



AGENDA ITEM: 5

OVERVIEW & SCRUTINY BOARD

DATE: 9 JANUARY 2007

MEDIUM TERM FINANCIAL PLAN 2007/2008 – 2010/2011 AND REVENUE BUDGET 2007/2008

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PURPOSE OF THE REPORT

1. This report outlines the medium term financial position for 2007/2008 – 2010/2011 and sets out the estimated draft 2007/2008 revenue budget for consideration by Overview & Scrutiny Board.

BACKGROUND AND CONSULTATION

Introduction

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

2005/2006 Final Outturn

3. The 2005/2006 Final Outturn was reported to Executive in June 2006. All services maintained their expenditure within the budgets allocated to them. Overall the Council made approximately a £728,000 net saving against its General Fund Budget for 2005/006
4. Efficiency savings of £3.6 million were identified and applied in year.

Current Year's Revenue Budget - 2006/2007

5. The Council set its revenue budget at £114.5 million in 2006/2007. No balances were utilised to support the overall expenditure level of the Council. A Council Tax increase of 4.7% for Middlesbrough Council was applied.

6. In setting this year's budget, identified structural budget issues were addressed, no cuts in services were proposed and extra investment of £6million was placed in key services including: -
- a) £1.3 million free travel for pensioners
 - b) £1.0 million for street wardens
 - c) £1.0 million for regeneration
 - d) £0.8 million services for vulnerable children
 - e) £0.5 million social care for older people and disadvantaged groups
 - f) £0.5 million towards school improvement plans
7. The second quarter's budget monitoring clinics were held early in November 2006. A summary of the projected year end position by service is summarised in the following table: -

	£'000s
Children, Families and Learning	+333
Social Care	+98
Environment	-2
Regeneration	-15
Corporate Services	-367
Corporate Costs and provisions	-381
	-334

8. Whilst a net saving of £334,000 is predicted across the Council there are significant budget pressures within Children Families and Learning, the majority of which relate to demand led pressures. It is considered that these pressures will also arise in 2007/2008.

Central Government Spending Review and Revenue Support Grant

9. 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.
10. 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 £3.8m worth of savings. Proposals will be identified as part of the budget setting process.
11. The 2007/2008 Revenue Support Grant Consultation paper was received on the 28th November 2006 and is in line with that indicated early in January 2006. There are no significant changes from that indicated at the start of the year.

Projected 2007/2008 Draft Revenue Budget

12. The 2007/2008 projected revenue budget is attached at Appendix A. The main variances from the current year's budget are summarised below and explained in paragraphs 13 to 30.

	£ Million	£ million
2006/2007 Revenue Budget		114.458
Add variances to current years budget		
Pay awards and Inflation	3.249	
Effect of previous Council Decisions	0.515	
Children's Families and Learning	0.869	
Social Care	0.500	
Environment & Neighbourhood Services	0.246	
Regeneration	0.464	
Corporate Services	0.040	
Efficiency Savings	-0.500	
Technical Changes	0.105	
Other	0.564	6.052
2007/2008 Draft Revenue Budget		120.510

13. Pay awards have been provided for at 3% in 2007/2008. Running costs and other Inflation has been provided at 2%. Income for fees, charges, grants and recharges have been estimated to increase by 2.5%.
14. 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 expected to be applied during 2006 and 2007.
15. 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 (+£100,000) and the full year effect of the investment in the development and delivery of the Cultural Vision for Middlesbrough (+£85,000) and the revenue impact of the sale of Cleveland Centre Car Park (+£330,000)
16. Within Children, Families and Learning services, net pressures of (+£1,148,000) pressures have been identified following an increased number of Children looked after residential placements (+£266,000), Agency Fostering Placements (+713,000) , Adoption Placement Fees (+£55,000) and Family Support Services and other (+114,000). There are also additional pressures in respect of home to School Transport. (+£151,000).

17. Allowance has been made to offset these ongoing pressures by internal efficiency savings (-£180,000) and the application of grant funding packages (-£250,000) which are currently expected to be delivered in 2006/2007.
18. Within Social Care services there are similar `placement` pressures to those within Children Families and learning (£332,000). Measures have been put in place to mitigate the costs.
19. The current warden service is dependant on significant external funding. Provision has been made for grant fallout during 2007/2008 (+£167,000). This is the final element of grant fallout for the Warden Service.
20. Within environment an additional provision (+£209,000) has also been made for the phased fall out, over three years, of Lane Rental income.
21. An additional provision has been made for a Middlesbrough Council commitment to Healthy Living Centre Initiatives of £33,000.
22. Following a review of the on site support to Prissick Park an additional £51,000 has been provided to meet increased CCTV and warden coverage to the site together with a further £51,000 for increased warden coverage in respect of the Civic Square.
23. An allowance of (+£68,000) has been made for the expected full year effect of costs in respect of Selective Licensing responsibilities.
24. From the 1st April 2006 new legislation required Local authorities to offer free off-peak travel to any individual over the age of 60. Middlesbrough determined their scheme to meet local circumstances and priorities. It had been assumed that the cost of the approved Middlesbrough scheme would be £1.3 million. Current take-up indicates that this provision can be reduced by £180,000. Members should note that this item is contingency backed and the Council will meet in full the costs of any take-up of the scheme
25. Within regeneration an additional provision of (+£164,000) has been provided for the work associated with the Local Development Framework matched by other partner agency contributions.
26. Under the arrangements agreed for the development of Middlehaven, the Council is committed to provide a maximum of £6,650,000 of financial support. The majority of the funding is through the Council's Capital programme, however there is also a revenue requirement. A provision of £200,000 has been included in the 2007/2008 draft revenue budget to support our contribution, within the agreed funding package, towards the Middlehaven Development.
27. A review of the replacement programme in respect of Gym Equipment within the Councils Leisure and Sports Centres was undertaken during 2006/2007. It is estimated that the annual replacement cost to maintain the required level of service within our Leisure Centres is approximately £100,000 per annum.

28. Within Corporate services 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 (+£40,000) has been made within the MTFP to meet these costs.
29. Measures have been taken to restructure the Council's debt portfolio. This is estimated to generate £500,000 savings per annum.
30. Other costs include increased pension fund contributions (+£450,000), the continued development of funds (+£250,000) to maintain and develop existing systems and process within the Middlesbrough partnership contract and the net revenue impact of Housing Stock Transfer (-£136,000)

Social Care Spending pressures

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

Year	Pressures £` Million	Efficiencies £` Million	Net £` Million
2006/2007	1.170	-1.072	0.098
2007/2008	2.031	-1.698	0.333
2008/2009	2.633	-1.900	0.733

32. Social Care is maintaining Medium Term Financial Planning within the service. Significant work is undertaken on a regular basis to identify potential costs and ways to mitigate the impact and identify opportunities for efficiencies over the short, medium and long term.

Children, Families and Learning (CFL) spending pressures

33. There are significant pressures within the Vulnerable Children's budget. Whilst work to develop options to control and mitigate is ongoing in respect of this, it is not expected that the increased costs will be maintained within existing budgets over the short term. The Service is currently developing its internal medium and long term financial planning and appraising a serious of options to mitigate the costs for consideration by executive.

Medium Term Financial Plan

34. A Medium Term Financial plan (MTFP), outlining a broad financial position for the period 2007/2008 to 2010/2011 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.

35. 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 2007/2008 Revenue Support Grant consultation paper.
36. Pay award assumptions have been based on the Local Government Employers settlement to 2006/2007 and a further 3% in 2007/2008 and ongoing
37. Appendix B sets out the expected position over the Medium Term.

Budget Strategy

38. In preparing the 2007/2008 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.
 - 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

Consultation

39. Members will be given an opportunity to receive an informal presentation in respect of the Medium Term Financial plan before the end of January 2007.
40. 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:

41. 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 2007/2008 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

42. The projections are based on information currently available.
43. Appendix C outlines the potential gap/surplus at different Council Tax increase levels.
44. A potential gap, (at a 4.5% Council tax increase), of £2.599 million is projected for 2007/2008.
45. It is proposed that all services are requested to identify Gershon savings (1.25% cashable and 1.25% non-cashable) for consideration by Executive.
46. 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)
47. It is unlikely that any significant reductions to the spending pressures within CFL will be achieved in 2007/2008. Temporary balances are available to support the additional expenditure during the year (2007/2008), but should not be relied upon in future years. This would require an amendment to the councils current Budget Strategy

RECOMMENDATIONS

48. It is recommended that Overview & Scrutiny Board
 - a. Note and consider the contents of the report.

REASONS

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

BACKGROUND PAPERS

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

- a. Central Government 2004 Spending Review – July 2004
- b. 2006/2007 Strategic Revenue Budget
- c. 2nd Quarters budget clinic reports

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DRAFT REVENUE BUDGET 2007/2008

	£ Million	£ million
2006/2007 Revenue budget		114.458
Add provision for pay awards & inflation		
Pay awards and inflation	2.141	
Independent Social Care Sector (additional increase)	0.235	
Service Middlesbrough	0.573	
Energy (Additional increase)	0.300	3.249
Add net effect of previous decisions		
Culture Commercial Manager	0.060	
Culture Marketing	0.025	
Cleveland Car Parking Net Income	0.330	
Art Gallery	0.100	0.515
Children families and learning		
Home to School Transport	0.151	
Children looked after increased placements	0.266	
Agency fostering placements	0.713	
Adoption placements fees	0.055	
Family Support services	0.114	
Internal efficiency savings 2006/2007	-0.180	
Grant Funding	-0.250	0.869
Social Care		
Net Social Care demand pressures	0.333	
Warden service grant fallout	0.167	0.500
Environment & Neighbourhood Services		
Lane Rental income fall-out	0.209	
Health Living Centres	0.033	
Prissick Park	0.051	
Civic Square	0.051	
Selective Licensing	0.068	
Concessionary Fares	-0.180	
Albert Park	0.014	0.246
Regeneration		
Local Development Framework	0.164	
Middlehaven	0.200	
Gym Equipment	0.100	0.464
Corporate Services		
Workforce Development	0.030	
Sap establishment control	0.010	0.040
Efficiency savings		
Capital Charges	-0.500	-0.500
Technical Changes		
Safeguarding Children grant fallout	0.105	0.105

	£ Million	£ million
Other		
Pension fund	0.450	
Partnership Arrangements	0.250	
Housing stock Transfer	-0.136	0.564
2007/2008 revenue budget		120.510
Less use of balances		0.000
Adjusted 2007/2008 revenue budget		120.510

Appendix B

Medium term financial plan
2007/2008 – 2010/2011

	2007/2008 £ Million	2008/2009 £ Million	2009/2010 £ Million	2010/2011 £ Million
2006/2007 Base budget	114.458	114.458	114.458	114.458
Pay awards and Inflation	3.249	6.752	10.293	13.770
Effect of previous Council Decisions	0.515	0.664	0.750	0.750
Children's Families and Learning	0.869	0.869	0.869	0.869
Social Care	0.500	0.900	1.367	1.767
Environment & Neighbourhood Services	0.246	0.516	0.516	0.516
Regeneration	0.464	0.098	0.337	0.337
Corporate Services	0.040	0.040	0.040	0.040
Efficiency Savings	-0.500	-0.500	-0.500	-0.500
Technical Changes	0.105	0.105	0.105	0.105
Other	0.564	1.232	1.487	2.242
Net requirements	120.510	125.134	129.722	134.354
Use of balances	0.000	0.000	0.000	0.000
Adjusted net requirements	120.510	125.134	129.722	134.354
Estimated resources (at 4.5% Council tax inc)	117.911	122.177	126.409	130.806
Projected GAP/(Surplus)	2.599	2.957	3.313	3.548

Impact of Council Tax Increases

2007/2008 Council Tax Increase %	2007/2008 Band D Council Tax £	2007/2008 Expenditure Level £`m	`Gap` from 2007/2008 Net requirements £`m
0.0	1,083.41	115.979	4.531
1.0	1,094.25	116.408	4.102
2.0	1,105.08	116.838	3.672
3.0	1,115.92	117.268	3.243
4.0	1,126.75	117.697	2.813
4.5	1,132.17	117.912	2.599
5.0	1,137.58	118.127	2.383
6.0	1,148.42	118.556	1.954
7.0	1,159.25	118.986	1.524
8.0	1,170.09	119.415	1.095
9.0	1,180.92	119.845	0.665
10.0	1,191.75	120.274	0.236