

# MIDDLESBROUGH COUNCIL

Agenda Item 5

## Overview and Scrutiny Board Report

Medium Term Financial Position 2014/2015 – 2016/2017

Deputy Mayor and Executive Member for Resources

Director of Strategic Resources

17<sup>th</sup> September 2013

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### PURPOSE OF THE REPORT

1. To inform the Overview and Scrutiny Board of the projected Medium Term Financial position for 2014/2015 to 2016/2017 and the budget strategy

### SUMMARY OF RECOMMENDATIONS

2. It is recommended that the Overview and Scrutiny Board:-
  - a) note and consider the contents of the report; and
  - b) consider the budget strategy outlined within the report.

### IF THIS IS A KEY DECISION WHICH KEY DECISION TEST APPLIES?

It is over the financial threshold (£150,000)  
It has a significant impact on 2 or more wards  
Non Key

<input type="checkbox"/>
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### DECISION IMPLEMENTATION DEADLINE

For the purposes of the scrutiny call in procedure this report is

Non-urgent  
Urgent report

<input checked="" type="checkbox"/>
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### BACKGROUND AND CONSULTATION

#### Introduction

3. This report sets out an overall assessment of the Council's financial position over the next three years. It considers :-
  - the 2012/2013 Outturn;
  - the current year's (2013/2014) revenue budget;
  - Central Government support;

- estimated impact of pay and inflation;
- future estimated spending pressures; and
- the revenue impact of the current capital programme.

## 2012/2013 Final Outturn

4. The report also sets out a high level budget strategy for consideration.
5. The 2012/2013 Final Outturn was reported to the Deputy Mayor and Executive Member for Resources on the 7<sup>th</sup> June 2013. Overall the Council made approximately a £191,000 net saving against its General Fund Budget for 2012/2013.
6. In addition to planned budget reductions, of £11.8 million, further accelerated savings of £2.7 million in respect of staffing and running costs were achieved. These will contribute towards the planned budget reductions in 2013/2014.

## Current Year's Revenue Budget - 2013/2014

7. The Council set its net revenue budget at £140.4 million in 2013/2014. A Council Tax increase of 1.99% for Middlesbrough Council was applied.
8. In setting this year's budget, identified structural budget issues were addressed, and £12.7 million reductions in service expenditure were applied following consultation internally and externally with partners and residents. Extra investment of £4.3 million was placed in key services including: -
  - £1.8 million for care for children and young people;
  - £1.3 million for care for older people and vulnerable adults;
  - £0.7 million for the environment; and
  - £0.5 million for other investment
9. A detailed budget monitoring exercise is nearing completion and will be reported to Executive in October 2013. The following table gives an early indication of the projected position. It should be noted that this is at a very early stage of the year and actions will be taken to reduce any potential overspend:-.

Area	Net Spending Pressure £` million
<b>Net Spending pressures :-</b>	
Wellbeing Care and Learning	0.9
Neighbourhoods & Communities	0.2
Corporate Services	0.0
Central	-2.3
Agreed Savings	1.5
	0.3

## Central Government Spending Review and Local Government Finance

10. In July 2013 the Government released their spending review covering 2014/15 and 2015/2016. Savings of £11.5 billion are proposed for 2014/2015. Schools, health and overseas development are being protected. A similar level of reductions have been assumed for 2016/2017.
11. Key elements of the Government's annual budget reductions are shown in the table below:-

Government Department	2014/2015 Baseline £ billion	2015/2016 Plan £ billion	% reduction real terms
Education	52.8	53.2	-1.0
Health	108.3	110.4	0.1
Local Government	25.6	23.5	<b>-10.0</b>
Defence	23.9	23.9	-1.9
Home Office	10.4	9.9	-6.1
Transport	3.5	3.2	-9.3

12. Overall Government expenditure in 2015/2016 is planned to reduce from £315.7 billion to £312.9 billion. This represents a 2.6% reduction.
13. Information on an individual authority basis was provided towards the end of July. The impact for Middlesbrough is shown in the following table:-

Year	Government Support	Reduction In Government Support	
	£ million	£ million	%
2013/2014	100.143		
2014/2015	90.049	10.094	10
2015/2016	76.558	13.491	15
2016/2017	67.371	9.187	12
Total		32.772	

14. Middlesbrough is receiving a significantly higher reduction in government support than the national average of 10% in 2015/2016.. This is a result of the Council's higher than average dependency on government support and in particular the impact of additional top slicing of the settlement and the higher proportional impact on the basic Revenue Support Grant entitlement for Middlesbrough
15. Additionally in 2015/16 there is a proposal to passport 35% of New Homes Bonus through to Local Enterprise Partnerships (Tees Valley Unlimited). This would result in an additional circa £500,000 pressure to the Council.

### Pay Awards and Inflation

16. The current medium term assumptions are being continually revisited. The projections shown within the report are based on information available at 31<sup>st</sup> August 2013.

17. Pay awards have been provided for at a 1% increase for all employees. Running costs and other inflation have been provided for at a 2.5%. Consumer Price Index (CPI) is currently 2.8%. A 1% increase in CPI represents a £1.4 million cost to Middlesbrough Council.
18. An additional inflationary provision has been made for the assessed impact of increased prices for energy and fuel of £0.2 million.
19. No assumption has been made in respect of any increase in fees and charges. A 1% increase in fees and charges generates an estimated £330,000 towards costs. This excludes car parking charges and Statutory charges such as Planning fees.

### **Safeguarding vulnerable children**

20. There are a number of identified potential pressures relating to safeguarding vulnerable children. These pressures have been based on assumptions in respect of levels of demand for placements of looked after children. A specific additional provision of £400,000 and £175,000 has been provided to address Social worker caseload in 2014/2015 and 2015/2016 respectively.
21. An exercise has been completed based on the demographics of Middlesbrough and the expected increase in demand for Children Services.
22. A summary of the current assessment of cost pressures is shown below: -

Net pressures	2014/2015 £`million	2015/2016 £`million	2016/2017 £`million
Additional in year	3.400	3.175	3.000
Cumulative over MTFP	3.400	6.575	9.575

23. Measures will be undertaken to mitigate the above spending pressures.

### **Adult social care**

24. Within Adult social care, an annual provision of £2.3 million has been made to deal with estimated ongoing demand led spending pressures.
25. An assessment of cost pressures based on an analysis of demographic data predicted demand for services is shown below:-

Net pressures	2014/2015 £`million	2015/2016 £`million	2016/2017 £`million
Additional In year	2.400	2.300	2.300
Cumulative over MTFP	2.400	4.700	7.000

26. Measures will be undertaken to mitigate the above spending pressures.

## **Other cost pressures and assumptions.**

27. The Council agreed to trial the introduction of reduced car parking charges for Zetland car park for an initial 6 month period. This has subsequently been extended for a further 6 months. It has been assumed that the Council would wish to maintain this on an ongoing basis at a cost of £300,000 per annum.
28. A crematorium is being constructed in Redcar and Cleveland and will impact on the demand for services at Middlesbrough's Crematorium. An allowance of £650,000 has been made within the MTFP for the potential net impact. Work will be ongoing to reduce any potential impact.
29. Examination of last years outturn together with early indications in the current year have identified a structural budget deficit in respect of income from commercial rents and charges of £215,000. Provision for this has been made within the MTFP.
30. Provision has been made for the impact of grant changes including Homes Bonus and Council Tax benefit grants. (£100,000 and £545,000 in 2014/2015 and 2015/2016 respectively)
31. Additional annual provision of £400,000 has been made in respect of the Councils agreed Capital programme. This includes additional provision to help advance the Councils Housing Strategy, assessed capital receipts and borrowing costs to deliver the approved capital programme.

## **Medium Term Financial Plan**

32. The Medium Term Financial Plan (MTFP) provides an outline of the broad financial position for the period 2014/2015 to 2016/2017. It projects the levels of resources and commitments across the next three-year period, and is used to support strategic policy and service planning across the Council.
33. The MTFP assumptions are outlined above and do not include any assumption for increased fees and charges or Council Tax increase. A 1% increase in Council Tax would generate an estimated £400,000 increased income.
34. Appendix A sets out the expected position over the medium term (2014/2015 – 2016/2017).
35. The chart at Appendix B illustrates the potential impact on Middlesbrough Council's gross expenditure and income in 2014/2015 and for the 3 year period 2014/2015 to 2016/2017. This has been based on the assumptions identified earlier in the report.

## **Budget Strategy**

36. In preparing the medium term financial plan, the following principles, consistent with previous years budget strategies and the agreed structure, process and governance arrangements in respect of the Change Programme have been adopted:-
  - to ensure that resources are directed to Council priorities through the Council's Change Programme

- to promote transformation and ensure the Council is fit for purpose
- to maximise the efficient, effective and economic use of resources, in conjunction with partners where appropriate,
- to keep Council Tax increases to a minimum
- to maintain appropriate balances, provisions and earmarked reserves.
- to make services fully accountable for their own budgets and spending, through the Middlesbrough Manager Model 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 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**

37. The Council is committed to undertaking appropriate consultation. The elected Mayor is intending to outline a series of budget reduction proposals for consultation in November 2013. A series of consultation exercises will be undertaken with all stakeholders including:-
- Residents, service users,
  - employees
  - the works council
  - the business sector
  - Headteachers/ Governing bodies,
  - Health & Social Care Forums,
  - Middlesbrough Voluntary Sector
  - consultation with other Strategic Partners & Stakeholders ( e.g.; Cleveland Police Authority)
38. An outline of the proposed budget process timetable is attached at Appendix C.

## Scrutiny

39. 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 2014/2015 annual revenue budget and to consider, as required by Section 25 of the Local Government Act 2003: -
- the robustness of the budget forecasts; and
  - the adequacy of the proposed level of financial reserves.

## FINANCIAL IMPLICATIONS

40. The projections are based on information currently available. The levels of reductions required are significant, particularly when considered alongside the level of previous budget reductions made by the Council. Whilst all general overhead expenditure will be subject to challenge, the level of reductions can not be met without impact on services delivered to residents.
41. A potential gap, (at a zero Council tax increase), for the following 3 years is projected as follows:-

Projected GAP	2014/2015 £`million	2015/2016 £`million	2016/2017 £`million
Additional In year	22.1	25.1	19.9
Cumulative over MTFP	22.1	47.2	67.1

42. Proposed measures to address the Gap include:-
- Budget reduction proposals through the Change Programme;
  - Demand mitigation measures within Wellbeing, care and learning;
  - Use of accelerated savings;
  - Department specific savings;
  - Maximise use of external funding (grants and contributions);
  - Revised MTFP assumptions; and
  - Potential increased charges (Fees and Charges and Council Tax)

## RECOMMENDATIONS

43. It is recommended that the Overview and Scrutiny Board
- Note and consider the contents of the report.
  - Considers the budget strategy outlined within the report

## REASONS

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

**BACKGROUND PAPERS**

No background papers were used.

**AUTHOR:**

**Name:** Paul Slocombe

**Tel no:** 729032



**Medium term financial plan  
2014/2015 – 2016/2017**

	2014/2015 £` Million	2015/2016 £` Million	2016/2017 £` Million
2013/2014 Base budget	140.601	140.601	140.601
Pay awards and Inflation	5.197	10.314	15.351
Wellbeing Care and Learning			
Children and Young people	3.400	6.575	9.575
Adults	2.400	4.700	7.000
Neighbourhoods and Communities			
Parking	0.300	0.300	0.300
Crematorium	0.650	0.650	0.650
Rent shortfalls	0.215	0.215	0.215
Technical Changes			
New Homes Bonus	0.000	0.445	0.445
Welfare reform	0.100	0.100	0.100
Other	0.100	0.200	0.200
Capital programme	0.400	0.800	1.200
<b>Net requirements</b>	<b>153.363</b>	<b>164.900</b>	<b>175.637</b>
Use of balances	0.200	0.200	0.200
<b>Adjusted net requirements</b>	<b>153.163</b>	<b>164.700</b>	<b>175.437</b>
Estimated resources (at zero Council tax inc)	131.014	117.523	108.336
Projected GAP/(Surplus)	22.149	47.177	67.101

Projected GAP	2014/2015 £` million	2015/2016 £` million	2016/2017 £` million
Additional In year	22.1	25.1	19.9
Cumulative over MTFP	22.1	47.2	67.1

