and experienced staff for specialist roles for short term contracts. At this stage it is too early to determine the financial impact of this review and this analysis will feed through into the next update of the MTFS.

7. **Council Tax 2014/15 to 2016/17**

7.1 The figures in the previous paragraphs are based on indicative Council Tax increases approved in February 2013 of 1.99% for 2014/15 and 2.5% for 2015/16 and 2016/17.

7.2 As part of the June 2013 Spending Review the Government has indicated that for 2014/15 and 2015/16 Council Tax referendum thresholds will be set at 2% and a 1% grant will be paid to Authorities that freeze Council Tax. It is not yet clear what period the Council Tax freeze grant will be paid for, therefore for planning purposes it is assumed the 2014/15 and 2015/16 freeze grant will be paid for 2 financial years.

7.3 In view of these Government announcements it is recommended that Members review the indicative Council Tax increases for 2014/15 and 2015/16 and consider the following two options:

- **Option 1 - increase Council Tax by 1.99% in 2014/15 and 2015/16, which is just below the referendum threshold of 2%;**

  Under this option the Council will benefit in the longer term from a permanent increase in the level of Council Tax and therefore the income which can be generated. This income is already reflected in the budget deficit detailed in paragraph 6.2 for 2014/15 and for 2015/16 is broadly in line with the previously approved indicative Council Tax increase of 2.5%. A reduction for 2015/16 from 2.5% to 1.99% would increase the budget deficit for this year by approximately £0.15m.

  By 2016/17 annual Council Tax increases of 1.99% in 2014/15 and 2015/16 would secure additional ongoing income of £1.285m, compared to the position with a two year Council Tax freeze.

- **Option 2 – Freeze Council Tax in 2014/15 and 2015/16.**

  Under this option there will be a permanent loss of income as it will not be possible in future years to increase Council Tax to make up for the freezes implemented in 2014/15 and 2015/16. In the short term, part of this lost income will be offset by the receipt of Council Tax Freeze grant, although this is not permanent income. The Government has indicated that the Council Tax freeze grant will be paid on the Council Tax base before this figure is reduced to reflect the Local Council Tax Support scheme. This means the Council Tax freeze grant is worth more to Local Authorities and for Hartlepool means the Council will receive £0.4m for each year it freezes Council Tax, compared to £0.3m for the lower Council Tax base. There will also be a permanent reduction in the cost of the Local Council Tax Support scheme from freezing Council Tax in 2014/15 and 2015/16.

  The following table summarises the impact of these changes on the forecast budget deficits for the next three years. For 2014/15 this option is budget neutral as the loss of Council Tax income can be offset by the Council Tax freeze grant and the saving in the cost of the Local Council Tax Support scheme.

	2014/15 £'000	2015/16 £'000	2016/17 £'000
Reduction in planned Council Tax increase from 2.5% to 1.99%	0	150	150
Loss on permanent increase in income from freezing Council Tax	610	1,250	1,285
Less 2014/15 Council Tax Freeze grant	(400)	(400)	0
Less 2015/16 Council Tax Freeze grant	n/a	(400)	(400)
Less 2014/15 reduced cost of Local Council Tax Support scheme and corresponding reduction in General Fund cost	(210)	(210)	(210)
Less 2014/15 reduced cost of Local Council Tax Support scheme and corresponding reduction in General Fund cost	n/a	(260)	(260)
Net reduction in income (i.e. increase in budget deficit)	**0**	**130**	**565**

7.4 As freezing Council Tax in 2014/15 is budget neutral owing to the impact of Council Tax freeze grant and the reduced costs of the Local Council Tax Support Scheme the Corporate Management Team recommend that this option is adopted for 2014/15. It is also recommended that for planning purposes a 2015/16 Council Tax freeze is adopted. A final decision on the 2015/16 Council Tax does not have to be made until February 2015.

7.5 Members are advised that this proposal will **permanently reduce the Council's resource base** as it will not be possible to increase Council Tax in future years to make up for these freezes, unless the public support an increase in a referendum. As detailed in the previous table this option reduces Council Tax income by £0.130m in 2015/16 and £0.565m in 2016/17. There will be a further income loss of £0.4m in 2017/18 when the second year of the 2015/16 Council Tax freeze grant is withdrawn. Therefore, by 2016/17 freezing Council Tax for 2 years (i.e. 2014/15 and 2015/16) will result in a permanent net reduction in resources of **£0.965m.** This will need to be addressed by making additional budget reductions.

8. Impact of 2014/15 budget proposal on 2015/16 and 2016/17 forecast deficits

8.1 Assuming Members approve the proposals detailed in the previous paragraphs for addressing the 2014/15 budget deficit the Council will still face significant budget deficits in 2015/16 and 2016/17. Over the period of the current MTFS it is forecast that the Council will have to make permanent budget cuts of around **£16.2m,** as follows:

- 2014/15 net deficit £4.6m;
- 2015/16 revised deficit £6.3m;
- 2016/17 revised deficit £5.3m.
- Total forecast deficit £16.2m

8.2 The revised deficit is less than the initial forecast prepared in February 2013 of £19.4m and the reduction reflects the benefits of the revised planning assumptions and available one-off resources to support the budget over the next three years. The use of the one-off resources over the next three years is not a permanent solution and defers an additional budget deficit of £1m until 2017/18. It may be possible to defer this a further year if the higher benefits detailed in paragraph 4.15 are realised, although at this stage this position is uncertain and will need to be reviewed when the MTFS is rolled forward to include 2017/18.

9. **Review of Reserves**

9.1 It is good financial practice to review existing reserves as part of the annual budget setting process. Over the last few years the Council has implemented a robust multi-year financial strategy which integrates the revenue budget, financial risks and the use of reserves. The strategy adopted by the Council in previous years has enabled the Chief Finance Officer to provide full Council with professional assurance that the budget plans for the coming financial year and future years covered by the MTFS are robust. This approach is essential in the current financial climate as the Council needs to ensure it has robust financial plans in place to manage the impact of continuing grant cuts and the increased risks which the Council now needs to manage.

9.2 In 2013/14 the strategy included the use of reserves of £2.3m to balance the General Fund budget to provide a longer lead time to implement permanent cuts.

9.3 A comprehensive review of reserves was completed as part of the 2013/14 budget process. This identified reserves of £2.28m which were released to fund new one-off commitments covering a range of issues, including the impact of higher actual grant cuts for 2013/14 and the risks in relation to the re-localisation of Business Rates.

9.4 It is recommended that a further reserves review is undertaken as part of the 2014/15 budget process. This review will be based on the actual reserves at 31 March 2013, details of which were finalised at the end of June as part of the year end closure process. Details of this review will be reported to the Committee on 19 September 2013 and this report will include the advice of officers on the financial risks facing the Council over the next 3 years and the recommended level of reserves to manage these risks. The report will also identify those reserves allocated to support Council priorities, including the reserves allocated to support the Local Council Tax Support Scheme and future years' revenue budgets.

9.5 It is unlikely that this will provide the same scope for releasing reserves as occurred in 2013/14 owing to the nature of the risks that current reserves are earmarked to manage. However, this review is good financial practice and will enable the Council to clearly demonstrate how the available reserves support the MTFS and the significant financial risks the Council is managing. This is particularly important during the current period of public spending cuts as the Council needs a robust strategy for managing risks and reserves.

9.6 The review of reserves will need to reflect an emerging additional corporate risk in relation to a national legal challenge against 374 authorities in England and Wales in respect of search fees paid to local authorities for property searches carried out in Local Land Charges departments.. If successful these claims could potentially result in local authorities having to make refunds dating back to 2005. Negotiations are currently ongoing at a national level regarding these claims with the objective of settling the claims without court proceedings if possible. In addition to this, discussions are taking place with Central Government regarding the awarding of further New Burdens funding to cover potential claims for refunds. Central government have not agreed to make any further contribution at present, but have agreed to consider re-opening the New Burdens process if authorities can provide compelling evidence to show that a further grant should be made. Submissions are being drafted by external solicitors on behalf of all authorities. At this stage, it is not clear whether any New Burdens grant will be made at all. If Local Authorities are required to make refunds they will be significant across the country.

9.7 Another factor which will need considering will be whether Members wish to continue the Ward Members budgets which are funded from one-off resources. Assuming Members wish to continue with this initiative in 2014/15 additional one-off funding will need to be identified from the reserves review.

10.0 Reductions in other grant funding

10.1 This reports concentrates on the cuts to the Council's core funding over the next three years. However, as Members will be aware from previous reports the Council will also need to manage cuts in other grant regimes, such as the Early Intervention Grant.

10.2 Owing to the pressure on the Core General Fund budget it will not be possible to mitigate the impact of these cuts from the core budget. Therefore, services will need to be scaled back to the level of the reduced grant. Details will be reported to Members when grant allocations are announced.

10.3 In relation to the Early Intervention Grant for 2014/15 information regarding the cut has previously been provided. A detailed strategy is being developed, which includes the use of underspends in this area in previous years being allocated to phase this reduction over a slightly longer period. Details of the proposed strategy for managing the Early Intervention Grant cut will be reported to the Children's Service Committee on 1 October 2013.

11. Strategy for managing capital risks

11.1 As previously reported the Council is managing the achievement of an overall capital receipts target of £6.5m (initial target of £4.5m plus Brierton target of £2m). These resources are earmarked to fund existing commitments. In relation to the initial target these commitments are unavoidable and relate to the completion of the Housing Market Renewal schemes and these works are progressing. In relation to the Brierton target the works involve the redevelopment of this site and are dependant on the sale of land at the site of the existing Education Development Centre and part of the Brierton site. In both cases expenditure may be incurred before the capital receipts are achieved and this financial risk is being managed carefully.

11.2 However, until the capital receipts are received there is a potential risk of a funding shortfall, which would need to be funded from Prudential Borrowing. This would result in an unbudgeted pressure as there is no budget to fund the resulting annual interest and repayment costs of using Prudential Borrowing to replace capital receipts.

11.3 In addition to managing the risk of achieving the approved capital receipts targets the Council also faces an additional risk in relation to managing the purchase of Jacksons Landing and subsequent redevelopment and / or onward sale of this site. In the short-term this proposal is not a financial risk to the Council as the purchase will be funded from an interest free 'Growing Places' loan repayable no later than August 2015. It is anticipated that this loan will be repaid either from the redevelopment or the onward sale of the site.

11.4 The report approving the purchase of Jacksons Landing also highlighted the potential medium term financial risk to the Council if the site is not developed, or an onward sale completed before the Growing Places loan needs to be repaid in August 2015. In this situation the Council would need to take out an alternative loan to repay the Growing Places loan and this would result in an unbudgeted revenue budget pressure in 2015/16 of around £25,000 for the part year and a full year cost of £50,000 from 2016/17, based on forecast interest rates.

11.5 As detailed earlier in this report and in previous reports the Council faces a number of significant corporate financial risks over the next 3 to 4 years and resources have been earmarked to manage these risks. This strategy does not remove these risks and simply provides one-off resources to manage the risks and therefore (hopefully) avoid the need for in year budget cuts, provided the impact of the risk occurring is less than the earmarked resources. The strategy is designed to provide a longer lead time to address these recurring risks. This strategy has previously only earmarked resources for revenue risks and not capital risks arising from not achieving the capital receipts target and/or the Jacksons Landing purchase /redevelopment. In view of the combined impact of the capital risks it is now recommended that resources are set aside to manage these risks and the following resources have been identified for this purpose:

- Right to Buy income of £191,000;
- One-off Government Grant refund in relation to the New Homes Bonus adjustment £211,000;
- Uncommitted 'Major Regeneration Reserve' of £100,000; and
- Unused Prudential borrowing approval (repayment costs covered within the existing revenue budget) for 'Major Regeneration Projects' of £393,000.

11.6 It is also recommended that earmarking of the above resources is reviewed on a regular basis to determine if/when these resources can be un-earmarked and made available for other priorities determine by Members. It is recommended that the trigger points for this review will be progress in achieving the capital receipts target and progress on the Jacksons Landing project.

11.7 Work is also progressing to assess the achievability of the existing capital receipts targets of £4.5m (£6.5m including the Brierton Development) and details will be reported to a future meeting. Initial indications suggest that there may be a delay in achieving capital receipts owing to current market conditions and the anticipation that higher receipts should be achieved by delaying land sales. A strategy will need to be developed to manage this situation and this may require the Council to use temporary Prudential Borrowing pending the achievement of capital receipts.

12. CONCLUSION

12.1 The Council has had to manage significant funding cuts over the last three years both in relation to specific funding regimes and the General Fund Budget. The cuts in specific funding regimes have had to be managed by reducing spending to the level of the reduced grant, or where the grant has been removed completely the service has been stopped. This position reflects the pressure on the General Fund Budget which cannot afford to replace this funding as the core revenue grant in 2014/15 will be **34% (£20.127million)** lower than it was in 2010/11. By 2016/17 it is forecast the ongoing core grant will be **43% (£25.783 million) lower than it was in 2010/11 which is unprecedented.** To put these figures into context the Council will raise around **£31.5 million** in Council Tax in the current year. The actual grant cuts may be higher and the position will be updated after the annual Local Government finance settlement.

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12.2 The cuts to the General Fund Budget up to 2013/14 have been achieved without the level of compulsory redundancies, or the adverse impact on services, which would have been expected as a result of the scale of the grant cuts implemented over this period by the Government. This should not be interpreted as understating the scale of the challenges the Council has addressed, but reflects the proactive approach adopted to managing this position. This position has been repeated across the country as all Councils have a legal responsibility to set a balanced budget and it has been recognised that Councils have been at the forefront of the Government's deficit reduction plan – although not out of choice.

12.3 However, there is a danger that the Council's ability to manage the grant cuts imposed up to 2013/14 undermines the scale of the financial challenges facing the Council in 2014/15 and the following two years from continuing grant cuts. It is therefore essential that Members recognise that 2014/15 is a watershed year and will require the Council to begin making even more difficult decisions than has been the case over the last three years. Over the next three years cuts of **£16.2m** will need to be made. These cuts equate to 18**%** of the existing General Fund budget and need to be made before the start of 2015/16. Increasingly, these decisions will involve prioritising services and completely stopping other services. This is anticipated to require increasing numbers of compulsory redundancies as the measures implemented in previous years to delete vacant posts and restructure management roles cannot be repeated. Assuming the revised 2014/15 budget deficit can be bridged from permanent budget cuts the Council will still need to make additional cuts before the start of 2016/17 of **£11.6m.** The use of one-off funding of £1m in each of the next three years will mean that this level of cuts is deferred until 2017/18.

12.4 From 2014/15 budget decisions required to address grant cuts will be increasingly more difficult to explain to the public, particularly in the context of how Council Tax is spent as the services which will need to be prioritised are those areas which are not universally used by all residents and cover the services that many people do not realise the Council funds. This is not just an issue for Hartlepool, although it particularly affects those Councils suffering disproportionate grant cuts.

12.5 This is the second in a series of detailed budget reports which will be submitted to the Committee during the year. The report provides details of the significant financial challenges facing the Council in 2014/15 and the following two years, covering the following key areas:

- the General Fund Budget and the continuing cuts in Government grants;
- Business Rates Risks;
- The Local Council Tax Support Scheme to be applied in 2014/15;
- The strategy for managing EIG and LACSEG grant cuts;
- The availability of one-off resources to manage risks and / or support Council priorities, including the 2014/15 General Fund budget;
- Detailed departmental savings proposals which have been identified since the initial MTFS report was considered on 31 March 2013.

12.6 Over the last few years the Council has adopted a multi-year approach to managing the various financial challenges the Council faces. This approach has been designed to protect services as far as possible and to avoid exposing the Council to unnecessary financial risk, which could result in the need to make in-year budget cuts. Given the increasing financial challenges and risks facing the Council it is essential this approach continues. This includes managing in-year reductions in Business Rates income of **£1.9m** without receiving any 'safety net' payments from the Government. This is a major risk for the Council owing to the impact of the Power Station and would be challenging to manage without core funding cuts. **However, this ongoing financial risk needs to be managed at a time of continuing grants cuts, which makes the position even more challenging**. The report therefore recommends a strategy which allocates additional one-off resources to address risks and therefore protect the medium term financial position and services.

12.7 The recommended strategy also proposes allocating some one-off resources to support the Local Council Tax Support scheme over the period of the MTFS. This will enable the cut in existing support to be phased over a longer period than previously forecast. This proposal enables the Council to continue to provide some time limited protection to vulnerable households affected by a wide range of Welfare Reforms. However, this strategy is **not sustainable** owing to the scale of the grant cut. Therefore, at some stage the Council will need to implement significantly higher cuts in Council Tax support and the timing will depend on the level of future Government funding for Local Council Tax Support schemes.

12.9 At this stage in the budget process it is not necessary or appropriate for Members to make final decisions as not all information is available. However, there are a number of areas where it is recommended Members provide an initial view to enable the Corporate Management Team to develop more detailed proposals for the Committee's consideration and a final decision later in the year. These proposals include referral of the initial departmental budget savings for 2014/15 to the individual Policy Committees for consideration. These issues are detailed in the next section of this report.

13. RECOMMENDATIONS

13.1 It is recommended that Members approve the following principles for developing the MTFS and note that the final decision on these issues will need to be made later in the year when more information is available:

13.2 **Allocation of one-off funding**

13.3 Approve the allocation of the available one-off funding of £2.640m detailed in paragraph 4.1 to support the following issues:

	£'000
Business Rates risks	900
Support of Local Council Tax Support scheme	860
Support of 2014/15 Revenue budget	680
Support for Highways Maintenance Programme	200
	2,640

13.4 Note that the available one-off funding of £2.640m includes £1.1m to be achieved in 2013/14 and assumes there are no unbudgeted expenditure commitments in 2013/14;

13.5 Approve the allocation of the one-off funding of £2.720m detailed in paragraph 4.17 to support the core revenue budget as follows:

- 2014/15 - £0.32m
- 2015/16 - £1.0m
- 2016/17 - £1.0m
- 2017/18 - £0.4m

Alternatively Members may wish to earmark the £0.4m allocated to support the 2017/18 budget for other priorities, whilst recognising this increases the cuts which may need to be made in this year.

13.6 **General Fund Revenue Budget 2014/15 to 2016/17**

13.7 Approve an indicative Council Tax freeze for 2014/15 and 2015/16, and to note this will increase the budget deficit in 2016/17, assuming the Council Tax grant is only paid for a fixed period of two years.

13.8 Approve the following package of measures to fund the 2014/15 budget gap:

	£'000	£'000
Budget Deficit reported February 2013		**8,524**
Public Health Funding		(500)
Full Year ICT saving (includes potential rental income)		(500)
Initial Changes in Planning assumption (paragraph 5.18)		(1,870)
Additional Changes in Planning assumptions (paragraph 5.19)		73
Net Budget Gap 2014/15		**5,727**
Initial One-off funding (paragraph 4.2)	(680)	
Additional One-off funding (paragraph 4.15)	(320)	
Use of residual balance of 'Savings implementation reserve'	(133)	
Total use of one-off funding		(1,133)
Sub Total		**4,594**
Departmental Savings proposals		(4,376)
2014/15 New Home Bonus		(218)
Net budget deficit 2014/15		0

13.9 To note that the use of Public Health funding of £0.5m in 2014/15 and future years is only sustainable whilst the existing grant continues and there is a potential risk that this grant is reduced in future years.

13.10 Approve the allocation of the forecast 2013/14 Public Health saving of £0.5m as an earmarked reserve to manage in-year Public Health risks in the first year of operating these services. In the event these monies are not needed in 2013/14 it is recommended that they are set aside to manage ongoing financial risk in this area.

13.11 To refer the departmental savings proposals detailed in Appendices E, F and G to the relevant Policy Committee for consideration and comments back to this Committee on 23 August 2013.

13.12 To note that detailed reports will be presented to your Committee on 19 September 2013 on

- the review of reserves, including consideration of funding to continue the Ward Member budgets in 2014/15 and the identification of funding in relation to a national legal challenge against 374 authorities in England and Wales in respective of search fees paid to local authorities for property searches;
- the review of overtime budgets; and
- the development of an apprenticeship scheme utilising the available £49,000 one-off training reserve.

13.13 Note that based on the proposed strategy for 2014/15 the Council will still need to make additional cuts before the start of 2016/17 of **£11.6m.**

13.14 **Strategy for managing capital risks**

13.15 Approve the strategy for managing capital risk detailed in section 12 and the earmarking of the following resources to manage this risk:

- Right to Buy income of £191,000;
- One-off Government Grant refund in relation to the New Homes Bonus adjustment £211,000;
- Uncommitted 'Major Regeneration Reserve' of £100,000; and
- Unused Prudential borrowing approval (repayment costs covered within the existing revenue budget) for 'Major Regeneration Projects' of £393,000.

13.16 Approve that the earmarking of the above resources is reviewed on a regular basis to determine if/when these resources can be un-earmarked and made available for other priorities determine by Members. It is recommended that the trigger points for this review will be progress in achieving the capital receipts target and progress on the Jacksons Landing project.

13.17 To note that initial indications suggest there may be a delay in achieving the existing capital receipts targets of £4.5m (£6.5m including the Brierton Development) owing to current market conditions. A further report will be submitted to a future meeting to provide an update on the position, the anticipation that higher receipts should be achieved by delaying land sales and a proposed strategy for managing this situation using temporary Prudential Borrowing pending the achievement of capital receipts.

14 CONTACT OFFICER

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2013/14 Initial Forecast Outturn

Certain figures:	£'000
Gas and Electric Budgets Cost increases have been less than anticipated owing to contracts secured by NEPO and lower worldwide demand for energy.	150
Job Evaluation budget This budget has been retained to fund outstanding job evaluation issues to ensure all areas could be funded at the top of the grade, including the impact of career graded posts in Children's Services and to lesser extent Adult Services and Regeneration and Neighbourhood services.	150
Insurance Premium saving Cost lower than anticipated.	60
General Fund Public Health Contribution The base budget provided a 50% contribution towards the costs of the shared Director of Public Health post. For 2013/14 and future years it is assumed the whole of this cost can be funded from the Public Health Grant.	40
Provisional figures (initial estimates, updated figures will be reported to a future meeting):	
Pay and pension budget savings As part of the 2013/14 budget Members approved the removal of all salary turnover budgets and this was funded by reducing the budget provision for pay awards. For 2013/14 and future years this means that all staffing budgets are fully funded (with the exception of pay budgets for trading activities which are funded from income). This removes the ongoing budget risk of not achieving these targets, which will increase as permanent budget cuts are implemented over the next 3 years. In the 2013/14 there is expected to be some savings from continuing vacancies, which will provide a one-off benefit. In addition, work on implementing 'Pensions Auto-enrolment' has identified that significant numbers of employees have opted out of the pension scheme. In previous years this contributed to the achievement of departmental salary turnover targets. As these targets have been removed from the 2013/14 budget the employers' pension contribution savings can be taken as a one-off benefit in 2013/14. It is also anticipated that a permanent saving can be included in the 2014/15 base budget.	250
Corporate Restructure A comprehensive report was considered and approved by Cabinet (18th March 2013) and full Council (11th April 2013) setting out further reductions in respect of the Chief Officer Structure. These proposals provide an on going saving from 2014/15 and an in-year saving in 2013/14.	250
Centralised Estimates As part of the approved 2013/14 MTFS a permanent saving of £1m has been built into the base budget from 2014/15 from the approval of a revised Treasury Management Strategy. In 2013/14 this saving was estimated to be £0.87m and is allocated to establish a Treasury Management Risk Reserve to manage the risk of interest rates increases over the period of the MTFS.	200

It is anticipated that the actual savings will be slightly higher in 2013/14 owing to the actual level of capital expenditure financed from borrowing in 2012/13 being temporarily lower owing to slippage. In addition, interest on cash investments has been reassessed to reflect the actual phasing for Government grant income during 2013/14. In total these issues are expected to provide a benefit in 2013/14 of £0.2m.	
Total Initial Forecast Outturn	**1,100**

Revised Planning Assumptions
(Reported to Finance and Policy Committee 31 May 2013)

	£'000
Reduce budget provision for April 2014 Pay award from 2.5% to 1% Assessment based on Government Policy of public sector pay restraint. If the actual pay award is higher than 1% then additional savings would need to be made.	600
Gas and Electric Budgets Actual costs for the last few years have been less than forecast; therefore a saving can be taken. However, if international economic conditions improve this could increase demand for energy and drive up costs in future years.	150
Job Evaluation budget This budget has been retained to fund outstanding job evaluation issues to ensure all areas could be funded at the top of the grade, including the impact of career graded posts in Children's Services and to lesser extend Adult Services and Regeneration and Neighbourhood services.	150
Insurance Premium saving Savings is sustainable for 2014/15. However, if claims history deteriorates this would increase future premiums and lead to a budget pressure in future years.	60
General Fund Public Health Contribution The base budget provided a 50% contribution towards the costs of the shared Director of Public Health post. For 2013/14 and future years it is assumed the whole of this cost can be funded from the Public Health Grant.	40
Members Allowances In line with the recent Council resolution the revised planning assumptions excludes the Members Allowances savings which will be set aside in a ring fenced living wage reserve until such a time as the Council has consulted on the merits of introducing a 'Living Wage' in Hartlepool.	0
Accommodation budgets Savings from the rationalisation of office accommodation will be taken as a corporate saving to reduce the gross budget gap.	170
Employers' Pension Contribution saving (provisional estimate) Work on implementing 'Pensions Auto-enrolment' has identified that significant numbers of employees have opted out of the pension scheme, but we generally continue to budget for the employers' pension contribution. In previous years this contributed to the achievement of departmental salary turnover targets. As these	250

targets have been removed from the 2013/14 budget the employers' pension contribution savings can be taken as a corporate benefit (when it is quantified) and the ongoing risk of maintaining this savings also managed corporately.	
<u>Terms and Conditions Review (provisional estimate)</u> A range of proposals have previously been identified to achieve potential savings in 2013/14. Further work is needed and an initial assessment of the potential savings has been made.	200
<u>Structure Review (provisional estimate)</u> A comprehensive report was considered and approved by Cabinet (18th March 2013) and full Council (11th April 2013) setting out further reductions in respect of the Chief Officer Structure. These proposals provide an on going saving from 2014/15 and an in-year saving in 2013/14.	250
Total proposed budget reductions	**1,870**

SCHEDULE OF REDUCED BUDGET PRESSURES 2012/13 AND 2013/14

Description of Pressure	Value of approved Pressure £'000	Value of pressure not now required £'000	Reason pressure can now be reduced
PRESSURES APPROVED AS PART OF 2012/13 MTFS			
Concessionary Fares Above inflation increase in the cost of providing Concessionary Fares.	113	100	A successful negotiation process with the providers has meant that the new reimbursement methodology was not as costly as expected. In addition to this a drop in passenger numbers has meant that £100k of this funding is no longer required to support this service.
Waste Collection DERV Projected costs for 2012 /13 based on 189,000 litres @ £1.18/litre = £223,000. Budget for 2012 / 13 (current +2.5%)	25	25	Route optimisation technology is reducing fuel costs overall and fuel costs can be covered within the original Waste Management budget.
Street Cleansing DERV On same basis as above	33	33	Route optimisation technology is reducing fuel costs overall and fuel costs can be covered within the Street Cleansing original budget.
PRESSURES APPROVED AS PART OF 2013/14 MTFS			
Brierton Community Sports Actual pressure exceeds provision included in base budget from 2012/13.	65	65	Pressures to be removed from 2014/15 budget and an 'Income Risk Contingency' earmarked from the 2013/14 overall outturn to cover this risk and income risks in relation to Building Control and Hartlepool Maritime Experience.
	236	223	

SCHEDULE OF 2014/15 PRESSURES

Description of pressure	Value of Budget pressure £'000
Corporate Issues Council Capital Fund The pressure would support Prudential Borrowing of approximately £0.6m in 2014/15 (actual value of capital spending depends on specific schemes approved which will have different operational lives). Detailed proposals for using part of this funding will be reported to a future Finance and Policy Committee.	50
Income pressure - these issues relate the 2.5% inflation increase included in the MTFS forecast which is cannot be achieved for areas previously identified as shortfalls in the 2012/13 budget and addressed as budget pressures covering	
a) Shopping Centre income inflation Income depends on occupancy of shop units and it is not expected that the Council's share of rental income will increase in the current economic climate	24
Shopping Centre ongoing income shortfall - 2013/14 addressed from reserve, but for 2014/15 need permanent solution.	400
b) Car Parking income inflation Car Parking - owing to the current economic climate it is not recommend that an increase in car parking charges is implemented in 2014/15. Furthermore, owing to the practicalities of setting an increase which generates increases in multiples of 5p a higher percentage increase than the 2.5% inflation increase in the MTFS would be required.	37
Child and Adult Services Looked After Children Pressure of placements for looked after children remains, this has been funded from a specific reserve which will have been fully committed by the end of 2013/14. The pressure largely relates to placements for adolescents and those requiring specialist placements. In last year the implementation of the edge of care service has been successful in reducing the number of adolescents who become looked after by around 40%. This has ensured that during 2012/13 the number of looked after children has not increased. Nevertheless, there remains a high number of children looked after, the costs of which exceed the budget by approximately £400k. The service is opening a children's home which will reduce the need for residential placements from the independent sector, budget will need to be transferred to meet the costs of providing a Children's Home.	400
Regeneration and Neighbourhood Services Landfill Tax Increase in Land Fill Tax.	29
Car Parking Business Rates The increase in rates payable follows a review of the rateable value for Car Parks which takes into account income generated and the new Interchange parking facility.	30
Total Pressure Identified	970

Chief Executives **Appendix E**

Division / Area	Savings 14/15 £'000	Brief description of change	Risk
Revenues & Benefits	29	Deletion of vacant Band 9 Fraud Investigator post and changes in working arrangements to ensure remaining staffing resources can deal with workload,	G
Revenues & Benefits	5	Formalise existing Rostering arrangements for Cashiers to reflect flexi working arrangements agreed with staff.	G
Revenues & Benefits	10	Deletion of budget provision used to fund External Credit Check Services pilot arrangement which will not provide the initially anticipated benefits as the Financial Industry will not share the level of information necessary to make this work.	G
Revenues & Benefits	5	Printing/ Mailing budget saving arising from Contract Renegotiation.	G
Revenues & Benefits	60	Increase in Summons Costs chargeable on non-payment of Council Tax from £70 to £80, with effective from 01.04.14. These costs have remained frozen since 01.04.11 and are now in the lower quartile of Local Authority charges. Implementation of these changes will need to be managed carefully for all Council Tax payers to avoid increasing financial hardship. However, these charges need to reflect the higher costs of recovering Council Tax from those households who 'won't' pay without the Council actively pursuing recovery and those who 'can't' pay owing to their financial circumstances and may be eligible for support under the Local Council Tax Support scheme, but have not claimed. This will need particularly carefully management for households in receipt of Local Council Tax Support.	A
Revenues & Benefits	10	Savings in equipment purchase/ repair/maintenance budget arising from the outsourcing of specialist bulk mailing requirements in relation to Council Tax and Business Rates. These arrangements enable staff resources to be concentrated on core activity and managed the increased workload of managing around 8,500 additional Council Tax accounts following the implementation of the Local Council Tax Support scheme in April 2013.	G
Shared Services	40	This saving will be achieved from the reassessment of requirements for the Payroll/HR system and the subsequent renegotiation of the contract.	G
Shared Services	39	Reduction in external Insurance premiums following Contract Negotiation.	G
Shared Services	10	Deletion of 0.4 FTE vacancies within Shared Services and changes in existing working practises to mitigate the impact on the delivery of services.	A
Shared Services	5	Postage savings from increased electronic remittance/correspondence with suppliers and increased transfer from cheque payments to BACS payments.	G

Chief Executives **Appendix E**

Division / Area	Savings 14/15 £'000	Brief description of change	Risk
Less allocated to offset Housing Benefit Admin. Grant cut	(64)	Part of the saving identified need to be allocated to offset the anticipated reduction in 2014/15 in the Housing Benefit Administration Grant cut. On the basis of available information the level of this grant cut is anticipated to be 5%, which equates to a reduction of £64,000. There is a risk the actual grant cut may be higher. This position is unlikely to become clearer until latter in the year when the impact of the June 2013 Spending Review feeds through into detailed cuts by the Department for Communities and Local Government. (It should be noted that the 2013/14 Housing Benefit Administration Grant was not confirmed until April 2013).	N/A
E learning and translation services	15	Reprocurement of e learning provider and translation services in conjunction with some limited changes in respect of the corporate training budget. A number of services have been reprocured and the changes in costs of this reprocurement are reflected in the savings.	G
Overtime and other related staffing Budgets	30	Not filling temporary posts and savings as a result of the change in rota arrangements in the contact centre including a review of the costs of apprenticeships given historic profile of the age of apprentices taken on by the service	G
General running costs	48	In bringing together the Corporate Strategy and Workforce Services divisions as part of the overall restructure the opportunity has been taken to revisit the running costs of the division and identify those areas where there has been a minor though ongoing under spend across the functions. This review has provided the opportunity to re base the budgets in line with this historic spend and identify a reduction in the running and support costs	G
Management and Staffing costs	91	This saving is a combination of changes in the former Corporate Strategy and Workforce Services divisions that relate to staffing. The post of Strategy and Performance Officer Band 12 has been held vacant since the post holder left in line with an approach to minimise compulsory redundancies. The post will be deleted and reconsideration given to both the reprioritisation and cessation of some areas of none critical work. In addition to the cessation of some potential elements of work the scaling back and or alternative delivery of some elements fop work will be further considered. Further revisions to the staffing and management arrangements in the division will deliver the additional savings required. These changes will require a revision in the operating arrangements in the division and the management of a range of potential risks in relation to the ongoing delivery of services. These risks can be managed.	A

Chief Executives **Appendix E**

Division / Area	Savings 14/15 £'000	Brief description of change	Risk
Democratic and members support	69	Revised proposals for the delivery of support across the democratic and members support functions in the new governance arrangements. Includes member's services, scrutiny and Democratic services including the deletion of currently vacant posts and some running costs.	A
Legal Services	25	Revision of staffing arrangements following a deletion of a vacant post (following retirement) and realignment of duties within section.	A
External subscriptions	30	Savings on a range of corporate subscriptions paid from the Chief Executives Departmental budget can be achieved as organisations respond to pressure on Council's budgets.	G
Total for Department	**457**		

Child and Adult Services APPENDIX F

Division / Area	Savings 14/15 £'000	Brief description of change	Risk
Community Services			
Increased income in Sport & Recreation	70	Increased income generated due to increased patronage, developing Brierton site and capital investment into MHLC pool, leading to reduced costs and greater public programming. This relies in part on the investment from reserves of the 'boom' which has a 2 year pay back.	A
Owton Manor CC	5	New tenant for 1st floor offices	G
Carlton OEC	33	Removal of remaining subsidy to centre – this will meet the objective of Carlton being self financing from 2014/15. No change to terms & conditions to users. Prospects currently on track.	A
Library Service	53	Review of Library Service to include consideration of changes to the Mobile Library and branch network to safeguard services where possible. Services and usages are being finalised but seek to safeguard community based facilities within outlying residential estates with few alternative services. A statutory consultation process is required. Housebound and community homes provision would be retained. Savings will also be achieved through a review of the People's Network Library ICT contract and more efficient use of book stock.	R
Removal of post (E&CM) (currently vacant with part acting up in place)	30	Acting up arrangements confirmed leading to a saving of the balance of funding for a former section head post.	G
Museums, Libraries, Arts and Events	100	Revision of staffing arrangements across a range of services, including reviewing management posts and closer integration of specialist posts across these areas.	A
Total	**291**	This total reflects identified opportunities without total service closures.	

Child and Adult Services **APPENDIX F**

Division / Area	Savings 14/15 £'000	Brief description of change	Risk
Education			
Services to 11-19 Cohort	122	Reconfiguration of staffing arrangements and changes in how services are delivered to this cohort	A
Educational Psychology	50	Reduction in LA contribution	A
Resources and Support Services	150	Review and reconfiguration of delivery of business support across department	A
Performance and Achievement	40	Reconfiguration of staffing arrangements and changes in how services are delivered.	A
Performance and Achievement	125	Review school transport including denominational transport provision and consideration of alternative service delivery arrangements.	R
Total	**487**		
Adults Social Care			
Adult Social Care – Carers Services	200	NHS funding has been secured to support and maintain services for carers. This will enable a saving to be achieved with no impact on services for three years.	G
Adult Social Care – Contributions Policy	150	Review of Contributions Policy to increase the amount that people contribute to the cost of their care and support, subject to means testing.	A
Adult Social Care – OP Day Services	100	Re-commission day services for older people to achieve savings against current spend.	A
Adult Social Care – Housing Related Support	165	Further review of all housing related support contracts (including extra care) to achieve savings against current spend.	A
Adult Social Care – Low Level Services	170	Cease commissioning of low level services when the current contract ends (March 2014).	A
Adult Social Care - OT	100	Reconfiguration of Occupational Therapy services linked to developments around mobile working.	A
Adult Social Care – Review of Management Structures	155	Reconfiguration of adult social care management structures and support to HSAB.	A
Adult Social Care – Disability Services	130	Review of costs within day services (admin, accommodation etc), review of high cost residential placements and implementation of Teeswide arrangements for advocacy and for specialist care and support.	A

Child and Adult Services **APPENDIX F**

Division / Area	Savings 14/15 £'000	Brief description of change	Risk
Adult Social Care – Sensory Loss	55	Reconfiguration of services that support people with sensory loss.	A
Adult Social Care – MH Day Services	50	Cease commissioning of day opportunity support for people with mental health needs when the current contract ends in September 2014. Full year saving to be achieved in 2015/16.	A
Adult Social Care – Workforce Development	50	Reduce adult social care workforce development budget and focus on essential training only (i.e. Safeguarding and Best Interest Assessment).	A
TOTAL	**1,325**		
Children's Services			
Workforce development	50	Reduction of central training budget and consolidating various sections budgets for supporting workforce development and focusing on priority requirements.	G
Divisional management team	107	Reconfiguration of divisional management structures.	A
Resource team	30	Remove funding to support edge of care activity	G
Resource team	30	Delete vacant post likely to arise during 2013/14 due to worker qualifying and taking up SW post	G
LSCB	10	Review support arrangements for Hartlepool Safeguarding Children Board. .	A
Youth Service	40	Review of Youth Service and reduce commitment from base budget by 10%	A
TOTAL	**267**	Note – proposals for savings are not made in YOS and EIG (at more significant level) due to cuts expected in these service areas. £1.5m to be removed from EIG, revised funding formula expected in YOS which will require cuts to be made separately, notice of budget cuts always received very late.	
DEPARTMENTAL TOTAL	**2,370**		

Regeneration and Neighbourhoods **Appendix G**

Division / Area	Savings 14/15 £'000's	Brief description of change	Risk
Neighbourhoods Division	25	School Crossing Patrol Services – removal of staff from controlled crossing points on low level usage sites.	A
Neighbourhoods Division	50	Reduction of horticultural features: - consisting of the removal of high maintenance plots and replacing (where applicable) with lower maintenance alternatives e.g. annual bedding schemes, ornamental features.	A
Neighbourhoods Division	80	Reconfiguration of staffing restructures in this area.	G
Neighbourhoods Division	50	Additional income generation from Health partnership (Integrated Transport Unit)	A
Neighbourhoods Division	50	Additional income from external fees (Engineering Design and Management) -	A
Neighbourhoods Division	220	Waste Management reconfiguration of service (to be achieved from recycling changes and reduced waste disposal costs)	G
Neighbourhood Management / Community Safety	200	Review of existing Neighbourhood Management Model.	A
Community Pool	220	Review Community Pool criteria and priorities	A
Economic Regeneration & Planning & building control	129	Management restructure and re-alignment of services and of reduction in core funding contribution to Tees Valley Unlimited.	G
Property and Facilities Management	90	Review and centralisation of teams and functions within the re-configured department and across the Council.	G
Estates and Asset Management	125	Potential lease of Bryan Hanson House	R
Building Design and Management and FM (Building Maintenance)	50	Review construction related teams and functions for 14 / 15. Further reconfiguration and service delivery options for 15 / 16 including income generation opportunities.	A/R
Facilities Management	20	Revision of Terms and Conditions to improve productivity and income generation opportunities.	A
Facilities Management (Building Cleaning)	10	Revise specifications and reduce budget for 14 / 15. Further reconfiguration and service delivery options for 15 / 16.	A/R
Facilities Management (Function Catering)	25	Rationalise outlets and reduce overheads, undertaking options appraisal for future delivery of services.	A/R
Security Services	35	Review provision of security services and re-	

Regeneration and Neighbourhoods Appendix G

Division / Area	Savings 14/15 £'000's	Brief description of change	Risk
		tender relevant elements.	
Departmental non-pay budget	20	Review non-pay management account budgets	G
R&N Budget / Inflation	50	Do not take inflation increase on non-pay budgets.	G
Support Services	100	Review structures and service provision across re-configured department, including review of non pay budgets.	A
TOTAL	**1,549**		

FINANCE AND POLICY COMMITTEE

2nd August 2013

HARTLEPOOL BOROUGH COUNCIL

Report of: Chief Finance Officer

Subject: BANKING ARRANGEMENTS

1. TYPE OF DECISION/APPLICABLE CATEGORY

Non-Key Decision.

2. PURPOSE OF REPORT

2.1 To seek approval for an extension to the current banking arrangements to 31st March, 2015.

3. BACKGROUND

3.1 The current banking contract was awarded to the Co-operative Bank in November, 2002. In September 2012 the previous Portfolio Holder agreed a further extension to the 31st March 2014 on the basis of satisfactory contract performance and soft market testing of the contract cost.

4. PROPOSALS

4.1 The Council's banking arrangements from 1st April, 2014 need to be determined. There are a number of benefits that would arise from the continued provision of services by the Co-operative Bank and it is proposed that the contract with the Co-operative bank be extended. The performance of the bank has been reviewed throughout the contract period. The required services have been maintained throughout the period and effective working arrangements have been developed.

4.2 The services provided by the bank are a major element in the Council's financial arrangements. A switch to another bank would require significant input from key Council staff that continue to be heavily involved in dealing with implementing the 2014/15 cuts in the overall budget and the development of longer term options for addressing the budget gaps in 2015/16 and 2016/17. Therefore, there are capacity issues and an opportunity cost from allocating key staff to support the transfer of the bank contract and in practice this work would stretch over a nine month period. There would also be additional cash costs of changing the system and stationary.

4.3 Furthermore, owing to the volatility in the banking sector and the relatively low value of the contract there continues to be very limited market interest in local authority banking. Experience in other authorities suggests only one or two other banks are currently actively seeking new contracts with councils. Hopefully, this position will change over the next twelve to eighteen months.

4.4 It also needs to be recognised that the rating agencies have down graded the rating applied to the Co-operative Bank. This position is in response to the regulators requirement for banks, including the Co-operative Bank to improve their capital ratios by the end of 2014, significantly ahead of the 2019 deadline set by European regulations. The Co-operative Bank is currently implementing a plan to address this issue, which is backed by the parent company - Co-operative Group, which is the largest co-operative in the world and has assets of £82 billion. The Co-operative Bank has a shortfall of £1.5 billion and it is planned they will address this shortfall through a combination of:

- £500 million from the sale of the Co-operative General Insurance Business, with any shortfall in this sale price being underwritten by the Group;
- £500 million contribution from the Group and bank profits in 2013;
- £500 million from existing bondholders, which is anticipated to be complete in November 2013.

4.5 The Co-operative Bank is currently banker to 129 local authorities.

5. RECOMMENDATIONS

5.1 It is recommended that the Members

i) authorise the Chief Finance Officer to enter into negotiations with the Co-operative Bank to continue to provide banking services for a further year from 1st April, 2014 to 31st March 2015 and to conclude these negotiations if the cost is within the budget provision for this service. If the contract cost will exceed the budget provision a further report will be submitted before the negotiations are concluded.

ii) To note that if the above recommendation is approved a tender exercise will commence early in 2014 to enable a new contract to be in place for 1st April 2015.

6. REASONS FOR RECOMMENDATIONS

To ensure the continuation of banking services until 31st March 2014.

7. APPENDICES AVAILABLE ON REQUEST, IN THE MEMBERS LIBRARY AND ON-LINE

None.

8. BACKGROUND PAPERS

None.

9. CONTACT OFFICER

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