

AGENDA ITEM: 6

OVERVIEW & SCRUTINY BOARD

28 FEBRUARY 2006

REVENUE BUDGET 2006/2007

PAUL SLOCOMBE: DIRECTOR OF RESOURCES

PURPOSE OF THE REPORT

1. This report provides an update in respect of the 2006/2007 Local Government Finance Settlement and sets out the recommended Revenue Budget for 2006/2007.

BACKGROUND AND CONSULTATION

Local Government Finance Settlement

2. Central Government announced the final 2006/2007 Local Government Finance Settlement on the 31st January 2006. There are only minor changes from the provisional settlement announced in December 2005.
3. Middlesbrough's Formula Grant has been confirmed at £71.338 million. This is approximately £139,000 more than that outlined in the consultation paper and has only been updated for minor national data changes.

Consultation

4. Budget consultation has been completed with the appropriate stakeholders in relation to the Budget Strategy, the Medium Term Financial Plan, the draft 2006/2007 Revenue Budget and the issues facing the Council in setting its budget.
5. The consultation has included, Members, Scrutiny, Local Chamber of Commerce and Business Sector representatives, School representatives, Community Councils, Works Council and Senior Managers across all services within the Council.

Revenue Budget 2006/2007

6. The Council's Revenue Budget has been prepared in accordance with the budget Strategy agreed by Executive on the 6th December 2005: -
- 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 Grant allocations.
 - The distribution of resources will be driven by the Councils 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

7. Details of the current Medium Term Financial Plan and draft revenue Budget were reported to Executive on the 6th December 2005. The report outlined the projected financial position of the Council for the next four years (2006/2007–2009/2010) and set out the draft 2006/2007 Revenue Budget.
8. The report to Executive identified a shortfall of £1.8 million in available resources. Executive requested services to identify efficiency savings and requested the Director of Resources to review assumptions within the Medium Term Financial Plan.
9. A further report was submitted to Executive on the 20th December 2005 which set out the implications of the Provisional Revenue Support Grant and indicated that based on the agreed Budget Strategy of the Council and our proposed allocation of Central Government Support that the shortfall in available resources had been revised to £2.3 million

Service efficiency Savings

10. Services were requested to identify efficiency savings of £1.8 million and submit their proposals for appraisal by Strategic Resources by the 31st December 2005. All services have submitted proposals which, following discussions between the respective Services and Strategic Resources have been appraised on the basis of meeting efficiency criteria in that they don't represent a cut in service.
11. Details of the respective proposals for consideration by members are attached at appendix A and are summarised in the following table: -

Core Service	£`000s
Social Care	-320
Env. & Neighbourhood Services	-275
Children Families & Learning	-295
Regeneration	-110
Strategic Resources	-369
Legal & Democratic services	-45
HR, Performance & Planning	-45
Net efficiency savings	-1,459

12. In addition to service efficiency savings identified for 2006/2007 a number of additional areas for potential future savings were identified as part of the budget setting process. No allowance has been made within the draft 2006/2007 revenue as it is considered further work is required to assess the overall impact on service delivery and the potential value for money savings which may accrue to the Council.
13. Appendix B summarises the areas for further consideration. It is proposed that full consultation will be undertaken as part of the appraisal process.

Review of Medium Term Financial Plan.

14. The Director of Resources has undertaken a review of the Medium Term Financial plan and has identified a number of variances which are summarised in the table below and explained in paragraphs 15 to 22:-

	£`000s
Safeguarding Children's Grant Fallout	389
Local Education Authority: Reduced flexibility	234
Car Parking Vat	-490
Building Schools for the Future	-500
Review of Inflation provision	-129
Concessionary Fares	-226
Review of Growth items	-145
Captain Cook museum Charges	18
	-849

15. Included within the final Revenue Support Grant proposals is the fallout of the Safeguarding Children Grant from Central Government. This is considered a mainstream service and will have significant impact on the service being delivered unless the grant fallout is funded from within the Council's General Fund revenue budget.
16. Children Family and Learning have identified significant Gershon savings. The Revenue Support Grant settlement, however has only allowed a 2.1% increase for the Local Education Authority (LEA). This together with the reduced flexibility for the LEA from the introduction of the Dedicated Schools grant has meant that the Service is unable to maintain existing services within the additional resources `passported` through the Revenue Support Grant Settlement. Further savings could not be made in 2006/2007 without significant impact on current levels of service delivery.
17. A recent Tax Tribunal decision has ruled that Local Authorities should be able to treat off-street parking as outside the scope of Value Added Tax (VAT). Whilst this does not impact on the actual level of charge it reduces the councils liability to Her Majesty's Revenues and Customs (RC). Whilst it is considered that the decision is firmly in favour of local authorities, RC may appeal the decision. It is proposed to budget for the estimated £490,000 annual revenue benefit to the Council, but also provide a general provision to cover any shortfall should RC be successful with an appeal.
18. Building Schools for the Future (BSF). It is estimated that the cost of external fees in 2006/2007 for the implementation of the BSF programme is £500,000. It is proposed to fund this from the backdated Revenue Support Grant resultant from our successful population case.
19. A review of the provisions for inflation, including the impact of reduced interest rates has identified a net reduction of £129,000.

20. Detailed analysis work has been undertaken in respect of the potential impact and cost of the revisions to the Concessionary Fares scheme effective from 1 April 2005. Appropriate budget provision for a 30% increased take up in the number of journeys has been assumed in the budget. This reduces the previous estimate by £226,000. It should be noted that this does not seek to restrict the application of the scheme: costs will be reviewed throughout the year and backed by central reserves, should the increase in provision exceed 30%.
21. All growth items have been reviewed and considered alongside the impact of the above proposed reductions. It is not considered possible to implement all of the proposals from 1 April within a Council Tax increase of 5%. The following reductions are proposed for consideration: -
 - a) Implement Culture Marketing budget and additional staffing resource from 1st October 2006 – (£85,000 reduction)
 - b) No increase in Neighbourhood Survey funding (£40,000 reduction). A Gershon efficiency saving has been proposed which is based on the merging of Neighbourhood and other surveys.
 - c) No reinstatement of previously agreed efficiency savings to the Voluntary Sector Grant budget – (£20,000). The concept of efficiency savings and Gershon should be applied to partners funded by Middlesbrough Council resources.
22. During the budget consultation process an additional growth request to remove charges from the Capitan Cook museum has been received. This would bring the museum in line with the no charge policy for the Dorman museum and MIMA. Cost (£18,000)
23. Social Care has identified a number of potential pressures over the medium term, based on an assumption of the level of demand. These pressures are particularly in respect of: -
 - a) Fair Price for Residential Care;
 - b) anticipated demand led pressures for Adults with Learning disabilities;
 - c) anticipated demand led pressures for services for older people, including those with Mental Health problems and Physical Disabilities; and
 - d) the supporting people review of Older Person Services
24. The potential impact of the above pressures over the medium term is currently being examined. Further work is to be undertaken between Social Care and Strategic Resources as to the potential impact on the Council and future options for service delivery that considers the Councils Commissioning role.

25. The introduction of the Dedicated Schools grant has placed significant pressures on the Local Education Authority and reduced flexibility. The potential impact over the medium term is to be subject to further analysis and monitoring.

Robustness of Budget Calculations

26. The Director of Resources advice in setting the 2006/2007 revenue budget is based on work undertaken across all Council Services regarding the detailed preparation of expenditure and income forecasts. It follows a series of consultation meetings with Members, Partners, Community Council Representatives and Council Officers.
27. It is the opinion of the Director of Resources that the budget calculations for 2006/2007 are robust in that;
- a. 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;
 - b. appropriate provisions are made within the budget for pay and inflation;
 - c. a prudent view of the net costs of the Council's overall cash flow and Prudential borrowing is taken;
 - d. an analysis of financial risks effecting the budget are completed; and
 - e. appropriate consideration is given to the level of Council Tax and external funding available to the Council.

Adequacy of Financial Reserves

28. 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 medium term financial plans to consider the establishment and maintenance of reserves.
29. Proper consideration has to be given to: -
- a. working balances to help cushion the impact of uneven cash flows and to avoid unnecessary temporary borrowing;
 - b. general fund reserves to provide a contingency for the impact of unexpected events or emergencies; and
 - c. specific earmarked reserves to meet known or predicted liabilities
30. The Director of Resources has advised that he considers it is appropriate to maintain a minimum of between £3.5m and £4.0m over the medium term. This advice is based on the extent to which budget monitoring processes are work effectively, an assessment of financial risks and the extent to which specific provisions are made to meet known and expected liabilities.

31. Indicated within the following table is the expected reserves position at 1/4/2006: -

	£`000s
As at 31 March 2005	4,858
2005/2006 Estimated Outturn	705
Planned use in 2005/2006	- 262
	5,301

32. Proper provision has been made for the impact of housing stock transfer and the associated Pension Fund liabilities. Any residual Housing Revenue Account balances will become available for use by the Council during 2006/2007.
33. The Council was successful in achieving an increase in the population assumptions made by the Office of National Statistics. The advice from the Director of Resources is that any backdated grant should be applied against new infrastructure initiatives rather than being applied to support ongoing expenditure.
34. Appropriate earmarked provisions have been made for known liabilities, including equal pay and insurance liabilities.

FINANCIAL IMPLICATIONS

35. The Council is required to set a budget for 2006/2007. 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 2006/2007.
36. Executive approved the above amendments to the draft 2006/2007 Revenue Budget and the revised Budget requirement will be £114.458 million as detailed in Appendix C.
37. The basic (Band D) Council Tax for Middlesbrough as a whole is calculated as follows: -

	£	£
Budget Requirement		114,458,000
Less:		
Revenue Support Grant	11,542,626	
NNDR	59,795,323	71,337,949Cr
Net requirements		43,120,051
Council Tax Collection Fund Surplus		-110,714
(a)		43,009,337
Taxbase (b)		39,698
Basic Council Tax (a) / (b)		£1,083.413

38. Tax levels for the remaining bands are set in varying proportions to the Band D level, as follows: -

Band	Proportion	Council Tax £
A	6/9	722.275
B	7/9	842.655
C	8/9	963.034
D	1	1,083.413
E	11/9	1,324.171
F	13/9	1,564.930
G	15/9	1,805.688
H	18/9	2,166.826

39. The tables at points 37 and 38 above relate only to Middlesbrough Council's element of the Council Tax and exclude Cleveland Police Authority and Cleveland Fire Authority precepts.
40. The level of Council Tax associated with the budget requirement represents a 4.7% increase on the current year's level (for Middlesbrough Council's element of the Council Tax)

RECOMMENDATIONS

41. It is recommended that OSB note:-
- Officers are requested to undertake further work in respect of the potential future value for money savings identified at Appendix B.
 - The budget requirement for 2006/2007 (including Parish Precepts) be set at £114.458 million as detailed in Appendix C.
 - 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 Executive agree the basic amount of Council Tax (Band D) for 2006/2007 be £1,083.413, being the average (Band D) Council Tax for the whole of the Borough.

REASONS

42. The Council is required under legislation to set a revenue budget and agree the level of Council Tax for 2006/2007.

Paul Slocombe
Director of Resources

