



AGENDA ITEM: 11

OVERVIEW & SCRUTINY BOARD

DATE: 15 JANUARY 2008

MEDIUM TERM FINANCIAL PLAN 2008/2009 – 2011/2012 AND REVENUE BUDGET 2008/2009

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PURPOSE OF THE REPORT

1. This report outlines the medium term financial position for 2008/2009 to 2011/2012 and sets out the estimated draft 2008/2009 revenue budget for consideration by the Overview & Scrutiny Board.

BACKGROUND AND CONSULTATION

Introduction

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

2006/2007 Final Outturn

3. The 2006/2007 Final Outturn was reported to Executive in June 2007. All services maintained their expenditure within the budgets allocated to them. Overall the Council made approximately a £306,000 net saving against its General Fund Budget for 2006/2007
4. Efficiency savings of £3.7 million were identified and applied in year.

Current Year's Revenue Budget - 2007/2008

5. The Council set its revenue budget at £117.7 million in 2007/2008. Temporary balances of £1.143 million were utilised to support the overall expenditure level of the Council. A Council Tax increase of 3.6% 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 £3.5million was placed in key services including: -
- a) £1.9 million for Vulnerable Adults and Children.
 - b) £0.2 million for street warden services
 - c) £0.7 million for regeneration
 - d) £0.4 million investment in the Environment
 - e) £0.7 million for Leisure, Sports and health
 - f) £0.2 million other
7. The second quarter's budget monitoring clinics were held in October and reported to Executive on the 13th November 2007. A summary of the projected year end position by service is summarised in the following table: -

	£'000s
Children, Families and Learning	0
Social Care	-12
Environment	+134
Regeneration	+57
Corporate Services	-311
Corporate Costs and provisions	-36
	-168

8. Children Families and Learning have identified deliverable savings of £396,000. This has reduced the requirement for the temporary use of balances from the approved level of £1.143 million to £747,000.
9. Environment and regeneration have identified net spending pressures of £134,000 and £57,000 respectively. Measures are in place to help ensure these pressures are contained within the individual services by 31st March 2008

Central Government Spending Review and Local Government Finance Settlements.

10. Central Government announced on the 9th October 2007 the Comprehensive Spending Review for the period 2008/2009 to 2010/2011. This sets out an outline of planned Central Government spending for the period.
11. The Spending review outlines a requirement to make 3% cashable efficiency savings. The Target for Middlesbrough is approximately £3.5m worth of savings. Proposals will be identified as part of the budget setting process.
12. Details of the Local Government Finance settlement were released on the 6th December 2007. This sets out the level of Central Government Revenue Funding (General and specific grants) for individual authorities for the period 2008/2009 to

2010/2011. A summary of the Local Government Finance Settlement is being reported separately to Executive.

Projected 2008/2009 Draft Revenue Budget

13. The 2008/2009 projected revenue budget is attached at Appendix A. The main variances from the current year’s budget are summarised below and explained in paragraphs 14 to 30.

	£ Million	£ Million
2007/2008 Revenue Budget		117.714
Add Temporary use of Balances in 2007/2008		1.143
Add variances to current years budget		
Pay awards and Inflation	5.565	
Effect of previous Council Decisions	0.149	
Children’s Families and Learning	0.270	
Social Care	0.435	
Environment & Neighbourhood Services	0.644	
Regeneration	-0.066	
Corporate Services	0.000	
Efficiency Savings	-0.500	
Technical Changes	2.862	
Other	0.950	10.309
2008/2009 Draft Revenue Budget		129.166

13. Pay awards have been provided for at 3% in 2008/2009. Running costs and other Inflation has been provided at 3%. Income for fees, charges, grants and recharges have been estimated to increase by 3%.
14. An additional Inflationary provision has been made for the assessed impact of increased prices in the Social Care independent sector of £1.6 million together with additional income from investments of -£0.5 million.
15. Provision has been made for the full year effect in 2006/2007 of previous Council decisions in respect of the revenue impact of the sale of Cleveland Centre Car Park (+£149,000).
16. Children Services have 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
2008/2009	1.645	-1.795	-0.150
2009/2010	1.671	-1.918	-0.247
2010/2012	1.690	-1.632	-0.058

16. Children Services have developed their Medium term financial planning processes with the service.
17. Additional pressures in relation to the actual costs of Trainee allowances (+£120,000) together with the impact of legislative changes regarding home to school transport for pupils (+£150,000) has been built into the draft revenue budget.
18. Within Social Care services a provision of £400,000 has been made to deal with unavoidable demand led spending pressures in 2008/2009 together with additional revenue costs (+£35,000) associated with the Safer Middlesbrough Partnership.
19. 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
2007/2008	2.020	-2.032	-0.012
2008/2009	1.576	-1.176	0.400
2009/2010	2.181	-1.530	0.651
2010/2012	2.701	-1.632	1.069

20. Social Care is maintaining proper 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. In addition opportunities for efficiency savings in the short, medium and long term are considered on a regular basis.
21. Within environment an additional provision (+£236,000) has been made for the phased fall out, over three years, of Lane Rental income, the removal of unachievable trading surpluses (+£250,000), and the structural shortfall in Landscape and Countryside income (+157,000)
22. From the 1st April 2008 new legislation has extended the statutory bus concession for older and disabled individuals from individual authority areas to anywhere in England. Additional funding of £566,000 has been provided to Middlesbrough to meet the costs of the revised Legislation. It is expected that the additional cost can

be contained within the additional funding. The impact will be monitored on a regular basis and is a contingency backed item, where the Council will meet in full the costs of any take-up of the scheme.

23. Within regeneration the existing provision for the Local Development Framework has been reduced by £366,000 to reflect the planned profile of revenue expenditure.
24. 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 2008/2009 draft revenue budget to support our contribution, within the agreed funding package, towards the Middlehaven Development.
25. 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.
26. Measures have been taken to restructure the Council's debt portfolio. This is estimated to generate £500,000 savings per annum.
27. There are a number of Technical changes within the Settlement. These relate to the transfer of specific grant funding into the General (Formula) Revenue grant. The following adjustments have been assumed within the Medium Term Financial Plan:

Service	Amount 2008/2009 £` Million
Children Families and learning	
- Children's Services Specific Grant	0.804
Social Care	
- Access & Systems Capacity Grant	1.617
- Delayed Discharge Grant.	0.290
Environment & Neighbourhood Services	
a. Waste Performance & efficiency Grant	0.151
TOTAL	2.862

28. Other costs include, the continued development of funds (+£250,000) to maintain and develop existing systems and process within the Middlesbrough partnership

contract, the additional cost of postal ballots (+£30,000), the net revenue impact of Housing Stock Transfer (+£77,000), increased Environmental Agency levies (+£43,000) and the estimated revenue impact of equal pay and job evaluation (+500,000).

Medium Term Financial Plan

31. A Medium Term Financial plan (MTFP), outlining a broad financial position for the period 2008/2009 to 2011/2012 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.
32. The level of resources estimated to be available has been based on the Spending Review released by Central Government on the 9th October 2007 together with an assessment of the level of Central Government revenue funding being made available under the 6th December 2007 Local Government Finance Settlements.
33. Pay award assumptions have been based on the Local Government Employers settlement to 2007/2008 and a further 3% in 2008/2009 and ongoing
34. Appendix B sets out the expected position over the Medium Term.

Budget Strategy

35. In preparing the 2008/2009 projected revenue budget and medium term financial plan, the following principles, consistent with previous years budget strategies and statements made by Executive 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 December.
40. It is proposed to consult with the following groups throughout the budget setting process:
 - Residents,
 - the works council
 - Middlesbrough Town Centre Company
 - senior staff within Middlesbrough Council
 - the Youth Parliament,
 - the Local Chamber of Commerce
 - Local Strategic Partnership,

- consultation with Head teachers/ 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 2008/2009 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 4.9% Council tax increase), of £2.890 million is projected for 2008/2009.
45. It is proposed that all services are requested to identify annual cashable savings of 3% over the medium term
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)

RECOMMENDATIONS

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

REASONS

49. The report outlines 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. 2006/2007 Revenue Outturn Report
- b. Central Government Spending Review – Oct 2007
- c. Local Government Finance Settlement – Dec 2007
- d. 2007/2008 Strategic Revenue Budget
- e. 2007/2008 2nd Quarters budget clinic reports

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DRAFT REVENUE BUDGET 2008/2009

	£ Million	£ million
2007/2008 Revenue budget		117.714
Add temporary use of balances in 2007/2008		1.143
Add provision for pay awards & inflation		
Pay awards and inflation	3.788	
Independent Social Care Sector (additional increase)	1.603	
Service Middlesbrough	0.674	
Interest on Investments	-0.500	5.565
Add net effect of previous decisions		
Cleveland Car Parking Net Income	0.149	0.149
Children families and learning		
Home to School Transport	0.150	
Trainee Allowances	0.120	0.270
Social Care		
Net Social Care demand pressures	0.400	
Safer Middlesbrough Partnership	0.035	0.435
Environment & Neighbourhood Services		
Lane Rental income fall-out	0.236	
Trading Account Surplus	0.250	
Landscape & Countryside Income	0.158	0.644
Regeneration		
Local Development Framework	-0.366	
Middlehaven	0.200	
Gym Equipment	0.100	-0.066
Efficiency savings		
Capital Charges	-0.500	-0.500
Technical Changes		
Children Services grant fallout	0.804	
Access and Systems Capacity Grant fallout	1.617	
Delayed Discharge Grant Fallout	0.290	
Waste Performance & Efficiency grant fallout	0.151	2.862
Other		
Partnership Arrangements	0.250	
Elections Postal Ballets	0.030	
Housing stock Transfer	0.077	
Environmental Agency Levy	0.043	
Job Evaluation/Single Status	0.500	
Other	0.050	0.950
2008/2009 revenue budget		129.166
Less use of balances		0.000
Adjusted 2008/2009 revenue budget		129.166

Appendix B

Medium term financial plan
2008/2009 – 2011/2012

	2008/2009 £` Million	2009/2010 £` Million	2010/2011 £` Million	2011/2012 £` Million
2007/2008 Base budget	117.714	117.714	117.714	117.714
Add temporary use of balances 2007/2008	1.143	1.143	1.143	1.143
Pay awards and Inflation	5.565	10.031	14.423	18.924
Effect of previous Council Decisions	0.149	0.235	0.235	0.235
Children's Families and Learning	0.270	0.321	0.327	0.327
Social Care	0.435	0.435	0.435	0.435
Environment & Neighbourhood Services	0.644	0.644	0.644	0.644
Regeneration	.0066	0.173	0.173	0.173
Corporate Services	0.000	0.000	0.000	0.000
Efficiency Savings	-0.500	-0.500	-0.500	-0.500
Technical Changes	2.862	2.950	3.038	3.128
Other	0.950	2.098	2.749	3.400
Net requirements	129.166	135.244	140.381	145.623
Use of balances	0.000	0.000	0.000	0.000
Adjusted net requirements	129.166	135.244	140.381	145.623
Estimated resources (at 4.9% Council tax inc)	126.276	130.806	135.064	139.650
Projected GAP/(Surplus)	2.890	4.438	5.317	5.973

Impact of Council Tax Increases

2008/2009 Council Tax Increase %	2008/2009 Band D Council Tax £	2008/2009 Expenditure Level £`m	`Gap` from 2008/2009 Net requirements £`m
0.0	1,122.79	124.111	5.055
1.0	1,134.02	124.557	4.609
2.0	1,145.25	125.004	4.162
3.0	1,156.47	125.450	3.716
4.0	1,167.70	125.897	3.269
4.9	1,177.25	126.276	2.890
5.0	1,178.93	126.343	2.823
6.0	1,190.16	126.790	2.376
7.0	1,201.39	127.237	1.930
8.0	1,212.61	127.683	1.483
9.0	1,223.84	128.130	1.036
10.0	1,235.07	128.576	0.590
11.0	1,246.30	129.022	0.143
11.3	1,250.11	129.166	0.000