



AGENDA ITEM: 5

OVERVIEW & SCRUTINY BOARD

DATE: 16 December 2008

MEDIUM TERM FINANCIAL POSITION 2009/2010 – 2012/2013 AND REVENUE BUDGET 2009/2010

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PURPOSE OF THE REPORT

1. This report outlines the medium term financial position for 2009/2010 to 2012/2013 and sets out the estimated draft 2009/2010 revenue budget for consideration by Overview and Scrutiny Board.

BACKGROUND AND CONSULTATION

Introduction

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

2007/2008 Final Outturn

3. The 2007/2008 Final Outturn was reported to Executive in May 2008. All services maintained their expenditure within the budgets allocated to them. Overall the Council made approximately a £485,000 net saving against its General Fund Budget for 2007/2008
4. Efficiency savings of £4.5 million were identified and applied in year.

Current Year's Revenue Budget - 2008/2009

5. The Council set its revenue budget at £126.3 million in 2008/2009. Temporary balances of £0.691 million were utilised to support the overall expenditure level of the Council. A Council Tax increase of 4.9% 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 £5.1million was placed in key services including: -
- a) £0.8 million for Children Families and Learning.
 - b) £3.4 million for social care for older people and disadvantaged groups
 - c) £0.6 million for the Environment
 - d) £0.3 million for new investment
7. The first quarter's budget monitoring clinics were held in July 2008 and reported to Executive on the 19th August 2008. A series of second quarters budget monitoring clinics have been held recently and are reported to Executive today A summary of the projected year end position by service is summarised in the following table: -

| | At Qtre 1 £'000s | At Qtre 2 £'000s |
|---------------------------------|------------------------|------------------------|
| Children, Families and Learning | 715 | 1,567 |
| Social Care | 2 | -7 |
| Environment | 630 | 85 |
| Regeneration | 0 | -80 |
| Corporate Services | -242 | -444 |
| Corporate Costs and provisions | -83 | -147 |
| | 1,022 | 974 |

8. Children Families and Learning have identified pressures of £1.6 million. Measures are in place to help reduce these pressures by 31st March 2009.

Central Government Spending Review and Local Government Finance Settlements.

9. 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.
10. 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.
11. Details of the Local Government Finance settlement were released on the 26th November 2008. This sets out the level of Central Government Revenue Funding (General and specific grants) for individual authorities for the period 2009/2010 to 2010/2011. The settlement is in line with that previously indicated within the Comprehensive spending review.

Projected 2009/2010 Draft Revenue Budget

12. The 2009/2010 projected revenue budget is attached at Appendix A. The main variances from the current year's budget are summarised below by Community strategy priority and explained in paragraphs 13 to 33.

| | £ Million | £ Million |
|---|--------------|--------------|
| 2008/2009 Revenue Budget | | 126.348 |
| Add variances to current years budget | | |
| Pay awards and Inflation | 5.733 | |
| Supporting Children and Young people | 0.656 | |
| Promoting Adult health and well-being, tackling exclusion and promoting Social Care | 0.599 | |
| Securing Environmental sustainability | 0.498 | |
| Enhancing the Local Economy | 1.545 | |
| Fit for Purpose | 0.750 | |
| Efficiency Savings | -1.035 | |
| Technical Changes | 0.087 | |
| | | 8.833 |
| 2009/2010 Draft Revenue Budget | | 135.181 |

Pay Awards and Inflation

13. The current medium term assumptions are being continually revisited. The projections shown within the report are based on information available at 31st October 2008.
14. Pay awards have been provided for at 3% in 2009/2010. Running costs and other Inflation has been provided at 4.5%. Income for fees & charges at 4.5%, and grants at 3.75%.
15. An additional Inflationary provision has been made for the assessed impact of increased prices for energy and fuel of £0.5 million and food costs within Children Families and learning of £0.35 million.

Supporting Children and Young People

16. There are a number of identified potential pressures and efficiency savings relating to the Supporting Children and Young People Community Strategy theme. These pressures have been based on assumptions in respect of levels of demand.

17. A summary of the current assessment is shown below: -

| Year | Pressures £`Million | Efficiencies £`Million | Net £`Million |
|------------------|--------------------------------|-----------------------------------|--------------------------|
| 2009/2010 | 1.567 | -1.008 | 0.559 |
| 2010/2011 | 1.900 | -1.100 | 0.800 |
| 2011/2012 | 2.200 | -1.200 | 1.000 |
| 2012/2013 | 2.550 | -1.300 | 1.250 |

18. The revised payment structure for Foster Carers has been built into the medium term financial plan.
19. Additional pressures in relation to the impact of legislative changes regarding home to school transport for pupils (+£51,000), Children looked after (+£311,000), Children Residential placements (+£195,000) Section 17 costs (+£59,000) and efficiency shortfalls (+£40,000) has been built into the budget

Promoting Adult health and well-being, tackling exclusion and promoting Social Care

20. Within Promoting Adult Health and well-being, tackling exclusion and promoting Social Care a provision of £400,000 has been made to deal with unavoidable demand led spending pressures in 2009/2010 together with additional costs associated with Nursing band Review (+£132,000) and Homecare review (+£67,000)
21. A number of potential pressures and efficiency savings over the Medium Term have been identified, 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 |
|------------------|--------------------------------|-----------------------------------|--------------------------|
| 2009/2010 | 2.792 | -2,432 | 0.360 |
| 2010/2011 | 3.631 | -2.789 | 0.842 |
| 2011/2012 | 3.997 | -2,512 | 1.485 |
| 2012/2013 | 4,397 | -2.512 | 1.885 |

22. Social Care is maintaining proper Medium Term Financial Planning across this priority. 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.

Securing environmental sustainability

23. Within environment sustainability reduced over-head recovery +£70,000 associated with reduced turnover has been provided for. In addition resources of £428,000 secured from efficiency savings within waste management have been redistributed to support the standard of cleanliness and to develop public realm, open space and parks. Including £200,000 for the Environmental enforcement team, £125,000 Green Waste, £60,000 area care, £30,000 additional litterbins and other £13,000.

Enhancing the local economy

24. From the 1st April 2008 new legislation extended the statutory bus concession for older and disabled individuals from individual authority areas to anywhere in England. Additional funding of £566,000 was provided to Middlesbrough to meet the costs of the revised Legislation. The additional cost is expected to be contained within the additional funding available in 2008/2009. The impact in 2009/2010 is currently being reviewed and may increase significantly in 2009/2010.
25. A additional provision (+£351,000) has been made for an expected court judgement in respect of VAT on off street car-parking, reduced over-head recovery. Provision has also been made for the full year effect of the revenue impact of the sale of Cleveland Centre Car Park (+£86,000).
26. Within regeneration the existing provision for the Local Development Framework has been increased by £261,000 to reflect the planned profile of revenue expenditure.
27. 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. An additional provision of £100,000 has been included in the 2009/2010 draft revenue budget to support our contribution, within the agreed funding package, towards the Middlehaven Development.
28. Housing right to buy receipts, under the arrangement with Fabrick (Erimus Housing), are expected to reduce by £732,000 in 2009/2010.

Fit for Purpose

29. Addition resources supporting the Fit for Purpose theme of £250,000 towards maintain and develop existing systems and process within the Middlesbrough partnership contract, and £500,000 towards the estimated revenue impact of equal pay and job evaluation has been provided.

Efficiency Savings

30. The impact of savings initiated in 2008/2009 generate additional savings of £507,000 savings in 2009/2010

31. Trade waste efficiency savings of £228,000 and other environmental Services efficiencies £200,000 are being invested to support the Securing Environmental Sustainability priority.
32. Savings of £100,000 from within the custodian property portfolio are expected to be achieved in 2009/2010

Technical Changes

33. 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 2009/2010 £`Million |
|--|----------------------------------|
| Children Families and learning - Children's Services Specific Grant | 0.025 |
| Social Care - Access & Systems Capacity Grant - Delayed Discharge Grant. | 0.048 0.009 |
| Environment & Neighbourhood Services | |
| a. Waste Performance & efficiency Grant | 0.005 |
| | 0.087 |
| TOTAL | |

Medium Term Financial Plan

34. A Medium Term Financial plan (MTFP), outlining a broad financial position for the period 2009/2010 to 2012/2013, across the sustainable community themes, 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 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.

36. Pay award assumptions have been based on the Local Government Employers settlement to 2008/2009 at 2.5% and a further 3% in 2009/2010 and ongoing
37. Appendix B sets out the expected position over the Medium Term.

Budget Strategy

38. In preparing the 2009/2010 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 ensure that the Council's priorities, as set out in the Sustainable Community Strategy, the Strategic Plan and the Local Area Agreement, can be appropriately resourced
 - to maximise the efficient, effective and economic use of resources, in conjunction with partners where appropriate,
 - Services are required to meet the requirements of Central Government Targets together with the Value For Money (VFM) criteria associated with the Use of Resources assessment as part of the Comprehensive Area Assessment
 - 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 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. In addition to the consultation with Members of the Council it is proposed to consult with the following groups throughout the budget setting process:
 - Residents,
 - the works council
 - senior staff within Middlesbrough Council
 - the Youth Council,
 - 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 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 £4.353 million is projected for 2008/2010.

45. It is proposed that all services are requested to identify annual cashable savings of 3% over the medium term and the Director of Resources identify further options to reduce expenditure by £1.0 million.
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

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

REASONS

48. The report outlines the expected financial position of the Council for consideration and seeks guidance.

BACKGROUND PAPERS

49. The following background papers have been used in the preparation of the report:
 - a. 2007/2008 Revenue Outturn Report
 - b. Central Government Spending Review – Oct 2007
 - c. Local Government Finance Settlement – Nov 2008
 - d. 2008/2009 Strategic Revenue Budget
 - e. 2008/2009 1st and 2nd Quarters budget clinic reports

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DRAFT REVENUE BUDGET BY SERVICE 2009/2010

Appendix A

| | £ Million | £ million |
|--|--------------|--------------|
| 2008/2009 Revenue budget | | 126.348 |
| Add provision for pay awards & inflation | | |
| Pay awards and inflation | 4.502 | |
| Service Middlesbrough | 0.831 | |
| Capital Financing | 0.400 | 5.733 |
| Add net effect of previous decisions | | |
| Cleveland Car Parking Net Income | 0.086 | 0.086 |
| Children families and learning | | |
| Home to School Transport | 0.051 | |
| Children looked After | 0.311 | |
| Children Residential places | 0.195 | |
| Section 17 | 0.059 | |
| Efficiency Shortfall | 0.040 | 0.656 |
| Social Care | | |
| Net Social Care demand pressures | 0.400 | |
| Nursing Band review | 0.132 | |
| Homecare review | 0.067 | 0.599 |
| Environment | | |
| Vat on Car Parking | 0.351 | |
| Street Mtce Contract | 0.070 | |
| Re-invested Environmental efficiencies (Gross £428,000) | 0.000 | 0.421 |
| Regeneration | | |
| Local Development Framework | 0.261 | |
| Middlehaven | 0.100 | |
| Planning pre advice fees | 0.015 | 0.376 |
| Corporate Services | | |
| Custodian Properties | -0.100 | -0.100 |
| Efficiency savings | | |
| Effect of 2007/2008 efficiencies | -0.507 | -0.507 |
| Technical Changes | | |
| Children Services grant fallout | 0.025 | |
| Access and Systems Capacity Grant fallout | 0.048 | |
| Delayed Discharge Grant Fallout | 0.009 | |
| Waste Performance & Efficiency grant fallout | 0.005 | 0.087 |
| Other | | |
| Partnership Arrangements | 0.250 | |
| Right to Buy | 0.732 | |
| Job Evaluation/Single Status | 0.500 | |
| Other | 0.000 | 1.482 |
| 2009/2010 revenue budget | | 135.181 |

Appendix B

Medium term financial plan
2009/2010 – 2012/2013

| | 2009/2010 £` Million | 2010/2011 £` Million | 2011/2012 £` Million | 2012/2013 £` Million |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| 2008/2009 Base budget | 126.348 | 126.348 | 126.348 | 126.348 |
| Pay awards and Inflation | 5.733 | 10.559 | 15.310 | 20.204 |
| Supporting Children and Young people | 0.656 | 0.903 | 1.103 | 1.353 |
| Promoting Adult health and well-being, tackling exclusion and promoting Social Care | 0.599 | 0.999 | 1.399 | 1.799 |
| Securing Environmental sustainability | 0.498 | 0.498 | 0.498 | 0.498 |
| Enhancing the Local Economy | 1.545 | 1.536 | 1.518 | 1.518 |
| Fit for Purpose | 0.750 | 1.000 | 1.250 | 1,250 |
| Efficiency Savings | -1.035 | -0.978 | -0.932 | -0.932 |
| Technical Changes | 0.087 | 0.176 | 0.266 | 0.360 |
| Net requirements | 135.181 | 141.041 | 146.760 | 152.398 |
| Use of balances | 0.000 | 0.000 | 0.000 | 0.000 |
| Adjusted net requirements | 135.181 | 141.041 | 146.760 | 152.398 |
| Estimated resources (at 4.9% Council tax inc) | 130.828 | 135.087 | 139.675 | 144.480 |
| Projected GAP/(Surplus) | 4.353 | 5.954 | 7.085 | 7.918 |

Impact of Council Tax Increases

| 2009/2010 Council Tax Increase % | 2009/2010 Band D Council Tax £ | 2009/2010 Expenditure Level £`m | `Gap` from 2008/2009 Net requirements £`m |
|---|---|--|--|
| 0.0 | 1,177.78 | 128.557 | 6.624 |
| 1.0 | 1,189.56 | 129.025 | 6.156 |
| 2.0 | 1,201.34 | 129.494 | 5.687 |
| 3.0 | 1,213.11 | 129.962 | 5.219 |
| 4.0 | 1,224.89 | 130.430 | 4.751 |
| 4.9 | 1,234.90 | 130.828 | 4.352 |
| 5.0 | 1,236.67 | 130.899 | 4.282 |
| 6.0 | 1,248.45 | 131.367 | 3.814 |
| 7.0 | 1,260.22 | 131.836 | 3.345 |
| 8.0 | 1,272.00 | 132.304 | 2.877 |
| 9.0 | 1,283.78 | 132.773 | 2.408 |
| 10.0 | 1,295.56 | 133.241 | 1.940 |
| 11.0 | 1,307.34 | 133.709 | 1.472 |
| 14.1 | 1,344.32 | 135.181 | 0.000 |