



# Overview and Scrutiny Board

## 3<sup>rd</sup> August 2004

<p><b>MEDIUM TERM FINANCIAL PLAN 2005/2006 – 2007/2008 AND REVENUE BUDGET 2005/2006</b></p>
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**EXECUTIVE MEMBER RESOURCES : Cllr N Walker**

**DIRECTOR OF RESOURCES: Paul Slocombe**

### **PURPOSE OF THE REPORT**

1. This report outlines the medium term financial position for 2005/2006 – 2007/2008 and sets out the estimated revenue budget for 2005/2006 for consideration by Members of the Overview and Scrutiny Board.

### **BACKGROUND AND CONSULTATION**

#### **Introduction**

2. The report has been based on Central Governments Spending Review 2004.

#### **2003/2004 Final Outturn**

3. The budget monitoring exercise completed in the 3<sup>rd</sup> quarter of 2003/2004 identified a potential net overspend of approximately £600k within services. A number of corporate measures were put in place to reduce the spending pressures in 2003/2004, which included a vacancy panel to consider appointment of staff, strict controls over equipment and furniture purchases and controls over additional service requests within the “Service Middlesbrough” arrangement.
4. These measures combined with a significantly improved Social Services Outturn position has led to an estimated net underspend within Services of £260k.
5. The accounts are currently being audited but the expected position within services is summarised in the following table :-

	£000's
Social Services	979
Environment & Neighbourhood Services	-219
Education	-588
Regeneration	-327
Corporate Services and Provisions	-105
	-260

### **Current Year's Revenue Budget**

6. The Council set its revenue budget at £164.4m in 2004/2005. No balances were applied to support the overall expenditure level of the Council. A Council Tax increase of 6.9% for Middlesbrough Council was applied.
7. In setting this year's budget approximately £1.5m of efficiency savings were identified. No cuts in services were proposed and an extra £0.6m, was provided for Education. This enabled the Education spending to be maintained at the level of our Formula Spending Share (FSS).
8. The first budget monitoring clinics are due to be held in August 2004.

### **Central Government Spending Review 2004**

9. Central Government announced on the 13th July 2004 the Spending Review. This sets out an outline of planned Central Government spending for the next 3 years.
10. The settlement for Local Government is summarised in the following table

	2005/2006	2006/2007	2007/2008
Increase in Formula Spending Share (FSS)	5.8%	5.5%	5.1%
Increase in Central Government Support	5.4%	5.5%	5.1%
Estimated increase in Council Tax	6.7%	5.5%	5.1%

11. The Spending review outlines a requirement to make 2% efficiency savings to invest in front line services. At this stage there is very limited information as to how this is to be delivered. It is expected that the Council will have to identify and account for efficiency savings as part of its budget setting process.

## Reserves

12. The Council is required to keep, as agreed with our external auditor, reserves at a minimum of 2% of General Fund net expenditure. This equates to between £3.5m and £3.8m over the medium term.
13. Indicated within the following table is the expected reserves position at 1/4/2004 :-

	£`m
As at 31 March 2003	4.50
2003/2004 Outturn	0.24
Planned use in 2003/2004	-1.70
Education windfall 2003/2004	1.00
Fire Authority contribution	0.20
PSA award grant	0.19
	4.43

14. There is an another potential source of reserves in 2004/2005 that is yet to be quantified. When Housing Stock Transfer takes place this year, any outstanding balance of the Housing Revenue Account (HRA) will revert to the Council. It is not possible at this stage to determine how much this may add to the Councils General reserves. The HRA reserve is currently estimated to be in excess of £3m;
15. The Comprehensive Performance Assessment (CPA) requires the Council to demonstrate an adequate level of balances, provisions and reserves. The analysis is currently being completed but we expect to meet the minimum requirement.
16. The recent announcement by the Office of National Statistics in respect of population changes indicates that the council will receive two years back dated revenue support grant of at least £1.7m per annum. The exact timing of the payments is dependant on the issue of Revenue Support Grant Supplementary Reports which may not be issued until 2005 or 2006.
17. No assumptions have been made within the projections in respect of the back-dated grant. The Direct of Resources has advised that the `back-dated` benefit is used to invest in corporate/infrastructure initiatives rather than being used to temporarily support ongoing revenue costs.

## Projected Revenue Budget

18. The 2005/2006 projected revenue budget is attached at Appendix A. The main variances from the current year's budget are summarised below and explained in paragraphs 19 to 26.

	£`m	£`m
<b>2004/2005 adjusted revenue budget</b>		164.412
<b>Add variances to current years budget</b>		
Pay awards and Inflation	5.172	
Effect of previous Council Decisions	0.100	
Net Education changes	0.624	
Environment	0.466	
Housing Stock transfer	0.565	
Efficiency Savings	-1.000	
Other	0.745	6.672
<b>2005/2006 draft revenue budget</b>		171.084

19. Pay awards have been provided for at the basis agreed by Local Government Employers for 2005. The Aggregate Schools budget has been assumed to increase by 3% for inflation. Running costs and other Inflation has been provided at 2%. Income for fees, charges, grants and recharges have been estimated to be 2.5%.
20. Additional provisions have been made within the budget for pay and inflation to meet the potential impact of job evaluation/single status.
21. Provision has been made for the full year effect in 2003/2004 of previous Council decisions in respect of the additional revenue costs associated with the new Art Gallery (£100K)
22. Education spending has been assumed to be in line with our Formula Spending share (FSS) as indicated in the following table :-

	£`m
<b>Estimated Available Education Resources</b>	
2005/2006 Projected Education FSS	77.639
<b>LESS Education expenditure</b>	
2004/2005 Education expenditure	74.771
Schools budget inflationary increase	1.721
Other education inflationary increase	0.522
<b>Net Resources available 2005/2006</b>	0.624

23. The current warden service is dependant on significant external funding. Provision has been made for grant fallout during 2005/2006. (£451k). An additional provision has also been made within Environment to accommodate costs associated with the agreed policy in respect of Travellers Sites (£15k).

24. Provision has been made for the full year impact of the Housing Stock transfer.
25. Measures have been taken to restructure the Council's debt portfolio. This combined with the impact of Housing Stock Transfer is estimated to generate £1m savings per annum.
26. Other costs are in respect of the fallout of external funding for the Book fund (£100k), Communications Budget (£10k), increased pension fund contributions (£550k), grant fall-out in respect of the GIS system support (£35k) and a provision to support the Council's People Strategy (£50k)

### **Medium Term Financial Plan**

27. A medium term financial plan (MTFP), outlining a broad financial position for the period 2005/2006 to 2007/2008 has been prepared on the basis of current information. The MTFP projects the levels of resources and commitments across a three year period, and is used to support strategic policy and service planning across the Council.
28. The level of resources estimated to be available has been based on the Spending Review released by Central Government on the 13 July 2004
29. Pay award assumptions have been based on the Local Government Employers settlement to 2006/2007 and a further 3% in 2007/2008
30. Provision has been over the three year period for the fall out of specific grant funding for the warden service (£1.6m) and economic development activities (£0.4m) from 2006/2007. The potential increase in superannuation rates (estimated cost £1.7m) has also been provided for from 2005/2006. Appendix B sets out the expected position over the Medium Term.
31. Projections in respect of external funding have included an assessment of the impact of the increased population assumptions made by the Office of National Statistics (ONS). It is estimated that the revised population will attract as a minimum approximately £1.7m per annum additional support. Discussions are ongoing as to assumptions in respect of migration assumptions and unattributable population changes. The outcome of those discussions may generate up to a further £1m per annum. No assumption has been made as to the potential additional benefit within the current projections.

### **Budget Strategy**

32. In preparing the 2005/2006 projected revenue budget and medium term plan, the following principles, consistent with previous years budget strategies and statements made by Executive Board have been adopted:-
  - to keep Council Tax increases to reasonable levels
  - to maintain appropriate balances, central provisions and earmarked reserves.

- to make services fully accountable for their own budgets and spending, and enforce 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 ringfence increases in Education FSS to Education Service budgets and to seek to maintain Education planned spending at FSS.
  - to ensure effective budget consultation processes are followed.
  - To ensure that the Council's financial strategy reflects the objectives of the Council.
  - to maximise the efficient, effective and economic use of resources, in conjunction with partners where appropriate, and in accordance with local strategic plans and priorities.
  - to maximise available resources to the environment
  - no increase in Social Services expenditure other than pay awards and inflation
33. The Medium Term Financial Plan has also assumed that any backdated Revenue Support Grant received is utilised for one off infrastructure type issues rather than being used to temporarily support ongoing expenditure.
34. The Education Service is to be instructed, in line with the Current budget strategy to maintain their budget within Education formula spending share (FSS). Social Services are to be instructed to maintain their budget within the current year's allocation, adjusted for pay awards and inflation.

### **Consultation**

35. Members will be given an opportunity to receive an informal presentation in respect of the Medium Term Financial plan before the end of September.
36. It is proposed to consult with the following groups throughout the budget setting process:
- Community Councils,
  - the works council
  - Middlesbrough Town Centre Company
  - senior staff with Middlesbrough Council
  - the Youth Parliament,

- the Local Chamber of Commerce
- Local Strategic Partnership,
- consultation with Headteachers/ Governing bodies,
- consultation with the Health & Social Care Forums,
- consultation with the Middlesbrough Voluntary Sector Partnership
- consultation with other Strategic Partners & Stakeholders ( e.g.; Cleveland Police Authority)

## **FINANCIAL IMPLICATIONS**

37. The projections are based on information currently available. Additional work is being undertaken as to the ongoing impact of the population changes.
38. The results of the 2004/2005 first quarters budget clinic will not be assessed and considered by Members until August 2004. Any budget structural issues will have to be addressed as part of the Medium Term Financial Plan
39. Appendix C outlines the potential gap/surplus at different Council Tax increase levels.

## **RECOMMENDATIONS**

40. It is recommended that Overview and Scrutiny Board note and consider the contents of the report.

## **REASONS**

41. The report outlines at an early stage the expected financial position of the Council for consideration and seeks guidance from members.

## **BACKGROUND PAPERS**

The following background papers have been used in the preparation of the report:-

- a. Central Government 2004 Spending Review – July 2004
- b. 2004/2005 Strategic Revenue Budget

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## DRAFT REVENUE BUDGET 2005/2006

	£`m	£`m
2004/2005 Revenue budget	164.412	
Add use of 2004/2005 balances	0.000	
<b>2003/2004 adjusted revenue budget</b>		164.412
<b>Add provision for pay awards &amp; inflation</b>		
Pay awards	1.420	
Job evaluation	0.750	
Schools budgets	1.721	
Service Middlesbrough	0.629	
Other	0.652	5.172
<b>Add net effect of previous decisions</b>		
Art Gallery	0.100	0.100
<b>Net Education resources position</b>		
Ringfence to FSS Increase	0.624	0.624
<b>Add Housing stock Transfer</b>		
Full year effect	0.315	
Retained Function increase	0.150	
Adopted Highways	0.050	
Contingency	0.050	0.565
<b>Environment</b>		
Travellers Sites	0.015	
Warden service grant fallout	0.451	0.466
<b>Technical adjustments</b>		
Capital Charges	-1.000	-1.000
<b>Add Other</b>		
Book Fund (Grant fallout)	0.100	
Communications	0.010	
Pension Fund	0.550	
GIS Support	0.035	
People Strategy	0.050	0.745
<b>2005/2006 revenue budget</b>		171.084
<b>Less use of balances</b>		0.000
<b>Adjusted 2005/2006 revenue budget</b>		171.084



Appendix B

Medium term financial plan

2005/2006 – 2007/2008

	2005/2006 £`m	2006/2007 £`m	2007/2008 £`m
2004/2005 Base budget	164.412	164.412	164.412
Pay awards and Inflation	5.172	10.115	15.180
Effect of previous Council Decisions	0.100	0.468	0.468
Net Education changes	0.624	1.981	2.777
Additional Social Services expenditure	0.000	0.000	0.000
Housing Stock Transfer	0.565	0.659	0.671
Pension increase	0.550	1.100	1.700
Grant fallout	0.451	1.377	1.627
Technical Changes	-1.000	-1.000	-1.000
Other	0.210	1.074	1.074
Net requirements	171.084	180.186	186.909
Use of balances	0.000	0.000	0.000
<b>Adjusted net requirements</b>	171.084	180.186	186.909
Estimated resources (at Govt assumed level)	172.032	180.055	186.661
Projected GAP/(Surplus)	-0.948	0.131	0.248

## Impact of Council Tax Increases

2005/2006 Council Tax Increase  %	2005/2006 Band D Council Tax  £	2005/2006 Expenditure Level  £`m	`Gap` from 2005/2006 Net requirements £`m
<b>0.0</b>	987.46	169.479	1.605
1.0	997.33	169.860	1.224
2.0	1,007.21	170.241	0.842
3.0	1,017.08	170.622	0.462
4.0	1,026.96	171.003	0.081
5.0	1,036.83	171.384	-0.300
6.0	1,046.71	171.765	-0.681
<b>6.7</b>	<b>1,053.62</b>	<b>172.032</b>	<b>-0.948</b>
7.0	1,056.58	172.147	-1.063
8.0	1,066.46	172.528	-1.444
9.0	1,076.33	172.909	-1.825
10.0	1,086.21	173.290	-2,206