

# MIDDLESBROUGH COUNCIL

## OVERVIEW AND SCRUTINY BOARD

### Review of Medium Term Financial Position 2010/2011 – 2013/2014 Director of Strategic Resources 15 December 2009

#### PURPOSE OF THE REPORT

1. This report outlines the updated medium term financial position for 2010/2011 to 2013/2014.

#### BACKGROUND

2. Executive considered a report on the 15<sup>th</sup> September 2009 that set out the Medium Term Financial position for the ongoing period and the basis upon which the financial assumptions had been made. The report identified the following projected budget gaps based on the Councils Budget strategy and the assumptions outlined within the report:

	2010/2011 £`million	2011/2012 £`million	2012/2013 £`million	2013/2014 £`million
Projected Expenditure	139.816	144.295	148.919	153.599
Projected Resources	134.041	136.556	139.121	141.737
<b>Projected Gap</b>	<b>5.775</b>	<b>7.739</b>	<b>9.798</b>	<b>11.861</b>

3. A full review of the Medium Term financial plan has been undertaken, based on updated inflation/pay award assumptions, the 2009/2010 2<sup>nd</sup> Quarters projected outturn and a current assessment of available central government support. The outcome of which is outlined within the report.

## REVIEW OF MEDIUM TERM FINANCIAL PLAN

4. A number of variances have been identified which are summarised in the table below and explained in paragraphs 5 –8

	2010/2011 £`million	2011/2012 £`million	2012/2013 £`million	2013/2014 £`million
Review of Inflation				
- Current year 2009/2010	-0.906	-0.906	-0.906	-0.906
- Future year provisions	-0.462	-0.429	-0.407	-0.399
	+0.503	+0.492	+0.511	+0.768
Review of Growth items	+1.811	+2.397	+2.483	+2.568
- Child Families & Learning	+0.063	+0.063	+0.063	+0.063
- Social Care				
- Other				
	+1.009	+1.617	+1.744	+2.094

5. The provision for pay awards and inflation included within the current year's budget (2009/2010) have been examined alongside future estimates over the Medium Term. Key factors considered included the 2009/2010 pay settlement, government statements regarding public sector pay and current retail/consumer price index increases.
6. Previous Medium Term Financial projections, assumed a 2% increase for pay awards, a 2% inflationary increase for running costs and a 2% increase for fees, grants and recharges. Additional addition specific provisions were made for the assessed impact of increased prices for energy, fuel and food costs.
7. The inflation assumptions have been revisited in line with current inflation rates, fuel, energy and food prices. Revised assumptions allow for a 1.5% pay award in future years, a 2% inflationary increase for running costs and 2% for grants, fees and recharges. Provision has also been made for the impact of increased foster carers allowances and concessionary fares.
8. All growth items have been reviewed. The following amendments have been included in the revised Medium Term Financial Plan: -
- Following the 2<sup>nd</sup> quarters revenue budget clinic a review of the likely call on services for the elderly has been undertaken, which has considered current demand alongside the age profile of Middlesbrough. This is estimated to cost an additional £1.811 million in 2010/2011.
  - Further additional safeguarding costs of £0.503 million for looked after Children have been identified within Children Families and Learning following the 2<sup>nd</sup> Quarters budget clinic.

- c) A review of all other growth items across services have increases the estimated net impact by £63,000

## FINANCIAL IMPLICATIONS

9. Following the review of the Medium Term financial position, the overall gap is as follows: -

	2010/2011 £`million	2011/2012 £`million	2012/2013 £`million	2013/2014 £`million
<b>Revised Gap</b>	6.784	9.356	11.542	13.956

10. Appendix A sets out the overall Medium Term Financial Plan position in more detail.
11. Three key areas have been identified for consideration to address the Gap: -

Key area	Detail	Target Amount £`million
Partnership Savings.	The Council has an annual contract with Mouchel for Direct Services to the value of approximately £23.1 million. Services within the contract are being reviewed to identify potential efficiency savings and opportunities for reductions in Service costs.	1.000
Human Resource Initiative savings	The levels of allowances including car allowances are being reviewed together with overtime payments.	1.000
Budget reductions.	Services are reviewing the cost of providing services. This includes staffing costs, non staffing costs, and contract arrangements including Additional Service Provision requests with Mouchel	6.000

12. Services have been requested to identify efficiency savings and budget reductions that equated to the above targets. These targets are consistent with the assumptions made by central Government within the Comprehensive Spending Review. All services are preparing proposals for consideration and will be consulting with Members and the Public in December 2009.

13. Services are 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)Increased outputs exceed increased inputs (Performance driven investment)Consultation is ongoing with staff, stakeholders and partners as outlined in the 15<sup>th</sup> September 2009 report to Executive.
- a) Budget reduction proposals will be categorised into efficiency savings, internal cost reductions and service changes. All proposals will be fully appraised and following the December consultation will be reported to Executive in February for consideration.
  - b) Appendix B outlines the potential gap/surplus at different Council Tax increase levels.

### **RECOMMENDATION**

15. Overview and Scrutiny are requested to
- a) Note and consider the contents of the report.

### **REASONS**

16. The report outlines the expected financial position of the Council for consideration

### **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. 2009 Budget Statement
- e. 2009/2010 Strategic Revenue Budget
- f. 2009/2010 1<sup>st</sup> and 2<sup>nd</sup> Quarters budget clinic reports

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## Appendix A

### 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	3.185	6.880	10.620	14.405
Effect of previous Council Decisions	0.190	0.190	0.190	0.190
Children's Families and Learning	2.875	3.196	3.498	4.038
Social Care	3.378	4.128	4.628	5.128
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	0.313	0.563	0.563	0.563
Net requirements	140.825	145.912	150.663	155.693
Use of balances	0.000	0.000	0.000	0.000
<b>Adjusted net requirements</b>	140.825	145.912	150.663	155.693
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)	6.784	9.356	11.542	13.956

## Appendix B

### Impact of Council Tax Increases

2010/2011 Council Tax Increase	2010/2011 Band D Council Tax	2010/2011 Expenditure Level	`Gap` from 2010/2010 Net requirements	Increase In 2009/2010 Net Budget
%	£	£`m	£`m	%
<b>0.0</b>	1,231.20	132.812	8.013	1.40
1.0	1,243.51	133.303	7.522	1.77
2.0	1,255.82	133.795	7.030	2.15
<b>2.5</b>	1,261.98	134.041	6.784	2.34
3.0	1,268.13	134.287	6.538	2.52
<b>3.6</b>	1,275.52	134.582	6.243	2.75
4.0	1,280.44	134.778	6.046	2.90
5.0	1,292.76	135.271	5.554	3.28
6.0	1,305.07	135.762	5.063	3.65
7.0	1,317.38	136.254	4.571	4.03
8.0	1,329.69	136.746	4.079	4.40
9.0	1,342.00	137.238	3.587	4.78
10.0	1,354.32	137.730	3.095	5.15
16.3	1,407.26	139.816	0.000	7.52