
**REVENUE BUDGET MANAGEMENT 2010-11 AND MEDIUM TERM FINANCIAL
PLAN 2010-15**

**Responsible Cabinet Member - Councillor Chris McEwan
Efficiency and Resources Portfolio**

Responsible Director - Paul Wildsmith, Director of Corporate Services

SUMMARY REPORT

Purpose of the Report

1. This report provides information to the Committee about the Council's Medium Term Financial Plan (MTFP) to 2015.

Summary

2. The current economic climate and outlook specifically for the public sector mean that financial management is of paramount importance.
3. Spending and income are accounted for and reported in 12-month periods but financial planning and management are continuous. It is, therefore, sensible to view the 2010-11 revenue budget management projections in the wider context of the Council's medium term plan, currently being reviewed and rolled forward to 2015.
4. This report contains contextual information relating to the MTFP process and timetable and the Government's Comprehensive Spending Review (CSR), which was announced on 20 October 2010.
5. The latest projections show an overall improvement of £681,000 compared with the approved Medium Term Financial Plan (MTFP).
6. The projected outturn for 2010-11 will form one of the starting points for the review of the MTFP for 2011-15. The projected improvement in reserves is helpful but it is relatively small in the context of the challenges that are expected. Key events and dates are the Government's Spending Review, due to be announced on 20th October 2010, and the local government grant settlement, expected in early December.

Recommendation

7. It is recommended that :-
 - (a) The forecast revenue outturn for 2010-11 and actions being taken to manage the Council's finances and services be noted.

- (b) Further regular reports be made to monitor progress and take prompt action if necessary.

Reasons

8. The recommendations are supported by the following reasons :-
- (a) To continue effective management of resources
- (b) To continue to deliver services to agreed levels.

**Paul Wildsmith,
Director of Corporate Services**

Background Papers

No background papers were used in preparing this report other than those referred to in the report.

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S17 Crime and Disorder	There are no specific crime and disorder implications in this report
Health and Well Being	There are no specific Health and Well Being implications in this report
Sustainability	There are no specific sustainability issues in this report
Diversity	The report does not contain any proposals that impact on diversity issues
Wards Affected	All wards are affected
Groups Affected	No specific groups are particularly affected
Budget and Policy Framework	The report does not propose changes to the budget or policy framework
Key Decision	The report does not require a key decision
Urgent Decision	The report does not require an urgent decision
One Darlington: Perfectly Placed	The subject matter of the report, the Councils financial standing and financial management, is critical to delivery of the SCS, but this report does not contain new proposals.
Efficiency	The report contains updated information regarding efficiency savings contained in the MTFP.

MAIN REPORT

Information and Analysis

9. For over 10 years, the Council has planned and managed its finances over a rolling four-year period, involving continuous review and revision.
10. Assumptions made in the early stages of each annual planning cycle are continuously reviewed as more information becomes available. Projections, largely based on the Government's emergency budget in June, that the Council would need to reduce its annual controllable spend by around £22m (21%) by 2014 have previously been widely reported.
11. The CSR announced on 20 October was a significant event in the Council's financial planning process, though it provides only part of the overall picture. It set out the Government's planned spending to 2015, including planned funding to local government. The headline reduction in Government funding for councils is 7.25% per annum for 4 years. Behind the headlines there is much detail, some of which provides indications of likely levels of overall funding. There remains, however, some degree of uncertainty and lack of clarity on important details, particularly regarding grant funding that has previously been outside of the main formula grant.
12. The assumptions that have been used in the early stages of developing the 2011-15 MTFP are within the range of potential outcomes for Darlington of the CSR. There is, therefore, no need to change course of the planning that has so far taken place.
13. The next major external milestone in the MTFP process is the Local Government Grant Settlement, which is expected to be announced on 2 December 2010. That event is, in fact, much more significant than CSR to the financial planning of individual councils. Within the headline figures of the CSR there is very considerable scope for changes in the shares of the overall funding 'pot' received by each council. There are 2 key variables in the current uncertainty –
 - (a) The main grant to councils is the Formula grant, which distributes £20bn nationally; Darlington's share in 2010-11 is £38.8M. The formulae that are used to distribute the grant are reviewed in the same year as each spending reviews. The result of the 2010 formula review is not yet known but will significantly influence the distribution of this large grant from 2011 onwards.
 - (b) Revenue grants that have previously been paid outside of the main formula grant, other than the Dedicated Schools Grant, are to be either rolled into the formula grant or abolished. In 2010-11 Darlington will receive around £30M of such grants. It is not yet clear how much will be added to the formula grant for 2011 onwards. The value of those grants that is added to the formula will then be subject to the same distributional uncertainty as described above.
14. Prior to the grant settlement, the Council needs to continue to develop its plans, including sharing information with employees, residents, service users and partner organisations. Whilst uncertainty around the overall level of resources available will remain, at least until 2 December and very probably, to a lesser degree, beyond that date, the Council is able to continue to plan in the medium to longer-term context. The savings options that are

currently being considered for implementation from 2011 will not be sufficient to reduce net spending to the levels that are likely to be needed by 2014. Further savings will be required. It is unlikely that decisions made in the current MTFP review cycle will later be seen to have been unnecessary in the context of the resources that are expected to be available.

Revenue Budget Management 2010/11

15. To enable timely information to be presented to Cabinet and in accordance with the statutory report publication requirements, this report was prepared using information available before the end of the second quarter. The information for this report has been taken from the financial records between April and August 2010 and service managers' projections for the remainder of the year, using their knowledge of events affecting the service they manage.
16. The overall position is that General Fund reserves at 31st March 2011 are projected to be £681,000 better than planned in the 2010-14 MTFP. Corporately managed resources are forecast to be £2,621,000 better than MTFP, however, departmentally-managed net expenditure is forecast to be £1,940,000 higher than MTFP. The projections are summarised in **Appendix 1**.
17. Projections which have previously been reported to Resources Scrutiny Committee, Budget Monitoring and Efficiency Review Group and Cabinet are presented graphically in **Appendix 2**.

Departmental Resources

18. Departmental Resource projections are summarised in **Appendix 3** and detailed in **Appendices 3(a) to 3(e)**. Budget management projections show a deficit of £1,940,000 compared with the 2010-14 MTFP.
19. Children's Services is forecasting an overall deficit of £1,551,000, an increase of £152,000 from that previously reported. The pressure on the external placements budget has increased to £1.56M. This pressure is due to an unprecedented number in excess of 160 looked after children, including an estimated £450,000 for the cost of secure placements. Other pressures of £508,000 on the Children & Families block include an increase in legal costs, agency costs for social workers and payments to Foster Carers, following the agreed increase in foster allowances to ensure that sufficient foster carers are available to enable a reduction in the need to commission external placements for children. A pressure of £68,000 has arisen due to the loss of BSF grant income. An increase of £58,000 in transport costs and £40,000 for redundancy costs is also forecast. Further details of this position together with actions to mitigate this position is detailed at **Appendix 6**.
20. These deficits are partly offset by savings of £122,000 from the Pupil Referral Unit due to better commissioning of places, Early Intervention and Prevention savings of £131,000 and a departmental cash saving target of £432,000.
21. Community Services is forecasting a slight surplus of £42,000, an improvement of £224,000 from that previously reported. Although the pressures identified in the last report still stand e.g. outdoor events and exempt accommodation, they have been offset by a

number of areas which are showing an improved position. These include Adult social care where the income contribution from clients has increased, an under spend on Anti social behaviour due to vacancies and also an improved electricity position.

22. Chief Executive's Office is forecasting a deficit of £21,000, an improvement of £17,000 from that previously reported.
23. Corporate Services is forecasting a deficit of £410,000, a slight improvement from that previously reported. The main reasons for the deficit are possible refunds and loss of income in Legal Services of £110,000 due to the change in Government policy for personal searches and pressures from unachieved budget savings of £329,000, of which £260,000 is as a result of the trade unions' ballot rejection of proposals for Sunday and overtime premium payments and the unlikely achievement of savings on essential user costs. Although this pressure of £260,000 is included within Corporate Services at this stage, it relates to all four departments across the Council.
24. School balances are shown in **Appendix 3f**.

Corporate Resources

25. The latest projection of corporate resources is £2,621,000 surplus. The main reasons for this are shown below.
26. Following audit of the accounts there has been an improvement in the opening balance for 2009-10 results to £655,000. There has also been an improvement in financing costs to £315,000 due to the continued reduction in borrowing costs. Further improvements of £33,000 in the Joint Bodies and Levies forecast due to a lower contribution to the Tees Valley Regeneration project and Area Based Grant income of £74,000 that is going to General Fund Reserves are forecast.
27. Government grant reductions for 2010/11, announced in June 2010, have been confirmed at £929,000. Cabinet approved savings for 2010/11 of £1,213,000 on 28 July 2010, resulting in a projected net improvement of £294,000 in General Fund Reserves. Following a submission to Government in August 2010, LAA Performance Reward Grant income of £100,000, previously believed to have been withdrawn as part of the Government's savings announcements in June 2010, is forecast to be received.
28. The Council operates an internal Insurance Fund to cover certain types of risk where it is believed to be more efficient to do so than externally insuring and the levels of risk are acceptable. The Fund is periodically assessed to ensure that it is operating effectively and that the balance of the Fund is appropriate. The Director of Corporate Services has recently reviewed the Fund and concluded that the balance will be sufficient to meet liabilities after transferring £1M from the Fund to general reserves. The transfer will be recommended to Council in the autumn review of the MTFP.
29. Other relatively minor changes are: -
 - (a) The renewal of the Freedom of the Borough was approved by Special Council on 13 May 2010 at a cost of £11,000.

- (b) The DSG grant award for 2010/11 has been finalised, with £51,000 being returned to corporate resources.

Housing Revenue Account

30. HRA projections are shown in **Appendix 4**. The HRA remains healthy.

Efficiency Savings

31. Projected efficiency savings are reported in **Appendix 5**.

Collection Fund

32. The Collection Fund is a statutory account for Council Tax and business rates income. Payments are made from the Collection Fund to the Council's General Fund and to the Police and Fire & Rescue Authorities, on whose behalf the Authority collects Council Tax. At this stage in the year no surplus or deficit is predicted for 2010-11.

Conclusion

33. The Council's projected revenue reserves at the end of 2010-11 are £11.92M, which is £681,000 better than the planned position. Departmental reserves are projected to be in deficit by £1.94M and corporate reserves in surplus by £2.621M compared with the 2010-14 MTFP. Management action is continuing to deliver improvements in efficiency both in the current year and the longer term.

Outcome of Consultation

34. No external consultation has been carried out in preparing this report.

1. As detailed at paragraph 11, a significant over spend of £1.551m is projected in relation to Children Services. Although there are other offsetting pressures and savings this over spend is predominately due to the increased number of Looked After Children and the need to place children in safe but sometimes expensive placements. Included within the over spend is c£420k relating to the cost of Secure Accommodation, relating to 3 placements, which is an unusually high position.
2. The number of Looked After Children within Darlington historically has hovered between 130 – 140. The current number of Looked After Children is 169. Between March 2009 and June 2010 Darlington Borough Council have faced an increase of 23% in their Looked After Children numbers which is the joint highest increase (with Middlesbrough) in the North East. This position is being faced by most Local Authorities as a consequence of the Laming Review, following the tragic death of baby Peter Connelly. However some Local Authorities in the North East are now starting to see stability in their number of Looked After Children, whereas Darlington are continuing to see further increases. (9% between March 2010 and June 2010).
3. Tim Loughton, the Parliamentary Under Secretary for Children & Families has acknowledged nationally the significant rise in the number of children in care, acknowledges that children's social services are working under increasing pressures and recognises concerns about funding.
4. The following actions have therefore been undertaken to mitigate this position in the future:-
 - (a) An audit of thresholds has been undertaken to identify if thresholds are too low. This audit concluded the threshold level was at the appropriate level, to ensure the safety of children.
 - (b) Cabinet agreed to increase the professional payment made to Foster Carers, to bring them in line with other North East Local Authorities. The aim was to enhance the capacity of our in-house Fostering Provision. The Family Placement Service are concentrating on the marketing and recruitment of carers, and supporting existing carers both out of hours and with their development and training needs. The aim is to increase the number of internal foster carers and diminishing the localised need of reliance on Independent Fostering Agencies. A child placed with an internal Foster Care costs c£11k per annum compared to a child placed externally costing c£46k per annum.
 - (c) Early Intervention and Prevention Teams with Health, Parenting and Family Intervention Teams have been established. The recently published Munro report mentions if problems with vulnerable families are identified earlier so that children who do not require formal child protection get the help they need at an early stage. As clearly it would be beneficial for support to be provided to families, at times of crises to prevent children becoming looked after in the first place. This is a long term strategy and may take years for the benefit to be really felt.
 - (d) A transformational review is under way relating to our in-house residential provision.
 - (e) A multi-agency Looked After Children Panel has been established, to ensure that value for money commissioning of places takes place.

- (f) Intelligence and Benchmarking work is underway as part of the Regional Efficiency and Improvement Programme, reviewing high cost complex placements throughout the region.
5. As can be seen above various initiatives have been or are in the process of being implemented. However until the number of Looked After Children reduce this pressure will continue to be experience at least in the short term.