



AGENDA ITEM:

OVERVIEW & SCRUTINY BOARD

DATE: 27 FEBRUARY 2007

REVENUE BUDGET 2007/2008

PAUL SLOCOMBE: DIRECTOR OF RESOURCES

PURPOSE OF THE REPORT

1. This report provides Overview and Scrutiny Board an update in respect of the 2007/2008 Local Government Finance Settlement and sets out the Proposed Revenue Budget for 2007/2008.

BACKGROUND AND CONSULTATION

Local Government Finance Settlement

2. Central Government announced the final 2007/2008 Local Government Finance Settlement on the 18th January 2007. This is in line with the provisional settlement announced in December 2006.
3. Middlesbrough's Formula Grant has been confirmed at £73.227 million.

Consultation

4. Budget consultation has been completed with the appropriate stakeholders in relation to the Budget Strategy, the Medium Term Financial Plan, the draft 2007/2008 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, and School representatives, Youth Forum, Middlesbrough Residents, Works Council and Senior Managers across all services within the Council.

Revenue Budget 2007/2008

6. The Council's Revenue Budget has been prepared in accordance with the budget Strategy agreed by Executive on the 19th December 2006: -
 - 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
 - planned use of balances.
 - 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.
7. Details of the current Medium Term Financial Plan and draft revenue Budget were reported to Executive on the 19th December 2006. The report outlined the projected financial position of the Council for the next four years (2007/2008–2010/2011) and set out the draft 2007/2008 Revenue Budget.

8. The report to Executive identified a shortfall of £2.6 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.

Service efficiency Savings

9. Services were requested to identify efficiency savings of £1.8 million and submit their proposals for appraisal by Strategic Resources by the 31st December 2006. 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.
10. Social Care identified efficiency savings as part of their Medium term financial plan.
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 |
|-------------------------------|--------|
| Env. & Neighbourhood Services | 360 |
| Children Families & Learning | 483 |
| Regeneration | 135 |
| Strategic Resources | 66 |
| Net efficiency savings | 1,044 |

12. it is estimated that the draft revenue budget has been based on £2.6m achievable efficiency savings in 2007/2008

Review of Medium Term Financial Plan.

13. 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 14 to 19: -

| | £`000s |
|--|--------|
| Review of Inflation provision | -453 |
| Review of Children residential placement pressures | 79 |
| Review of Fostering/Adoption costs | 132 |
| Review of Growth items | -273 |
| Capitalisation | -100 |
| | -615 |

14. A review of the provisions for pay awards, inflation, including the impact of changes in interest rates on investments has identified a net reduction of £453,000.
15. Detailed analysis has been undertaken in respect of the current residential placement, fostering and adoption costs fees for Children looked after. This has identified further ongoing pressures of £79,000 and £132,000.
16. All growth items have been reviewed. The following reductions are proposed for consideration : -
 - a) Under the joint agreement to provide funding towards the development of Middlehaven, the Council has agreed to provide £200,000 of the overall development for a period of 10 years. This contribution is not required in 2007/2008 and can be delayed to future years. This does not reduce the council's overall financial commitment to the development.
 - b) The impact of Technical Grant funding changes has been reduced by £42,000. These relate to Children Services grants.
 - c) Other changes amount to a further reduction of £31,000
17. Included within the report to Executive on the 19th December 2006 was the impact of maintaining Gym equipment within the Councils Leisure and sports Centres at an estimated cost of £100,000. It is proposed to fund this from existing capital resources in 2007/2008
18. There are a number of significant pressures within Children's Families and learning. The net position is summarised in the following table: -

| | £'000s |
|------------------------------------|--------|
| Home to School Transport | 151 |
| Vulnerable Children | 1,359 |
| External Grants | -187 |
| Review of internal operation costs | -180 |
| | 1,143 |

19. Provision for the net impact of the above has been made within the proposed 2007/2008 budget. Executive agreed on the 19th December 2006 to undertake a review over the short, medium and long term as to options available to deliver agreed service levels within available resources. Temporary use of balances was agreed for 2007/2008 to allow for appropriate consideration and option appraisal n over the next year. The budget has assumed a temporary use of balances of £1.143 million in 2007/2008.

Robustness of Budget calculations

20. The Director of Resources advice in setting the 2007/2008 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.
21. It is the opinion of the Director of Resources that the budget calculations for 2007/2008 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

- 22 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.
- 23 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
24. 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.
25. Indicated within the following table is the expected general reserves position at 1/4/2007: -

| | £`000s |
|-----------------------------|--------|
| As at 31 March 2006 | 5,593 |
| 2006/2007 Estimated Outturn | 334 |
| Planned use in 2006/2007 | -793 |
| | 5,134 |

26. 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.
27. Appropriate earmarked provisions have been made for known liabilities, including equal pay and insurance liabilities.

FINANCIAL IMPLICATIONS

28. The Council is required to set a budget for 2007/2008. 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 2007/2008.
29. If Executive approves the above amendments to the draft 2007/2008 Revenue Budget the revised Budget requirement will be £117.714 million as detailed in Appendix B.
30. The basic (Band D) Council Tax for Middlesbrough as a whole is calculated as follows: -

| | £ | £ |
|-------------------------------------|------------|--------------|
| Budget Requirement | | 117,714,000 |
| Less: | | |
| Revenue Support Grant | 10,523,090 | |
| NDR | 62,704,389 | 73,227,479Cr |
| Net requirements | | 44,486,521 |
| Council Tax Collection Fund Deficit | | 26,563 |
| (a) | | 44,513,084 |
| Taxbase | (b) | 39,645 |
| Basic Council Tax | (a) / (b) | £1,122.7919 |

31. The table at point 30 above relate only to Middlesbrough Councils element of the Council Tax and exclude Cleveland Police Authority and Cleveland Fire Authority precepts.

32. The level of Council Tax associated with the budget requirement represents a 3.6% increase on the current year's level (for Middlesbrough Council's element of the Council Tax)

RECOMMENDATIONS

33. It is recommended that Overview and Scrutiny Board consider: -
- a) The budget requirement for 2007/2008 (including Parish Precepts) of £117.714 million as detailed in Appendix B and the associated Council Tax level.

REASONS

34. The Council is required under legislation to set a revenue budget and agree the level of Council Tax for 2007/2008.

BACKGROUND PAPERS

The following background papers were used in the preparation of this report: -

- a) Revenue Support Grant report 2007/2008
- b) Strategic service budgets 2006/2007
- c) 2006/2007 Service Outturn reports December 2006
- d) Medium Term Financial Plan 2007/2008 – 2010/2011
- e) Councils agreed Budget Strategy

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