



**AGENDA ITEM:**

**OVERVIEW & SCRUTINY BOARD**

**3 JANUARY 2006**

**MEDIUM TERM FINANCIAL PLAN 2006/2007 – 2009/2010 AND REVENUE  
BUDGET 2006/2007**

**PAUL SLOCOMBE: DIRECTOR OF RESOURCES**

**PURPOSE OF THE REPORT**

1. This report outlines the medium term financial position for 2006/2007 – 2009/2010 and sets out the estimated draft 2006/2007 revenue budget for consideration by Overview and Scrutiny Board.

**BACKGROUND AND CONSULTATION**

**Introduction**

2. The report has been based on the following Factors.

**2004/2005 Final Outturn**

3. The 2004/2005 Final Outturn Budget Clinics were held in August 2005. Social Services came within budget as predicted throughout the year. All services maintained their expenditure within the budgets allocated to them with the exception of environmental services who identified pressures associated with trading areas, increased energy prices and income shortfalls from the delayed implementation of proposed car parking charge increases.
4. Overall the Council made approximately a £800,000 net saving against its General Fund Budget for 2004/2005.
5. Gershon efficiency savings of £3.4 million were identified and applied in year.

## Current Year's Revenue Budget - 2005/2006

6. The Council set its revenue budget at £175.080 million in 2005/2006. No balances were utilised to support the overall expenditure level of the Council. A Council Tax increase of 4.8% for Middlesbrough Council was applied.
7. In setting this year's budget, identified structural budget issues were addressed, extra investment of £1.7 million in education, £1.6 million in the environment/community safety and £0.2 million to support regeneration activities was provided. No cuts in services were proposed.
8. The second quarter's budget monitoring clinics were held early in November 2005. A summary of the projected year end position by service is summarised in the following table: -

|                                      | £'000s |
|--------------------------------------|--------|
| Social Care                          | -25    |
| Environment & Neighbourhood Services | -144   |
| Children Families and Learning       | 343    |
| Regeneration                         | 0      |
| Corporate Services                   | -479   |
| Corporate Provisions                 | -500   |
|                                      | -805   |

9. Since the second quarters budget clinics an additional inflationary pressure of (+£100,000) has been identified in respect of the Social Care Independent Sector. Current advice suggests that an additional payment to consider the impact and timing of the increase in the minimum wage may need to be applied from 1<sup>st</sup> October 2005

## Central Government Spending Review and Revenue Support Grant

10. Central Government announced on the 13th July 2004 the Spending Review until 2007/2008. This sets out an outline of planned Central Government spending for the period.
11. The basis of the proposed settlement for Local Government is summarised in the following table

|  | 2006/2007 | 2007/2008 |
|--|-----------|-----------|
| Increase in Formula Spending Share (FSS) | 5.5%      | 5.1%      |
| Increase in Central Government Support   | 5.5%      | 5.1%      |
| Estimated increase in Council Tax        | 5.5%      | 5.1%      |

12. The Spending review outlines a requirement to make 2.5% efficiency savings to invest in front line services. Under the requirements, each Local Authority is required to identify Gershon Savings The Target for Middlesbrough is approximately £3.4m worth of savings. Proposals will be identified as part of the budget setting process.
13. The 2006/2007 Revenue Support Grant Consultation paper is not expected until late November 2005/early December 2005. There are likely to be a number of significant changes to the way in which funding is allocated. The most significant one being the introduction of the Dedicated Schools Grant whereby Central government funding will be allocated as a direct grant to schools rather than through the general Revenue Support Grant. There are also a number of additional proposed changes to the Revenue Support Grant Settlement methodology and formula for distribution across most Service Blocks.
14. Whilst the above changes have been assessed on the basis of known information there is an increased level of uncertainty as to the expected Revenue Support Grant allocation. It is important to note that currently 78% of the available funding to support the Council's Net revenue expenditure is through Revenue Support Grant.

#### **Projected 2006/2007 Draft Revenue Budget**

15. The 2006/2007 projected revenue budget is attached at Appendix A. The main variances from the current year's budget are summarised below and explained in paragraphs 16 to 40.

|  | £<br>million | £<br>million   |
|--|--------------|----------------|
| <b>2005/2006 revenue budget</b>              | 175.080      |                |
| LESS Dedicated Schools Grant effect          | -68.266      | 106.814        |
| <b>Add variances to current years budget</b> |              |                |
| Pay awards and Inflation                     | 3.659        |                |
| Effect of previous Council Decisions         | 0.438        |                |
| Net Education changes                        | 0.248        |                |
| Other Children's Families and Learning       | 0.405        |                |
| Social Care                                  | 0.505        |                |
| Environment & Neighbourhood Services         | 3.191        |                |
| Regeneration                                 | 0.944        |                |
| Corporate Services                           | 0.324        |                |
| Efficiency Savings                           | -0.750       |                |
| Other  | 0.950        | 9.914          |
| <b>2006/2007 draft revenue budget</b>        |              | <b>116.728</b> |

16. Pay awards have been provided for at the basis agreed by Local Government Employers in 2005. Running costs and other Inflation has been provided at 2%. Income for fees, charges, grants and recharges have been estimated to be 2.5%.
17. An additional Inflationary provision has been made for the assessed impact of increased prices in the Social Care independent sector together with the effect of higher energy prices that are expected to be applied during 2005 and 2006.
18. Provision has been made for the full year effect in 2006/2007 of previous Council decisions in respect of the additional revenue costs associated with the new Art Gallery (+£368,000).
19. During 2005/2006 the Executive took a decision not to implement proposed Car Parking charges. An allowance of (+£70,000) has been made within next years draft budgets on the basis of no-increase in 2005/2006 to allow a medium to long-term car parking charging strategy to be developed. An assumption of a 2.5% increase on an annual basis from 1 April 2006 has been built into the Medium Term Financial Plan.
20. 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> |               |
| 2006/2007 Projected Education FSS              | 11.271        |
| <b>LESS Education expenditure</b>              |               |
| 2005/2006 Education expenditure (FSS assumed)  | 10.741        |
| Education inflationary increase                | 0.282         |
| Building schools for Future                    | 0.500         |
| <b>Net Resources available 2006/2007</b>       | <b>-0.252</b> |

21. Within Children, Families and Learning services, a number of pressures have been identified following an increased number of placements Children looked after residential placements (+£160,000), Agency Fostering Placements (+190,000) and Adoption Placement Fees (+£40,000).
22. An additional allowance (+£15,000) has been made for the annual provision for `Boro Buzz`.
23. Social Care services have similar `placement` pressures to those around Children Families and Learning, as follows: - Residential placements (+£138,000), Nursing placements (+197,000) and Mental Health residential care placements (+£140,000).
24. An Allowance (+30,000) has been made as to the cost of additional legislative responsibilities in respect of Failed Asylum Seekers following recent national court judgements.

25. No additional provision has been made for a Middlesbrough Council Commitment to the Healthy Living Centre Initiatives.
26. The current warden service is dependant on significant external funding. Provision has been made for grant fallout during 2006/2007 (+£1,012,000). An additional provision (+£209,000) has also been made within Environment for the phased fall out, over three years of Lane Rental income. Costs associated with the ongoing funding of the Rapid Response Team (+£200,000) have also been included.
27. An allowance of (+£150,000) has been made for potential costs in respect of Selective Licensing responsibilities.
28. From the 1<sup>st</sup> April new legislation requires Local authorities to offer free off-peak travel to any individual over the age of 60. Whilst local Authorities have certain discretion to `tailor` their schemes to local circumstances and priorities it has been assumed that the cost of the approved Middlesbrough scheme will be within the additional resources allocated to it by Central government. The current projection, subject to receiving the Revenue Support Grant consultation paper is that we will receive approximately £1.6 million funding for this purpose.
29. A Provision (+£400,000) has been made for the fall-out of specific Economic Regeneration Grants.
30. During the 2005/2006 Budget clinics two structural budget issues were identified within Regeneration. They related to unrealistic income targets for the Enterprise Centres (+£57,000) and Renewal fee income (+£60,000).
31. A review of Enterprise Centre provision and income is to be undertaken during 2005/2006 and 2006/2007. It is not considered appropriate to increase fees in 2006/2007 and a provision of (+£10,000) has been made for the impact of a no increase in charges for inflation.
32. An additional provision of (+£77,000) has been provided for the work associated with the Local Development Framework. An additional (+£30,000) has been included for a contribution from Middlesbrough Council towards the successful management, administration and marketing of the Stockton Middlesbrough Partnership. It is expected that the Councils contribution will be matched by other partner agency contributions.
33. Following an external review of the provision of Events, Arts and Culture within Middlesbrough, it is proposed to make a provision of (+£121,000) for staffing costs to develop and deliver the Cultural Vision for Middlesbrough together with a (+£50,000) marketing budget.
34. Provisions of (+£50,000) and (+£39,000) have been made to deliver the Councils Diversity and Sustainable Communities programme and to co-ordinate the Councils response to dealing with the issues and implications of domestic violence respectively.

35. Provision has been made within Corporate Services for costs associated with the delivery and maintenance of the Geographical Information system (GIS), Land and property Gazetteer and Web site development (+£119,000).
36. There are a number of pressures in respect of the delivery of improved Human Resource practices, including Workforce Systems, CRB checks and establishment controls. A provision of (+£79,000) has been made within the MTFP.
37. Additional pressures in respect of the implications of the Freedom of information Act (+£36,000) and Land Registry voluntary registration (+£30,000) have also been provided for.
38. Allowance has been made for other Corporate Services pressures including the reinstating of previous reductions made to the Voluntary Sector grants budget (+£20,000) and the impact (+£40,000) of an annual Middlesbrough Council Neighbourhood Survey.
39. Measures have been taken to restructure the Council's debt portfolio. This is estimated to generate £750,000 savings per annum.
40. Other costs include increased pension fund contributions (+£437,000), the continued development of funds (+£200,000) to maintain and develop existing systems and process within the Middlesbrough partnership contract, and a provision (approx +£250,000) to underwrite Building Schools for the future costs.

### **Social Care Spending pressures**

41. Social Care has identified a number of potential pressures over the Medium Term, based on an assumption of the level of demand. A summary of the current assessment is shown below: -

|                       | 2006/2007<br>£'000s | 2007/2008<br>£'000s | 2008/2009<br>£'000s |
|-----------------------|---------------------|---------------------|---------------------|
| Learning Disabilities | 255                 | 947                 | 2,200               |
| Older People          | 130                 | 265                 | 403                 |
| Mental health         | 82                  | 173                 | 261                 |
| Supporting people     | 769                 | 804                 | 759                 |
|                       | 1,236               | 2,189               | 3,623               |

42. The above assessment, recently completed by Social Care, is currently being examined and does not consider options for alternative methods of service delivery. Further work is to be undertaken between Social Care and resources as to impact of the above assessment.
43. The pressures at 41 have not been included in the Medium Term Financial Plan and are being subjected to further analysis and challenge.

## **Medium Term Financial Plan**

44. A Medium Term Financial plan (MTFP), outlining a broad financial position for the period 2006/2007 to 2009/2010 has been prepared on the basis of current information. The MTFP projects the levels of resources and commitments across the next financial year and a further three-year period, and is used to support strategic policy and service planning across the Council.
45. The level of resources estimated to be available has been based on the Spending Review released by Central Government on the 13 July 2004 together with an assessment of the potential methodology changes to the 2006/2007 Revenue Support Grant.
46. Pay award assumptions have been based on the Local Government Employers settlement to 2006/2007 and a further 3% in 2007/2008 and ongoing
47. Provision has been for the fall out of specific grant funding for the warden service (£1.1m) 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.

## **Budget Strategy**

48. In preparing the 2006/2007 projected revenue budget and medium term financial 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
    - The Council will have a view to National Assumptions together with Unitary authority, regional and local levels of council Tax.
  - to maintain appropriate balances, central provisions and earmarked reserves.
    - appropriate provisions will be made for assessed liabilities
  - 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.
    - Structural budget issues will be addressed
    - Services will be given, in full, the impact of inflationary increases (including pay awards)
  - to `passport` Education funding increases to the Education Service

- to ensure effective budget consultation processes are followed.
- to ensure that the Council's financial strategy reflects the objectives of the Council.
  - Council priorities will not be driven by Formula Spending Share allocations.
  - The distribution of resources will be driven by the Council's priorities for improved performance and investment
- 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.
  - Services are required to meet the requirements of Gershon, together with the Value For Money (VFM) criteria associated with the Audit Commissions Corporate Performance Assessment criteria.
- to maximise available resources to the Environment and Regeneration
- no increase in Social Services (Social Care and Children families and learning) expenditure other than pay awards and inflation or evidenced and established external demand pressures.
- to ensure that the impact of legislative changes are considered as part of the budget setting process

49. 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.

50. The Education service are to be instructed, in line with the Current budget strategy to maintain their budget, including the costs associated with Building schools for the Future, 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 subject to a full assessment of evidenced and established external demand pressures.

### **Consultation**

51. Members will be given an opportunity to receive an informal presentation in respect of the Medium Term Financial plan before the end of December.

52. 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)

**Scrutiny:**

53. In addition to the above consultation, reports will be taken to the Overview and Scrutiny Board, throughout the budget setting processing to allow full and proper scrutiny of the Medium Term Financial Plan, the Budget Strategy, the 2006/2007 annual revenue budget and to consider, as required by Section 25 of the Local Government Act 2003: -
- a. the robustness of the budget forecasts; and
  - b. the adequacy of the proposed level of financial reserves.

**FINANCIAL IMPLICATIONS**

54. The projections are based on information currently available.
55. Appendix C outlines the potential gap/surplus at different Council Tax increase levels.
56. A potential gap of £1.76 million is projected for 2006/2007. It is proposed that all services are requested to identify Gershon savings 1.25% cashable and 1.25% cashable) for consideration by Executive.
57. Services will be required to consider how the Council can make the `best use` of Resources and how unit costs can be improved by:
- a. Reducing inputs for the same outputs (Productivity gains)

- b. Reducing price for the same outputs (Procurement led reduced costs)
- c. Greater outputs with the same inputs (Increased Performance)
- d. Increased outputs exceed increased inputs (Performance driven investment)

## **RECOMMENDATIONS**

58. Members are asked to note and consider the contents of the report.

## **REASONS**

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

## **BACKGROUND PAPERS**

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

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- a. Central Government 2004 Spending Review – July 2004
- b. 2005/2006 Strategic Revenue Budget
- c. 2<sup>nd</sup> Quarters budget clinic reports

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## DRAFT REVENUE BUDGET 2006/2007

|  | £<br>million | £<br>million |
|--|--------------|--------------|
| 2005/2006 Revenue budget                             | 175.080      |              |
| Less Dedicated schools Grant                         | -68.266      |              |
| <b>2005/2006 adjusted revenue budget</b>             |              | 106.814      |
| <b>Add provision for pay awards &amp; inflation</b>  |              |              |
| Pay awards and inflation                             | 2.225        |              |
| Independent Social Care Sector (additional increase) | 0.157        |              |
| Service Middlesbrough                                | 0.558        |              |
| Energy (Additional increase)                         | 0.319        |              |
| Capital Borrowing                                    | 0.400        | 3.659        |
| <b>Add net effect of previous decisions</b>          |              |              |
| No increase Car parking charges 2005/2006            | 0.070        |              |
| Art Gallery  | 0.368        | 0.438        |
| <b>Net Education resources position</b>              |              |              |
| Building schools for the future Fees                 | 0.500        |              |
| Balance of ` passported ` funding                    | -0.252       | 0.248        |
| <b>Other Children families and learning</b>          |              |              |
| Children looked after increased placements           | 0.160        |              |
| Agency fostering placements                          | 0.190        |              |
| Adoption placements fees                             | 0.040        |              |
| Boro Buzz  | 0.015        | 0.405        |
| <b>Social Care</b>                                   |              |              |
| Residential placements                               | 0.138        |              |
| Nursing placements                                   | 0.197        |              |
| Mental health residential placements                 | 0.140        |              |
| Asylum seekers responsibility                        | 0.030        | 0.505        |
| <b>Environment &amp; Neighbourhood Services</b>      |              |              |
| Warden service grant fallout                         | 1.012        |              |
| Lane Rental income fall-out                          | 0.209        |              |
| Rapid Response Team                                  | 0.200        |              |
| Selective Licensing                                  | 0.150        |              |
| Concessionary Fares                                  | 1.562        |              |
| Albert Park  | 0.018        |              |
| 10K run/Marathon                                     | 0.040        | 3.191        |
| <b>Regeneration</b>                                  |              |              |
| Economic Regeneration grant fallout                  | 0.400        |              |
| Renewal fee income                                   | 0.060        |              |
| Enterprise Centres                                   | 0.057        |              |
| Archives   | 0.030        |              |
| Enterprise Centre Income (Hold inflation increase)   | 0.010        |              |
| Local Development Framework                          | 0.077        |              |
| Stockton Middlesbrough Partnership                   | 0.030        |              |
| Diversity Officer                                    | 0.050        |              |
| Domestic Violence officer                            | 0.039        |              |
| Classical Event                                      | 0.020        |              |

|  | £<br>million | £<br>million |
|--|--------------|--------------|
| <b>Regeneration (Cont'd)</b>             |              |              |
| Culture Commercial manager               | 0.121        |              |
| Culture Marketing                        | 0.050        |              |
| Middlehaven                              | 0.000        | 0.944        |
| <b>Corporate Services</b>                |              |              |
| Land & Property Gazetteer                | 0.050        |              |
| Workforce Development                    | 0.050        |              |
| GIS and Web site                         | 0.069        |              |
| Human Resource Improvements              | 0.029        |              |
| Middlesbrough Neighbourhood Survey       | 0.040        |              |
| Voluntary registration: Land registry    | 0.030        |              |
| Freedom of Information act               | 0.036        |              |
| Voluntary Sector Grants                  | 0.020        | 0.324        |
| <b>Efficiency savings</b>                |              |              |
| Capital Charges                          | -0.750       | -0.750       |
| <b>Other</b>                             |              |              |
| Pension fund                             | 0.437        |              |
| Partnership Arrangements                 | 0.200        |              |
| Housing stock Transfer                   | 0.061        |              |
| Schools for future provision             | 0.252        | 0.950        |
| <b>2006/2007 revenue budget</b>          |              | 116.728      |
| <b>Less use of balances</b>              |              | 0.000        |
| <b>Adjusted 2006/2007 revenue budget</b> |              | 116.728      |

Appendix B

Medium term financial plan  
2006/2007 – 2009/2010

|   | 2006/2007<br>£`million | 2007/2008<br>£`million | 2008/2009<br>£`million | 2009/2010<br>£`million |
|---|------------------------|------------------------|------------------------|------------------------|
| 2005/2006 adjusted Base budget              | 106.814                | 106.814                | 106.814                | 106.814                |
| Pay awards and Inflation                    | 3.659                  | 7.008                  | 10.511                 | 14.053                 |
| Effect of previous Council Decisions        | 0.438                  | 0.538                  | 0.538                  | 0.538                  |
| Net Education changes                       | 0.248                  | 0.425                  | 0.363                  | 0.899                  |
| Other Children's Families and Learning      | 0.405                  | 0.405                  | 0.405                  | 0.405                  |
| Social Care                                 | 0.505                  | 0.505                  | 0.505                  | 0.505                  |
| Environment & Neighbourhood Services        | 3.191                  | 3.581                  | 3.790                  | 3.877                  |
| Regeneration                                | 0.944                  | 1.308                  | 1.106                  | 1.143                  |
| Corporate Services                          | 0.324                  | 0.394                  | 0.394                  | 0.394                  |
| Efficiency Savings                          | -0.750                 | -0.750                 | -0.750                 | -0.750                 |
| Other                                       | 0.950                  | 1.780                  | 2.472                  | 3.090                  |
| Net requirements                            | 116.728                | 122.008                | 126.149                | 130.893                |
| Use of balances                             | 0.000                  | 0.000                  | 0.000                  | 0.000                  |
| <b>Adjusted net requirements</b>            | 116.728                | 122.008                | 126.149                | 130.893                |
| Estimated resources (at 5% Council tax inc) | 114.966                | 119.222                | 123.711                | 128.448                |
| Projected GAP/(Surplus)                     | 1.762                  | 2.787                  | 2.438                  | 2.445                  |

## Impact of Council Tax Increases

| 2006/2007<br>Council Tax<br>Increase<br><br>% | 2006/2007<br>Band D<br>Council Tax<br><br>£ | 2006/2007<br>Expenditure<br>Level<br><br>£`m | `Gap`<br>from<br>2006/2007<br>Net<br>requirements<br>£`m |
|---|---|--|--|
| <b>0.0</b>                                    | 1,034.68                                    | 112.944                                      | 3.784  |
| 1.0   | 1,045.03                                    | 113.346                                      | 3.381  |
| 2.0   | 1,055.37                                    | 113.749                                      | 2.979  |
| 3.0   | 1,065.72                                    | 114.152                                      | 2.576  |
| 4.0   | 1,076.07                                    | 114.555                                      | 2.173  |
| 5.0   | 1,086.41                                    | 114.958                                      | 1.770  |
| 6.0   | 1,096.76                                    | 115.361                                      | 1.367  |
| 7.0   | 1,107.11                                    | 115.763                                      | 0.964  |
| 8.0   | 1,117.45                                    | 116.166                                      | 0.562  |
| 9.0   | 1,127.80                                    | 116.569                                      | 0.159  |
| 10.0  | 1,138.15                                    | 116.972                                      | 0.244  |