

COUNCIL

Report title	Revenue Budget, Council Tax, Medium Term Financial Plan and Prudential Indicators 2018/19
Mayor / Executive Member	Elected Mayor of Middlesbrough
Director	Strategic Director of Finance, Governance and Support
Date	7 March 2018
Purpose of the report	To present the recommended Revenue Budget of £111.3m, Council Tax increase of 4.99%, and Prudential Indicators for 2018/19. The Council is asked to approve the report and the recommendations contained within.
Summary of the report	<p>The Council's current Budget and Policy Framework Procedure Rules provides for Executive to draw up firm proposals on the annual budget for submission to Full Council. This report provides those firm proposals to Council for consideration and sets out the position in relation to:</p> <ul style="list-style-type: none"> • consultation undertaken on proposals set out in the Strategic Planning 2018-21 report approved by Council on 6 December 2017 (paragraphs 7-19); • changes since the approval of the above report (paragraphs 20-24); • the Local Government Finance Settlement for 2018/19 confirmed on 6 February 2018 (paragraphs 25-30); • the proposed 2018/19 Revenue Budget (paragraphs 31-79); • a refreshed Medium-Term Financial Plan to 2022 (paragraphs 80-103); and • Prudential Indicators, the Investment Strategy and Minimum Revenue Provision (paragraphs 104-111). <p>The Strategic Director of Finance, Governance and Support has confirmed that the budget calculations for 2018/219 are robust in that:</p> <ul style="list-style-type: none"> • proper medium term budget planning and monitoring processes are in place and maintained which ensure that known; • commitments are provided for and budgets are set in real terms with the effect on service delivery clearly identified; • appropriate provisions are made within the budget for pay and inflation; • a prudent view of the net costs of the Council's overall cash flow and prudential borrowing is taken; • an analysis of financial risks affecting the budget are completed; and • appropriate consideration is given to the level of Council Tax and external funding available to the Council.

If this is a key decision, which key decision test applies?*	Over the financial threshold (£150,000)	X				
	Amends the Council's policy framework	X				
	Affects two or more wards	X				
	Non-key					
For the purposes of scrutiny call in procedure this report is*	Exempt under s.12a Local Government Act 1972					
	Urgent					
	Non-urgent	X				
If this is a confidential report, which exemption(s) from the Schedule 12a of the Local Government Act 1972 applies?	Not applicable.					
Decision(s) asked for	<p>That the Council approves the budget reductions outlined at Appendix A;</p> <p>That that Council approves the budget requirement for 2018/19 to be set at £111,285,339, as detailed in Appendix B;</p> <p>Having taken into account the matters set out in Section 32 of the Local Government Act 1992 and the items set out within the report that the Council approves that the basic amount of Council Tax (Band D) for 2018/19 be £1,566.81 being a 2.99% increase in general Council Tax and an annual precept of 2.00% for adult social care which was introduced by Government in November 2015 to contribute towards the shortfall of funding for social care. In total this represents an increase of 4.99% in the basic amount of Council Tax for the whole of the Borough;</p> <p>That the Council approves the estimated basic amount of Council Tax in areas with parish precepts be set at :-</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 80%;">Nunthorpe Parish</td> <td style="text-align: right;">£1,570.17</td> </tr> <tr> <td>Stainton and Thornton Parish</td> <td style="text-align: right;">£1,576.12</td> </tr> </table> <p>That the Council approves the amounts of Council Tax for each category of dwelling be set in accordance with table 4 of Appendix E within the report;</p> <p>That the Council approves the updated Investment Strategy as set out in Appendices G and H;</p> <p>That the Council notes the refreshed Medium Term Financial Plan set out in this report; and</p> <p>That the Council approves the Treasury Management Strategy, Minimum Revenue Provision Statement, Investment Strategy and Prudential Indicators as outlined in Appendix F.</p>		Nunthorpe Parish	£1,570.17	Stainton and Thornton Parish	£1,576.12
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Stainton and Thornton Parish	£1,576.12					
Impact of decision(s)	The approach proposed within the report would allow the Council to meet its legal obligations in relation to budget setting, and meet the challenging financial targets faced in the MTFP period, while maximising its contribution to the 2025 Vision for Middlesbrough.					
Contact:	James Bromiley, Strategic Director of Finance, Governance and Support					

What is the purpose of this report?

1. This report presents the recommended Revenue Budget of £111.3m, Council Tax of 4.99%, and Prudential Indicators for 2018/19.
2. Following on from the previous report approved first by Executive and then by Council on 6 December 2017, this report also provides a refreshed Medium Term Financial Plan (MTFP), including Investment Strategy, for the period 2018/19 to 2021/22 to reflect the 2018/19 Local Government Finance Settlement.
3. The refreshed MTFP takes account of a number of additional pressures that have been recognised following Council's approval of the Strategic Planning 2018-21 report of 6 December 2017. The principal pressures are:
 - increased requirement for Social Work capacity in Children's Social Care to maintain safe caseloads;
 - the Local Government Employers Pay Offer of December 2017 which was significantly higher than previous expectations;
 - a reduction in expected savings from Phase 3 of the Change Programme following a review of potential achievability; and
 - the requirement to review reserves in the light of increased uncertainty around future funding, inflation, demand and specific potential liabilities.
4. The MTFP update in this report is integrated with and updates the £116.7 million Investment Strategy for Middlesbrough, supported by £72.4 million of the Council's own resources, agreed by Council on 6 December 2017. In the update, the plan is extended to cover the financial year 2020/21 and include additional investment, increasing Council resources dedicated to supporting the strategy to £86.8m. This strategy is intended to attract a total of £625m of third party investment into the town and its infrastructure.
5. This budget continues to support the Mayor's commitment to invest in Middlesbrough and transform service delivery for residents. It is intended that through this strategy the Council can achieve the challenging financial targets faced in the MTFP period whilst ensuring that there is a minimum impact on the level of service delivered to the public.

Why is this report necessary?

6. The Council's current Budget and Policy Framework Procedure Rules provides for Executive to draw up firm proposals on the annual budget for submission to Full Council. This report provides those firm proposals to Council for consideration and sets out the position in relation to:
 - consultation undertaken on proposals set out in the Strategic Planning 2018-21 report approved by Council on 6 December 2017 (paragraphs 7-19);
 - changes since the approval of the above report (paragraphs 20-24);
 - the Local Government Finance Settlement for 2018/19 confirmed on 6 February 2018 (paragraphs 25-30);
 - the proposed 2018/19 Revenue Budget (paragraphs 31-79);
 - a refreshed Medium-Term Financial Plan to 2022 (paragraphs 80-103); and
 - Prudential Indicators, the Investment Strategy and Minimum Revenue Provision (paragraphs 104-111).

Consultation on proposals approved by Council on 6 December 2017

7. This year the Council adopted a different and expanded approach to consultation. The Strategic Planning 2018-21 report set out what the Council is aiming to prioritise over the next four years (Strategic Plan); the financial envelope that is necessary to achieve those aims (the MTFP) and the savings necessary for living within those financial plans (budget savings). The Report was approved by Council on 6 December and this set out a set of draft priorities in the three main themes of Council activity: Social Regeneration, Physical Regeneration and Business Imperatives. The consultation exercise consulted residents, businesses and partners on both priorities and the budget savings proposals.
8. On the 16 November 2016 the Council received confirmation of the government's four year financial settlement for Middlesbrough allowing the Council to plan effectively for the period to 2019/20. The MTFP approved as part of the Strategic Plan on 6 December 2017 and that contained in this report are based upon the four year settlement figures.
9. The Council approved the Report on Strategic Planning 2018/19 to 2020/21 on 6 December 2017. This provided an update in respect of the Council's MTFP position for the period 2018/19 to 2020/21 integrated with a four year Investment Strategy with the Council investing a total of £72.4m of its own resources in the town, outlined the Council's overall approach to deliver saving proposals and set out a summary of individual saving proposals. This report updates the Investment Strategy to cover the year 2020/21 and, along with some additional schemes, therefore increases the total of Council investment to £86.8m.
10. The Elected Mayor set out a series of budget savings proposals which amounted to £5.755 million in 2018/19.
11. A consultation period of just over nine weeks has been undertaken. In addition to regular updates to Executive members the Strategic Director of Finance, Governance and Support gave a presentation in November which was available to all Council members. A total of 6 Members attended the all-members session. The Elected Mayor also conducted a specific consultation meeting with the business sector on the 30 January 2018.
12. An ad hoc scrutiny panel was involved in scrutinising the proposals from an early stage and fed into the considerations underpinning this report.
13. The consultation period has been extended to 12 February 2018 following changes in proposals, largely due to the Local Government Finance Settlement of 19 December 2017. At the time of writing the report there have been 127 responses to the Council's online consultation on its proposed strategic priorities and savings proposals. In addition there were seven responses to the budget consultation email address. If necessary there will be an update on responses included in the report to Council on 7th March 2018. Response to the proposed strategic priorities was very positive, and the detail on this will be set out in the Strategic Plan 2018-22 report to Executive in March 2018. Common responses to the budget proposals (which were free text) can be summarised as follows:

Digital

14. There were several comments on ensuring that the Council's approach to digital does not disadvantage those who are not typically digitally literate, in particular older people, or who do not have ready access to ICT. These comments are in line with the 'digital by

design' (rather than by default) approach to be set out in Digital Strategy to be presented to Executive in March 2018. While the Council will be increasing the numbers of services that can be accessed online, customers will still be able to phone and / or visit the Council's Customer Centre and community hubs if they cannot use or require support to use with these services.

Return on Investment

15. A (comparatively) high number of responses related to plans to increase car parking charges, with many asking the Council that should this proceed to ensure that the balance is struck between increasing income and protecting footfall in the town centre.
16. Some concerns were raised by respondents in relation to the closure of Ayresome Industries and the need to ensure appropriate support for displaced or potentially redundant employees. The Council has put in place a project team to oversee consultation with employees to ensure that all are offered an appropriate redeployment solution that meets their needs. At this stage it is anticipated that there will be no disproportionate adverse impact on the disability protected characteristic from this proposal, and a Stage 2 assessment will be completed prior to implementation during 2018/19 as proposals are finalised.
17. Four direct responses have been received to date in relation to the proposed Council Tax increase – all against this.
18. In addition to the briefings that have been held with elected members and the North East Chamber of Commerce, Directorates have also contacted around 50 of the Council's key partners and stakeholders to seek views on the proposed priorities and budget reductions.
19. Following the budget consultation period, the Mayor has confirmed all of the proposals outlined in the Strategic Planning Report on 6 December 2017 with the addition of the additional savings included in Appendix A. This means that the overall package of savings will be £7.328m.

Changes since 6 December 2017

20. This year, events have required changes to the proposed budget since the approval of the Strategic Planning Report on 6 December 2017 in three major areas.
21. It is normal for the budget consultation to be launched ahead of the Local Government Finance Settlement and any variance is incorporated. However in addition this year Local Government Employers have proposed a pay offer for local government workers that was significantly more generous than envisaged. This needs to be provided for in the 2018/19 budget and in the MTFP. While the Council's commitment to the Living Wage Foundation rate has mitigated the effect of this in Middlesbrough, as council employees are already earning above the lowest rates for local government staff elsewhere, there is nevertheless a pressure on the budget in 2018/19 and across the MTFP period. Further details of the amounts are set out below in paragraph 34.
22. The Council passed a motion to support increased salaries for the lowest paid on the basis that it was funded by Government. However, this pressure was not allocated any additional funding in the Local Government Finance Settlement, nor was there any additional funding in respect of the recognised pressures on Children's Services or adult

services, despite lobbying from the Local Government Association. Instead, the Government's proposed solution is to allow local authorities to increase council tax by an additional 1% per year in 2018/19 and 2019/20. Given that Government has assumed that this additional 1% is raised in assessing its funding for local government, Middlesbrough Council has also planned to increase council tax by an additional 1% in 2018/19 and 2019/20. This is set out in more detail at paragraphs 63 and 86.

23. The third change is in Children's Services where the impact of national demand pressures of as much as £2bn is well recognised. This has been impacted further by the implementation of the new Ofsted inspection framework from November 2017 which sets out an even more rigorous and testing regime. The Council has assessed the impact of these changes utilising external expertise and in view of the results of this exercise and demand pressures it is critical that investment is provided to increase staffing within Children's Services. With the implementation of the Believe in Families programme, the transformation of the way children's needs are met will mean that over time children in Middlesbrough are better provided for at a lower cost to the Council.
24. In order to maintain a balanced budget, and to provide the additional resources in year for both the pay award and Children's Services, we have sought additional savings, which do not require consultation, across the Council and these are set out in Appendix A (i). An additional £1.573m of savings were identified increasing the total level of savings to £7.328m.

The Local Government Finance Settlement

25. The provisional Local Government Finance Report for 2018/19 was released on 19 December 2017. This set out detailed Local Government figures on an individual authority basis over a two year period. The final settlement was confirmed on 6 February 2018.
26. In 2017/18 Middlesbrough Council had a total net budget requirement of £113.7 million, of which £21.05 million (18.5%) was funded from general Revenue Support Grant and £49.13 million (43.2%) was funded by Council tax. The Revenue Support Grant is facing a £4.52 million (22%) reduction from 2017/18 to 2018/19; as part of the four year settlement this figure will continue to reduce by a further £4.58 million in 2019/20 leaving the Council with £11.96 million in that year. There is a government expectation that the gap will be made up by revenue raised locally such as through Council Tax and Business Rates.
27. A new Local Government finance system is expected to be implemented from the financial year 2020/21 onwards. The new system is intended to be based upon 75% retention of Business Rates by Local Government and an end to the Revenue Support Grant system.
28. It is not yet clear what the detailed arrangements for Local Government Finance will look like from 2020/21 onwards but as part of the settlement announcement the government committed to further consultation with the sector during 2018. It is hoped that this process will provide additional information to allow more accurate financial forecasting from 2020/21 onwards. In this report we have adopted a "two years plus two" approach where we have estimated the known impact for 2020/21 and 2021/22, but these figures are necessarily less robust than the figures for the years 2018/19 and 2019/20.
29. Under the current business rates retention system Middlesbrough receives a top-up payment as the assessed cost of providing services in the Borough is greater than the

share of business rates retained locally. The top-up payment to Middlesbrough has increased from £25.71 million to £26.06 million, an increase of 0.35 million (1.4%).

30. As part of the business rates system rate payers are entitled to submit an appeal against the valuation of their business, if successful this appeal will be backdated to the date of valuations. The cost of repaying appeals, including backdating, is met by the Council in proportion with its share of Business Rates. As a result of the valuations being new it is difficult to forecast what level of appeals will be received in relation to the new bills from business rate payers and also to understand what proportion of such appeals might be successful. An estimate has therefore been made of retained business rates income in 2018/19 of £17.36 million which represents a prudent approach based upon experience of appeals against the previous valuation. This figure represents an increase of £0.51m (3%) on 2017/18 as a result of business growth and the inflation increase in the business rates multiplier. Performance against this estimate will be closely monitored over the course of 2018/19.

Proposed Revenue Budget 2018/19

Budget principles

31. In preparing the 2018/19 revenue budget and MTFP, the following principles, consistent with budget strategies in previous years and statements made by Executive have been adopted: -
- to ensure that resources are directed to Council priorities in accordance with the agreed Mayor's 2025 Vision;
 - to maximise the efficient, effective and economic use of resources, in conjunction with partners where appropriate;
 - to keep Council Tax increases in line with Government assumptions on income raising;
 - to maintain appropriate balances, central provisions and earmarked reserves;
 - to make appropriate provisions for assessed liabilities;
 - to make services fully accountable for their own budgets and spending, including additional pressures. Calls on the MTFP should only be made when local and directorate resources are exhausted;
 - to maintain a policy of no unauthorised overspending within service areas;
 - to maintain appropriate medium term budget planning and monitoring processes, ensuring known commitments are provided for and budgets are set in real terms with the effect on service delivery clearly identified;
 - to address structural budget issues;
 - services will receive, in full, the impact of contractual inflationary increases (including pay awards). No inflation will be provided for general supplies and services, which are expected to be met from efficiency savings; and
 - to ensure effective budget consultation processes are followed.
32. To ensure that the impact of legislative changes are considered as part of the budget setting process and in view of the continued effect of austerity on the Council's Medium Term Financial position it is proposed to agree the following, additional, budget setting principles: -
- to embed unit cost budgeting principles to understand the cost of delivery and ensure charges reflect the local market;

- to support budgetary investment in economic growth to drive increase in income through council tax and business rates;
- on termination of a specific grant, a business case for any continued funding will be prepared, which will need to be assessed against other pressures on the MTFP;
- all specific reserves require approval by the Strategic Director – Finance, Governance and Support, where specific reserves exist these will be reviewed regularly by the Strategic Director – Finance, Governance and Support as part of the MTFP refresh to ensure that they are still required; uncommitted funds may need to be used to fund pressures elsewhere;
- any revenue budget where there has been a significant underspend for two or more years will be reviewed with a view to reallocating funds;
- the Investment Strategy will be reviewed regularly to ensure an ongoing need for allocated funding with a view to reallocating funds which are not required; and
- a consistent framework for budgeting for staff costs will be implemented.

Budget assumptions

33. The following budget assumptions have been applied: -

Pay awards and inflation

34. A provision has been made for the estimated impact of the Local Government employers pay offer of December 2017. This offer was significantly greater than had been envisaged with pay rises in 2018/19 ranging from 9.2% for the lowest paid staff to 2% for the majority of grades with similar rises offered for the financial year 2019/20. Middlesbrough Council's policy of paying the Living Wage Foundation rate as a minimum means that the increase in the Council's pay bill was less than it would otherwise have been but additional investment of £1.4m was required in the financial year 2018/19. As the Local Government unions have not agreed to recommend this deal, it is not clear whether these terms will be implemented; however it is prudent to provide for the offer as set out.
35. No inflation has been provided for supplies and services which is expected to be met from efficiency savings. Contractually committed inflation has been provided for at 1.5%. A 1% increase in this type of inflation represents a £1.1 million cost to the Council.
36. An appropriate central pay and prices provision of £1.3m has been made for the financial year to guard against unexpected demand or price pressures that may arise in year.
37. Over the course of the 2018-22 Medium Term Financial Planning period it is forecast that the Council will need to deliver £21.0m of currently planned savings and £26.9m of savings still to be identified. In order to help fund the development and delivery of these savings the 2018/19 budget will increase the contribution to the Change Fund by £1.0m.
38. Provision of £0.79 million has been made for the impact of the increase in the National Living Wage on the cost of services commissioned by the Council.
39. Income from fees and charges has been assumed to increase on average by 1.0%. This excludes car parking charges and statutory charges. Provision for further increases in income levels have been set out as part of the budget savings proposals.
40. An additional £304,000 has been included to deal with recurring demand pressures within Legal Services.

41. Additional funding has been approved in the MTFP in December 2017 and included in the 2018/19 budget to reflect spending requirements in the following areas:

Spending Requirement:	Additional Funding (£s):
Additional Valuation & Estates Capacity	£100,000
Former Community Safety Partnership	£126,000
Investment in Social Regeneration	£150,000
Business Rate increases on Council Properties	£100,000
Human Resources Project Capacity	£50,000

Safeguarding and Children's Care

42. Safeguarding children and young people continues to be an area of increasing pressure, with resultant financial risk to the Council. An assessment of these pressures has been based on assumptions in respect of increased level of need in relation to Looked After Children and an increase in the cost of providing care.
43. The gross impact of the increased demand on the service is shown below:-

Net pressures	2018/19 £` Million	2019/20 £` million	2020/21 £` Million	2021/22 £` Million
Additional In year	2.610	1.514	1.479	1.478
Cumulative over MTFP	2.610	4.124	5.603	7.081

44. The Believe in Families Transformation Programme scheduled for the period 2018/19 to 2021/22 is expected to deliver savings by reducing the number of children who require care. It is envisaged that these savings will mitigate the above costs as follows:

Net savings	2018/19 £` Million	2019/20 £` million	2020/21 £` Million	2021/22 £` Million
Mitigation of Demand	(1.500)	(1.500)	(1.500)	(1.500)
Additional Savings	(0.656)	(0.631)	(0.599)	(0.292)
Cumulative over MTFP	(2.156)	(4.287)	(6.386)	(8.178)

Social Care

45. The decision of other Councils to withdraw from the Adult Social Care Forensic Mental Health Partnership has given rise to a recurring pressure of £197,000 which has been provided for in the 2018/19 budget.
46. The one-off 2017/18 Adult Social Care Support Grant was not intended to be renewed in 2018/19 and this was confirmed in the December's Provisional Local Government Finance Settlement, representing a loss of funding to the service of £761,000. However, the Final Settlement confirmed on 6 February confirmed a replacement 2018/19 Adult Social Care Support Grant of £474,000. This resulted in a funding gap of £287,000 which has been replaced with Council funding to protect Adult Social Care services.

Other Changes

47. Provision has been made for reduction in specific grants including New Homes Bonus £504,000, Education Services Grant £168,000, Public Health Grant £443,000 and Housing Benefit / Council Tax Support Administration Grant £97,000.

48. Additional annual revenue provision of £667,000 has been made in respect of the Council's agreed Investment Strategy. This allows the Council to dedicate £86.8 million of its own resources to supporting the Investment Strategy intended to attract £625m of third party investment in order to improve the fabric of the town and grow our economic base.
49. The continuing low interest financial environment means that the expected cost of financing borrowing will be lower in 2018/19 than anticipated in the MTFP. This has allowed a one-off saving to be made in 2018/19 of £1.316m to support the budget.
50. The budget prepared on the above principles provides an extra gross £3.6 million investment to meet increased demand in key services, including:
 - Social Care – Children. £2.6 million
 - Social Care – Adults £0.2 million
 - Other £0.8 million
51. The 2018/19 budget does minimize impact on front line services, but efficiency savings alone cannot meet the projected gap over the medium term. There will be a requirement to reduce front line services.

Budget reductions

52. The recommended budget reductions for 2018/19 are shown at Appendix A and are summarised below:
 - £5.6 million in relation to ongoing efficiencies/budget reductions that require no further consultation; and
 - £1.7 million in relation specific proposals subject to consultation prior to the 2018/19 budget.

Adequacy of Financial Reserves

53. The Council is required to maintain an appropriate level of reserves and balances. Whilst current guidance is not prescriptive, all Authorities are required, when reviewing their MTFP to consider the establishment and maintenance of reserves.
54. Proper consideration has to be given to: -
 - working balances to help cushion the impact of uneven cash flows and to avoid unnecessary temporary borrowing;
 - general fund reserves to provide a contingency for the impact of unexpected events or emergencies; and
 - specific earmarked reserves to meet known or predicted liabilities.
55. The Strategic Director of Finance, Governance and Support has advised that he considers it is appropriate to maintain a minimum of £9.4 million over the medium term. This advice is based on an assessment of financial risks and the extent to which specific provisions are available to meet known and expected liabilities.
56. The figure of £9.4m is an increase on the previously recommended level of the General Fund Reserve which was previously recommended to be £4.0m to £4.5m. This is as a result of a reduction in the level of specific reserves and provisions over the last 12

months and the increased uncertainty around future funding levels and levels of demand in Social Care.

57. Appropriate consideration has been given to the level of reserves and balances in that it is important to recognise that balances can only be used once.
58. Further development of the plan to identify additional savings to close the budget gap in 2019 to 2022 is underway. Business cases should be developed by July 2018 and any additional savings will be utilised to mitigate the use of these reserves in future years.
59. Our approach has been to phase in the use of balances mitigating reductions to front line services where reasonable but also consider the medium and longer term financial planning.
60. The following table demonstrates our planned use of the General Fund Reserve over the Medium Term.

	2018/19 £ million	2019/20 £ million	2020/21 £ million	2021/22 £ million
Estimated Opening Balance	13.6	11.3	9.4	9.4
Planned Use	-2.3	-1.9	0.0	0.0
Estimated Closing Balance	11.3	9.4	9.4	9.4

61. The Strategic Director of Finance, Governance and Support has confirmed that the budget calculations for 2018/2019 are robust in that;
 - proper medium term budget planning and monitoring processes are in place and maintained which ensure that known commitments are provided for and budgets are set in real terms with the effect on service delivery clearly identified;
 - appropriate provisions are made within the budget for pay and inflation;
 - a prudent view of the net costs of the Council's overall cash flow and prudential borrowing is taken;
 - an analysis of financial risks affecting the budget are completed; and
 - appropriate consideration is given to the level of Council Tax and external funding available to the Council.

Determination of Council Tax

62. A number of factors have been considered in respect of the level of Council Tax increase including our current level of Council Tax, the current levels of inflation, pressures from caring for our vulnerable people, the level of budget reductions required and the medium to long term implications of the Government's Autumn Statement and the Local Government Finance Settlement 2018/19.
63. In the Local Government Finance Settlement confirmed on 6 February 2018 the Government made the case that increased inflationary pressures meant that Councils should be able to put up Council Tax by 2.99% rather than 1.99% before being required to hold a local referendum. In line with this assumption Middlesbrough will increase its Basic Amount of Council Tax in 2018/19 by 2.99% generating an estimated £494,000 of additional income and reducing the amount of savings required.

64. Since 2013/14 the Council's Housing Growth Strategy has delivered an increase in the Council Tax Base of 2,950 Band D Equivalent properties, an increase in Middlesbrough Council's Tax Base of 9.8%. The cumulative effect is £4.6m and reduces the need to make further annual savings within Council services by this amount.
65. The recognition by Central Government that the increasing costs and responsibilities of adult social care need to be addressed is welcomed. The Government's proposed solution is to allow Councils with adult social care responsibilities to increase council tax by up to a further 3%, subject to a maximum of an additional 6% increase in the period 2017/18 to 2019/20. Middlesbrough Council confirms its intention to use this freedom to increase Council Tax by an additional 2% in each of the financial years 2018/19 and 2019/20 following on from the 2% increase in 2017/18.
66. Consideration should be given in relation to the impact on the local council taxpayer. In essence the Government's proposal is to pass on the liability to the local taxpayer, rather than a national distribution of resources to meet what is an agreed national priority. Authorities such as Middlesbrough with significant vulnerable Council Tax payers and a lower Council Tax Base as a result of lower property values are disadvantaged by this approach as each percentage increase in Council Tax will raise less than more affluent areas with a greater proportion of higher banded properties.
67. In recognising that Middlesbrough is seeing increasing demand for Adult Social Care; it is proposed to apply the 2% levy which will generate £986,000 in much needed resources to support our most vulnerable adults through a series of preventative and early help initiatives.
68. During the course of 2017/18 the Council has looked at the issue of vulnerable Council Tax payers. On 6 December 2017 the Council decided to increase the support to working age people who qualify for Local Council Tax Support from 80% to 85% of the amount due.
69. The Council is required to set a budget for 2018/19. The budget will determine the level of resources to be made available to services and forms part of the determination of the Council Tax to be levied in 2018/19.
70. The Budget requirement for 2018/19 is estimated to be £111.285 million as detailed in Appendix B.
71. The basic (Band D) Council Tax for Middlesbrough as a whole is calculated as follows:-

	£	£
Budget Requirement		111,285,339
Less:		
Revenue Support Grant	16,533,547	
Top up Payment	26,041,657	
Local Share of NNDR	17,363,393	
		59,938,597
Net requirements		51,346,742
Collection Fund Deficit		547,572
(a)		51,894,314
Taxbase (b)		33,121
Basic Council Tax (a) / (b)		1,566.81

72. The table at point 61 relates only to Middlesbrough Council's element of the Council Tax and excludes Cleveland Police and Crime Commissioner and Cleveland Fire Authority precepts.
73. The level of Council Tax associated with the budget requirement represents a general 2.99% increase in Council Tax and a 2.00% increase in the Adult Social Care Precept introduced by the Government in November 2015 to contribute towards the shortfall in funding for social care. In total this represents a 4.99% increase for Middlesbrough Council's element of the Council Tax for those areas without precepts.
74. The Council tax for the areas of the Council which include parish precepts:-

Nunthorpe

	£	£
Add Parish precept:	7,000	
Divided by Tax Base	2,082	
Equals		3.36
Band D Tax		1,570.17

Stainton & Thornton

	£	£
Add Parish precept:	6,740	
Divided by Tax Base	724	
Equals		9.31
Band D Tax		1,576.12

75. Tax levels for the remaining bands are set in varying proportions to the band D level, and are set out in table 1 of Appendix E.
76. Cleveland Fire Authority has set a precept for Middlesbrough of £2,490,037. The council tax levels for 2018/19 are set out in table 2 of Appendix E.
77. Cleveland Police and Crime Commissioner has set a precept of £7,604,900 and council tax levels for 2018/19 are set out in table 3 of Appendix E.

78. The total tax to be levied for each band (including Middlesbrough Council, Cleveland Fire Authority, Cleveland Police and Crime Commissioner and Parishes) is set out in table 4 of Appendix E.

79. The overall impact on the band D council tax is as follows:-

Middlesbrough Council	4.99%
Cleveland Police and Crime Commissioner	5.59%
Cleveland Fire Authority	2.90%
Overall Increase	4.95%

Medium-Term Financial Plan to 2022

80. The Council maintains a MTFP that:

- utilises accumulated balances to smooth out savings required year-on-year, and to pump prime transformational activity;
- addresses the savings requirement for 2019-22 through transformational efficiency initiatives managed through the Council's Change Programme;
- identifies an indicative potential savings requirement for the financial years 2020/21 and 2021/22; and
- focuses investment on growing the town's economic base to improve local prosperity and secure a robust and independent income stream to fund the Council's services.

81. The refreshed MTFP identifies that further savings of £26.9m are required for the period 2018/19 to 2021/22 over and above those already approved by Council, as set out below:

	2018/19 £ms	2019/20 £ms	2020/21 (Indicative) £ms	2021/22 (Indicative) £ms	Total £ms
Spending pressures	12.0	14.4	14.7	16.0	57.1
Government funding reductions	4.3	3.1	1.5	0.9	9.8
Local funding increases	(3.3)	(4.9)	(1.7)	(1.8)	(11.7)
Planned savings	(8.1)	(5.1)	(5.2)	(2.6)	(21.0)
Budget gap	4.9	7.5	9.3	12.5	34.2
Net savings requirement	4.9	7.5	9.3	12.5	34.2
<i>Use of reserves</i>	-4.9	-2.4	-0.0	-0.0	(7.3)
In-year budget position	0.0	5.1	9.3	12.5	26.9

82. Through the Council's Investment Strategy the MTFP focuses on investment and efficiency, and creating growth in Council Tax, Business Rates and income from commercial activity and aims to minimise service-level and job reductions over this period.

83. The following assumptions have been applied in refreshing the Council's MTFP.

Government funding reductions

84. Government funding has been assumed to fall during the period to 2020, for 2020/21 and 2021/22 it has been assumed that the proposed transition to 75% Business Rates Retention, formerly expected to be 100%, will not result in a further reduction in funding:

Funding Stream	2018/19 £ms	2019/20 £ms	2020/21 (Indicative) £ms	2021/22 (Indicative) £ms
Revenue Support Grant	16.534	11.959	0.000	0.000
Business Rates Top Up	26.056	26.857	38.816	38.816
New Homes Bonus	2.349	2.546	1.711	1.477
Housing Benefit Admin Grant	1.097	0.947	0.947	0.947
Education Support Grant	0.122	0.122	0.122	0.122
Public Health Grant	16.787	16.344	15.644	14.944
Improved Better Care Fund	6.023	7.634	7.634	7.634
2018/19 Adult Social Care Support Grant	0.474	0.000	0.000	0.000
Total:	69.442	66.409	64.874	63.940

Local funding increases

85. Local funding has been assumed to increase during the same period:

Funding Stream	2018/19 £ms	2019/20 £ms	2020/21 (Indicative) £ms	2021/22 (Indicative) £ms
Council Tax Core	48.945	51.219	52.962	54.804
Council Tax: Adult Social Care Levy	2.949	3.987	3.987	3.987
Local Share of Business Rates	17.363	18.402	18.402	18.402
Collection fund Surplus / (Deficit)	(0.547)	0.000	0.000	0.000
Total:	68.710	73.608	75.351	77.193

86. The Government has indicated that from 2020, central government support to councils through the Revenue Support Grant will no longer exist and local government will need to be self-funding, through Council Tax, Business Rates and other localised sources of income. Therefore, in accordance with changes introduced by central government in 2015 on the limits for such increases, it had been assumed that the Council will increase Council Tax by 1.99% per annum and also apply the Adult Social Care Precept (as introduced by the then Chancellor of the Exchequer George Osborne in the November 2015 Spending Review) in every year of the period to meet anticipated demand for social care. In December 2017 Provisional Local Government Finance Settlement the government increased their assumption by 1% to a 2.99% increase in 2018/19 and 2019/20. These assumptions are now reflected in the MTFP and are in line with the Government's own assumptions within the Local Government Finance Settlement.
87. In the 2017/18 Settlement the Government introduced the flexibility to increase Councils with responsibility for Adult Social Care to increase Council Tax by up to 3% in 2017/18 and 2018/19 as long as the precept does not total more than 6% in the period 2017 to 2020. Middlesbrough has opted to continue with increases of 2% in each financial year as previously assumed in order to help protect residents from sharp Council Tax increases.

Pay awards and inflation

88. The pay offer made by Local Government employers in December 2017 as set out in paragraph 34 has been assumed for the financial years 2018/19 and 2019/20. For future years an overall 2% pay award has been assumed with an estimated impact of £1.7m in each of the years 2020/21 and 2021/22.

89. Contractual inflation at a total cost of £6.8 million has been assumed in the period. No provision has been made for inflation for supplies and services; it is expected any inflationary pressures in this area will be met from efficiency savings.
90. Income from fees and charges has been assumed to increase on average by 2.5%. This excludes car parking and statutory charges generating an increase of £1.5m in income in each year.

Living Wage

91. In line with the 2025 Vision for Middlesbrough, the Council is committed to ensuring that its lowest paid employees benefit from being paid the Living Wage Foundation hourly rate. It is calculated that the implementation of the Local Government Employers Pay Offer would ensure that the Council's pay rates would remain above the Living Wage Foundation Rate for the MTFP period.
92. In addition, increases in the rebranded minimum wage (the National Living Wage), will impact upon organisations – principally care providers – who are contracted to carry out functions on behalf of the Council. A further £3.7m has been allocated over the period to cover the increases in costs expected as a result of these pressures.

National Living Wage (minimum wage) provision	2018/19 £ms	2019/20 £ms	2020/21 (Indicative) £ms	2021/22 (Indicative) £ms
Additional in-year	0.789	0.794	1.040	1.040
Cumulative	0.789	1.583	2.623	3.663

Demand pressures

93. The following assumptions have been made in relation to demand-led pressure within Safeguarding and Children's Care and Adult Social Care.

Safeguarding and Children's Care – Net pressures	2018/19 £ms	2019/20 £ms	2020/21 (Indicative) £ms	2021/22 (Indicative) £ms
Additional in-year	2.610	1.514	1.479	1.479
Cumulative	2.610	4.124	5.603	7.082

Adult Social Care – Net pressures	2018/19 £ms	2019/20 £ms	2020/21 (Indicative) £ms	2021/22 (Indicative) £ms
Additional in-year	0.197	0.000	0.000	0.000
Cumulative	0.197	0.197	0.197	0.197

94. Adult Social Care demand continues to be identified as a potential risk and will be closely monitored over the MTFP period.

Investment Strategy

95. The refreshed Investment Strategy in Appendix G extends the investment period to the financial year 2020/21 and increases the Council's investment of its own resources in building the town's economic base, driving financial self-sufficiency and transforming how the Council delivers its services from £72.4m to £86.8m.

96. This will be made up of £5.3m of identified revenue resources and £81.5m of Capital Investment, this will involve additional borrowing which will have the following impact:

Revenue cost of investment	2018/19 £ms	2019/20 £ms	2020/21 (Indicative) £ms	2021/22 (Indicative) £ms
Additional in-year	(0.649)	2.079	0.259	0.354
Cumulative	(0.649)	1.430	1.689	2.043

97. The Investment Strategy is appended to the Strategic Plan and updates the Council's current strategy, approved by Council on 6 December 2017. The revised strategy provides for additional investment as set out above.
98. Provision has also been made within the MTFP for additional capital resources of £9.2m in the period 2018-22 to be available in the event that investment opportunities arise to grow the town's economic base and / or delivery revenue savings for the Council.

Use of Reserves and Balances

99. Over the period to 2022, the Council plans to utilise £6.8m of its reserves and balances in order to smooth the budget savings requirement. This will allow time to plan future savings effectively to ensure that there is the minimum possible impact on residents and service users.
100. Over the MTFP period, the Council intends to use £3.9m from its Change Fund in order to support transformational activity to deliver its Strategic Plan.
101. The Council also plans to use £5.3m of revenue balances, including £3.5m identified in the 2015/16 Outturn report, as part of its Investment Strategy.
102. The planned use of balances will reduce the Council's General Fund balance to £9.4m by the end of the 2021/22 financial year, in line with the Council's recommended General Fund level.

Contingency

103. Following an assessment of the level of uncertainty within the MTFP, particularly in the areas of demand forecasting and the lack of knowledge around the likely level of Business Rate appeals, an overall contingency of £1.2m per annum has been provided for 2018/19, 2019/20, 2020/21 and 2021/22.

Prudential indicators, Investment Strategy and Minimum Revenue Provision

104. The Local Government Act 2003 created a new legal framework for capital investment from April 2004 and Local Authorities are now required by law to follow the CIPFA Prudential Code.
105. The key objectives of the Prudential Code are to ensure, within a clear framework, the Council's capital programme is affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.

106. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out indicators that must be used, and the factors that must be taken into account within treasury management.
107. The Prudential Code introduced guidance regarding the way in which surplus funds are invested and guidance requires that an Annual Investment Strategy is approved by Council
108. The government has released guidance relating to how local authorities set aside some of their revenues as provision for debt repayment. This requires authorities to prepare an annual statement of their policy on for determining the Minimum Revenue Provision.
109. The fundamental objective in considering the affordability of the Council's capital plans is to ensure that the total capital investment of the authority remains within sustainable limits and, in particular, to consider its impact on the local authority's "bottom line" council tax. Affordability is ultimately determined by a judgement about available resources.
110. In considering the affordability of its capital plans, the Council must consider all of the resources currently available to it and estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years. The authority is also required to consider known significant variations beyond this timeframe. This requires the maintenance of three-year revenue forecasts and three-year forward estimates of council tax as well as three-year capital expenditure plans. These are rolling scenarios, not fixed for three years.
111. Appendix F sets out the proposed prudential indicators together with the investment strategy and minimum revenue provision policy.

What decision(s) are being asked for?

112. That the Council approves the budget reductions outlined at Appendix A;
113. That that the Council approves the budget requirement for 2018/19 to be set at £111,285,339, as detailed in Appendix B;
114. Having taken into account the matters set out in Section 32 of the Local Government Act 1992 and the items set out within the report that the Council approves that the basic amount of Council Tax (Band D) for 2018/19 be £1,566.81 being a 2.99% increase in general Council Tax and an annual precept of 2.00% for adult social care which was introduced by Government in November 2015 to contribute towards the shortfall of funding for social care. In total this represents an increase of 4.99% in the basic amount of Council Tax for the whole of the Borough;
115. That the Council approves the estimated basic amount of Council Tax in areas with parish precepts be set at :-

Nunthorpe Parish	£1,570.17
Stainton and Thornton Parish	£1,576.12
116. That the Council approves the amounts of Council Tax for each category of dwelling be set in accordance with table 4 of Appendix E within the report;

117. That the Council approves the updated Investment Strategy as set out in Appendices G and H;
118. That the Council notes the refreshed Medium Term Financial Plan set out in this report; and
119. That the Council approves the Treasury Management Strategy, Minimum Revenue Provision Statement, Investment Strategy and Prudential Indicators as outlined in Appendix F.

Why is this being recommended?

120. To enable the Council to meet its statutory responsibility to set a balanced revenue budget for the financial year 2018/2019 and to ensure that a proper framework is in place for the medium term financial management of the Council.

Other potential decisions and why these have not been recommended

121. Not applicable.

Impact(s) of recommended decision(s)

Legal

122. The Council is required under legislation to set a revenue budget and agree the level of Council Tax and prudential indicators for 2018/19.

Financial

123. The approach set out within the report would allow the Council to meet its legal obligations in relation to budget setting, and meet the challenging financial targets faced in the MTFP period, while ensuring that there is a minimum impact on the level of service delivered to the public.

The Mayor's Vision for Middlesbrough

124. The budget continues to support the Mayor's commitment to invest in Middlesbrough and transform service delivery for residents as set out in the 2025 Vision for Middlesbrough.

Policy Framework

125. The revenue and capital budgets form part of the Council's Policy Framework and as such must be agreed by Full Council.

Wards

126. Expenditure outlined in the revenue and capital budgets will positively impact on all wards in Middlesbrough.

Equality and Diversity

127. The Public Sector Equality Duty (PSED) (as set out in the Equality Act 2010) places a statutory duty on the Council in exercising its functions, to have regard to the need to:
- eliminate discrimination, harassment and victimisation;
 - advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
 - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
128. Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:
- remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
 - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it; and
 - encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
129. It must also have due regard to the steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled including, in particular, steps to take account of disabled persons' disabilities.
130. The protected characteristics are: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation. Where proposed decisions may be relevant to one or more of these protected characteristics, the Council is obliged to assess the impact. If there is judged to be an adverse impact on these characteristics that is relevant to the duty above steps are taken to consider whether it can be avoided or mitigated. Where it cannot be avoided or mitigated, a decision can only be taken if it can be justified.
131. Proposals have been developed which protect frontline services and the town's most vulnerable groups as far as possible. The proposals for the 2018/19 budget were presented as part of the Strategic Planning report to Council on 6 December 2017 in three categories:-
- **Appendix B** – Initiatives for 2018/19 requiring no, or no further (where this has already been completed), public consultation i.e. either having no public impact, or having been already impact-assessed, mitigated where possible and / or justified. Some internal consultation may be required if the initiatives have a significant impact on employees.
 - **Appendix C** – Initiatives that will be subject to the impact assessment process and on which the Council will consult prior to implementation in 2018/19.
 - **Appendix D** – Initiatives for the period 2019-21 that may require separate consultations and / or impact assessments in future years as proposals are further developed.
132. Following this announcement, a screening assessment was completed on the proposals contained in Appendix C of the December 2017 report, which were:

- Increase fees and charges for relevant services over and above 2.5% in 2018/19 only to bring them in line with neighbouring local authorities and / or other providers, with relevant service users being consulted where appropriate.
 - While retaining the free for two hours car parking offer in certain car parks, increase income from short and long-stay car parks, reviewing pricing and capacity and usage.
 - Deliver ongoing efficiency improvements within Environment and Commercial Services, with no reduction in service quality.
 - Cessation of parts of the Ayresome Industries operation due to lack of demand for goods produced and to remove continuing budget pressure, ensuring the staff are redeployed into other Council services, or supported to obtain appropriate alternative employment.
 - Savings from joint commissioning of Public Health services with Redcar and Cleveland BC.
 - Jointly commission with local partners a single offer for adults with multiple complex needs, achieving a 20% saving in current expenditure, with no reduction in service quality.
 - Implement partnership model with the voluntary and Community Sector for the delivery of community advice and welfare rights, achieving a 20% saving in current expenditure.
 - Establish a joint Community Safety service with one or more local partners, in line with the Mayor's Promise on this issue within the 2025 Vision for Middlesbrough, achieving a 10% saving in current expenditure.
 - Implement service review within the Performance and Partnerships service to realise savings from digital initiatives such as online self-serve for customers.
 - Implement digital mail and digital purchasing in tandem, reducing the manual interventions required in these processes and other associated costs.
 - Continue to move customer (external and internal) processes 'online' where possible in line with the Council's Customer Strategy, reducing administration expenditure.
 - Signpost families to Department for Work and Pensions as the appropriate agency for the payment of short-term benefit advances, reducing the Council's discretionary expenditure in this area.
 - Improve efficiency of children's social work support through process improvements.
133. An assessment for the proposal to 'absorb separate grounds maintenance team for schools within the wider area care team, with no reduction in service quality' was not completed as there will be no impacts that require consultation or a screening impact assessment upon further analysis of the detail of the proposal.
134. An impact assessment was completed for each of the proposals and are appended to this report at Appendix C, along with an overarching impact assessment of the 2018/19 budget.
135. As a result, four will require a level 2 impact assessment to be completed in year before any decision is taken to implement these proposals:
- Cessation of parts of the Ayresome Industries operation.
 - Jointly commission with local partners a single offer for adults with multiple complex needs.
 - Implement partnership model with the voluntary and Community Sector for the delivery of community advice and welfare rights.
 - Continue to move customer processes 'online' where possible, reducing administration expenditure.

136. The impact assessment process found that:

- 5 of the proposals were potentially relevant to the disability protected characteristic, however proposals either had no impact on this group, contained measures to fully mitigate the impact of proposals on this group or had an impact that was assessed as being proportionate. A number of proposals will require a decision in year on whether to implement them, in some cases detail is required to be developed to understand the impact of the proposal. At this stage there are no concerns that these proposals could result in an adverse impact on this protected characteristic. The proposal in relation to Ayresome Industries partial closure is particularly relevant to this protected characteristic because of the composition of employees. A project group has been put in place to ensure that this review takes into account the needs of these employees fully, both during the consultation period and when designing the redeployment opportunities to ensure that the impact of this proposal is fully mitigated on this group. This will be assessed in a stage 2 impact assessment as the detail of the service review to implement the proposal is finalised for staff consultation.
- 4 of the proposals were potentially relevant to the age protected characteristic. Proposals either had no impact on this group, contained measures to fully mitigate the impact of proposals on this group or had an impact that was assessed as being proportionate.
- One of the proposals was potentially relevant to the race protected characteristic because of the staffing composition of the Performance and Partnerships review. There are no concerns that the proposed review could have a disproportionate adverse impact on this group.

137. A general consultation email address was launched along with a consultation section on the Council's website along with further detail on each of the proposals within Appendix C of the December 2017 report. This resulted in receipt of 7 email responses from individuals, one on behalf of a community organisation, along with 127 responses through the online consultation on the priorities and the proposals for the budget.

138. In relation to impacts on those with protected characteristics as described previously, comments received were generally around:

- The need to maintain other methods of access to services for those who were not IT literate – while the Council will be increasing the numbers of services that can be accessed online, people will still be able to phone and visit the Council customer contact centre and hubs if they are unable or unwilling to use online services.
- Safeguarding children – the Council has amended this proposal and has committed further resources to the delivery of children's social work and early help services
- The need to ensure that the disability related needs of employees of Ayresome Industries are appropriately considered and accommodated – the Council has put in place a project team to oversee consultation with staff and ensure that all are offered an appropriate redeployment solution that meets their needs and that their needs are taken into account during the consultation process. It is anticipated that there will be no disproportionate adverse impacts on the disability protected characteristic, however a stage 2 impact assessment will be completed as part of the process and considered prior to a decision on implementation to be taken in year.

Risk

139. The Council's current Strategic Risk Register is appended to the Budget and Balanced Scorecards: Quarter Three 2017/18 report to be considered by this meeting of the Executive. The proposed budget addresses some of the key risks set out in the risk register, most notably the pressures within Safeguarding and Children's Care.

Actions to be taken to implement the decision(s)

140. If approved, the proposals set out in this report will form the basis of the 2018/2019 revenue budget of the Council.

Appendices

- A Budget savings proposals 2018-21
- B Revenue Budget 2018/19
- C Revenue Budget 2018/19 – Impact Assessment (overall)
- D Revenue Budget 2018/19 – Impact Assessment (detail)
- E Council Tax Bands 2018/19
- F Prudential and Treasury Management Indicators Statement 2018/19
- G Investment Strategy 2016-21 (summary)
- H Investment Strategy 2016-21 (detail)

Background papers

06/12/17 Council Strategic Planning 2018-21

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