



AGENDA ITEM: 7

OVERVIEW & SCRUTINY BOARD

DATE: 22 September 2009

Medium Term Financial Plan 2010/2011 – 2013/2014 and Revenue Budget 2010/2011

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PURPOSE OF THE REPORT

1. This report outlines the medium term financial position for 2010/2011 to 2013/2014 and sets out the estimated draft 2010/2011 revenue budget for consideration by Overview and Scrutiny Board.

BACKGROUND AND CONSULTATION

Introduction

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

2008/2009 Final Outturn

3. The 2008/2009 Final Outturn was reported to Executive on the 26th May 2009. Overall the Council made approximately a £59,000 net saving against its General Fund Budget for 2008/2009. There were a number of one off specific pressures, including contributions to provisions and demand led pressures within Children Families and Learning.
4. Efficiency savings of £4.5 million were identified and applied in year.

Current Year's Revenue Budget - 2009/2010

5. The Council set its revenue budget at £131.0 million in 2009/2010. Temporary balances of £0.449 million were utilised to support the overall expenditure level of the Council. A Council Tax increase of 4.5% 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 £2.1 million was placed in key services including: -
- a) £0.8 million for Children Families and Learning.
 - b) £0.7 million for social care for older people and disadvantaged groups
 - c) £0.6 million for the Environment
7. The first quarter's budget monitoring clinics were held in July and reported to Executive on the 18th August 2009. Subsequent to the 1st quarters outturn reports additional demand led pressures have been identified within Children Families and learning (CFL). A summary of the projected year end position by service is shown in the following table: -

	At Qtre 1	At Aug 2009
	£'000s	£'000s
Children, Families and Learning	911	1,661
Social Care	451	451
Environment	278	278
Regeneration	0	0
Corporate Services	-49	-49
Corporate Costs and provisions	327	327
	1,918	2,668

8. Executive agreed an Action plan to seek to address the identified spending pressures in 2009/2010

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 initial spending review outlined 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.
12. In the 2008 budget statement an additional 1% efficiency target was identified for local government together with a 0.5% reduction in real growth. Whilst it is expected that there will be no impact on the current Comprehensive spending review (ends 31st March 2011), the impact has been assumed within the Medium Term Financial

Plan or the period 2011/2012 to 2013/2014. An increase of 1.5% in external funding has been assumed over the medium term planning period. This compares to approximately 3.0% increase under the current comprehensive spending review.

Projected 2010/2011 Draft Revenue Budget

13. The 2010/2011 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 33.

	£ Million	£ Million
2009/2010 Revenue Budget		131.005
Add variances to current years budget		
Pay awards and Inflation	4.562	
Supporting Children and Young people	2.372	
Promoting Adult health and well-being, tackling exclusion and promoting Social Care	1.356	
Securing Environmental sustainability	0.000	
Enhancing the Local Economy	0.552	
Fit for Purpose	0.250	
Efficiency Savings	-0.281	
Technical Changes	0.000	
		8.811
2010/2011 Draft Revenue Budget		139.816

14. The current medium term assumptions are being updated on a regular basis. The projections shown within the report are based on information available at 31st August 2009.
15. Nationally negotiated pay awards have been provided for at 2.0% in 2010/2011. Running costs and other Inflation has been provided at 2.0%. Income for fees, charges, grants and recharges have been estimated to increase by 2.0%.
16. An additional Inflationary provision has been made for the assessed impact of increased prices for energy and fuel of £0.2 million.
17. The return on cash investments has significantly reduced under the current financial environment. Short term investments are attracting in the region of 0.5% interest. Whilst the Councils net borrowing portfolio has been revisited and a number of external loans repaid, it is estimated that the net reduction in returns will cost the Council approximately £0.7 million per annum. The appropriate provision has been made within the draft 2010/2011 budget.
18. The expected level of reserves, balances and provisions are reviewed on a regular basis, together with the level of borrowing required to support the councils agreed

Capital programme. It is estimated that approximately £0.650 million additional revenue support will be required in 2010/2011.

Supporting Children and Young People

19. 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. A summary of the current assessment, built into the MTFP is shown below:-

Year	Demand led Pressures £`Million
2010/2012	1.866
2011/2012	2.148
2012/2013	2.431
2013/2014	2.714

20. A provision of £0.5 million has also been built into the medium term financial plan for the impact of planned changes to Foster Carer allowances. This is expected to produce ongoing efficiency savings in future years that will be built into revised versions of the MTFP.

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

21. Within Promoting Adult Health and well-being, tackling exclusion and promoting Social Care the following additional provisions have been built into the medium term financial plan to deal with unavoidable demand led spending pressures

Year	Demand led Pressures £`Million
2010/2012	1.106
2011/2012	1.520
2012/2013	1.934
2013/2014	2.349

22. An additional provision of £0.25 million has been made in respect of the impact of Fair price for care in respect of Home Care.
23. 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

24. No additional revenue growth has been assumed within environmental sustainability. The Councils capital programme, including its Building Improvement programme together with specific revenue and capital grants are being applied to support this priority area.

Enhancing the local economy

25. 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 £0.566 million was provided to Middlesbrough to meet the costs of the revised Legislation. The estimated cost in 2009/2010 is expected to be approximately £0.450 million above the funding provided. Provision has been made within the MTFP for current levels of expenditure and a further annual increase has been allowed for in 2010/2011. Representations to Central Government for additional funding together with discussions with providers are ongoing.
26. An additional provision £0.180 million has been made in respect of a decrease in income from Car parking charges that are considered to be a result of the economic downturn and local competition. The full year effect of a court judgement in respect of VAT on off street car-parking (£0.037 million) has also been provided for.
27. Following a review of MIMA expenditure an additional provision of £0.190 million has been included within the MTFP
28. Provision has also been made for the deferral of pre-planning fees (£0.045 million) introduced as part of the 2009/2010 budget setting.
29. 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 2010/2011 draft revenue budget to support our contribution, within the agreed funding package, towards the Middlehaven Development.

Fit for Purpose

30. Addition resources supporting the Fit for Purpose theme of £0.250 million towards maintain and develop existing systems and process within the Middlesbrough partnership contract have been provided.
31. The expected level of reserves, balances and provisions are reviewed on a regular basis, together with the level of borrowing required to support the councils agreed Capital programme. It is estimated that approximately £0.650 million additional revenue support will be required in 2010/2011.

Efficiency Savings

32. Allowance has been made within the 2010/2011 in respect of the decision by executive to defer efficiency saving proposals in respect of the review of Libraries (£0.281 million) and the Review of Transport including Dial a Ride (£0.211 million). Further proposals will be submitted for consideration.
33. Additional allowance has been made for the full year effect of savings initiated in previous years, which are expected to generate a further £0.773 million 2010/2011.

Medium Term Financial Plan

31. A Medium Term Financial plan (MTFP), outlining a broad financial position for the period 2010/2011 to 2013/2014 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. The relevant Local Government factors included within the 2008 Budget Statement have also been considered
34. Pay award assumptions have been based on the Local Government Employers settlement to 2008/2009 and a further 2% in 2010/2011 and ongoing
35. Appendix B sets out the expected position over the Medium Term.

Budget Strategy

36. In preparing the 2010/2011 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 Organisational 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

40. Members were given an opportunity to receive an informal presentation in respect of the Medium Term Financial plan in August.
41. It is proposed to consult with the following groups throughout the budget setting process:
 - Residents,
 - the works council
 - trade Unions
 - Town Centre Partnership Company
 - senior staff within Middlesbrough Council
 - the Youth Parliament,
 - the Local Chamber of Commerce and Middlesbrough Business Forum
 - 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:

40. 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 2010/2011 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

41. The projections are based on information currently available.
42. Appendix C outlines the potential gap/surplus at different Council Tax increase levels.
43. A potential gap,
- a. (at a 2.5% Council tax increase), of £5.775 million is projected for 2010/2011;
 - b. (at a 3.6% Council tax increase), of £5.234 million is projected for 2010/2011.
44. 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

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

REASONS

46. 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:

- a. 2008/2009 Revenue Outturn Report
- b. Central Government Spending Review – Oct 2007
- c. Local Government Finance Settlement – Nov 2008
- d. 2008/9 Budget Statement
- e. 2009/2010 Strategic Revenue Budget
- f. 2009/2010 1st and 2nd Quarters budget clinic reports

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DRAFT REVENUE BUDGET 2010/2011

	£ Million	£ million
2009/2010 Revenue budget		131.005
Add provision for pay awards & inflation		
Pay awards and inflation	3.403	
Service Middlesbrough	0.500	
Capital Financing	0.650	4.553
Add net effect of previous decisions		
MIMA	0.190	0.190
Children families and learning		
Home to School Transport	0.006	
Children looked After	1.866	
Foster Carers	0.500	2.372
Social Care		
Net Social Care demand pressures	1.106	
Homecare review	0.250	
Efficiency Savings target deferred (Transport)	0.211	1.567
Environment		
Vat on Car Parking	0.037	
Shortfall in parking income	0.180	
Public Conveniences	0.009	0.226
Regeneration		
Middlehaven	0.100	
Planning pre advice fees	0.045	
Efficiency saving target deferred (Libraries)	0.281	0.426
Efficiency savings		
Net effect of previous years efficiencies	-0.773	-0.773
Other		
Partnership Arrangements	0.250	
Other	0.000	0.250
2009/2010 revenue budget		139.816

**Medium term financial plan
2010/2011 – 2013/2014
(At 2.5% assumed Council Tax Increase)**

	2010/2011 £` Million	2011/2012 £` Million	2012/2013 £` Million	2013/2014 £` Million
2009/2010 Base budget	131.005	131.005	131.005	131.005
Pay awards and Inflation	4.553	8.215	11.933	15.710
Effect of previous Council Decisions	0.190	0.190	0.190	0.190
Children's Families and Learning	2.372	2.704	2.987	3.270
Social Care	1.567	1.731	2.145	2.560
Environment	0.226	0.440	0.648	0.852
Regeneration	0.426	0.485	0.486	0.487
Efficiency Savings	-0.773	-0.975	-0.975	-0.975
Technical Changes	0.000	0.000	0.000	0.000
Other	0.250	0.500	0.500	0.500
Net requirements	139.816	144.295	147.919	153.599
Use of balances	0.000	0.000	0.000	0.000
Adjusted net requirements	139.816	144.295	148.919	153.599
Estimated resources (at 2.5% Council tax increase)	134.041	136.556	139.121	141.737
Projected GAP/(Surplus) at (2.5% Council Tax increase)	5.775	7.739	9.798	11.861

Projected Gap at 3.6% Council Tax Increase

	2010/2011 £` Million	2011/2012 £` Million	2012/2013 £` Million	2013/2014 £` Million
Adjusted net requirements	139.816	144.295	148.919	153.599
Estimated resources (at 3.6% Council Tax increase)	134.582	137.671	140.844	144.105
Projected GAP/(Surplus) at (3.6% Council Tax increase)	5.234	6.624	8.075	9.493

Impact of Council Tax Increases

2010/2011 Council Tax Increase %	2010/2011 Band D Council Tax £	2010/2011 Expenditure Level £`m	`Gap` from 2010/2010 Net requirements £`m
0.0	1,231.20	132.812	7.004
1.0	1,243.51	133.303	6.513
2.0	1,255.82	133.795	6.021
2.5	1,261.98	134.041	5.775
3.0	1,268.13	134.287	5.529
3.6	1,275.52	134.582	5.234
4.0	1,280.44	134.778	5.037
5.0	1,292.76	135.271	4.545
6.0	1,305.07	135.762	4.054
7.0	1,317.38	136.254	3.562
8.0	1,329.69	136.746	3.070
9.0	1,342.00	137.238	2.578
10.0	1,354.32	137.730	2.086
14.3	1,407.26	139.816	0.000