

# MIDDLESBROUGH COUNCIL

AGENDA ITEM 5

## OVERVIEW AND SCRUTINY BOARD

3 MARCH 2015

### Revenue Budget, Council Tax and Prudential Indicators 2015/216

Elected Mayor: Ray Mallon

Chief Finance Officer: Paul Slocombe

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#### PURPOSE OF THE REPORT

1. This report presents the recommended Revenue Budget, Council Tax and Prudential Indicators for 2015/2016.

#### SUMMARY OF RECOMMENDATIONS

2. It is recommended that:
  - a) Members note that the Chief Finance Officer confirms that the following recommendations :-
    - i) Represent a robust budget which has been based on an assessment of all known commitments and liabilities
    - ii) That appropriate provisions have been made;
    - iii) That estimated working balances over the medium term have been considered as adequate
  - b) The budget reductions outlined at Appendix A be supported;
  - c) The proposed budget requirement for 2015/2016 at £119,917,000 as detailed in Appendix B be supported.
  - d) Having taken into account relevant matters set out within the report that the Executive agree to support the basic amount of Council Tax (Band D) for 2015/2016 being increased by 1.85% and set at £1,380.85 being the average (Band D) Council Tax for the whole of the Borough;

e) support the basic amount of council tax in areas with parish precepts be set at -

Nunthorpe Parish	£1,383.79
Stainton & Thornton Parish	£1,391.17

f) The executive supports the Prudential Indicators, Treasury Management and Investment Strategy and the Minimum Revenue Provision Policy as set out in Appendix E

g) Members note the additional level of £4.6 million investment in key services which include

- £2.175 million for care for children and young people
- £1.533 million for care for older people and vulnerable adults
- £0.400 million capital investment
- £0.470 million living wage

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

It is over the financial threshold (£150,000)	<input checked="" type="checkbox"/>
It has a significant impact on 2 or more wards	<input type="checkbox"/>
Non Key	<input type="checkbox"/>

### DECISION IMPLEMENTATION DEADLINE

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

Non-urgent	<input checked="" type="checkbox"/>
Urgent report	<input type="checkbox"/>

### BACKGROUND AND EXTERNAL CONSULTATION

#### Consultation

4. The Council's overall financial position was outlined in a report by the Elected Mayor to Council on the 3<sup>rd</sup> September 2014.
5. On the 22<sup>nd</sup> October the Elected Mayor updated the Council with the projected budget gap for 2015/2016. The report set out a requirement to reduce the Council's 2015/2016 revenue net budget by £14.1 million
6. The Elected Mayor set out a series of 51 budget proposals which amounted to £14.1 million.

7. A consultation period of approximately 6 weeks has been undertaken. The Council has received 19 responses and comments in respect of the budget reduction proposals.
8. Following the 6 week budget consultation period, The Mayor stated that all his proposals would stand although he indicated that proposal relating to the camera enforcement initiative on the bus lane on Newport Road, would be modified.

### Central Government Finance Settlement

9. The Draft Local Government Finance Report for 2015/2016 was released on the 18<sup>th</sup> December 2014. This set out detailed Local government figures on an individual authority basis. The Government confirmed the final settlement on the 4<sup>th</sup> February 2014. An increase of £351,000 from that proposed in the draft settlement has been provided. The impact of the final settlement is reflected in the report.
10. The impact of the Government's statement is summarised below:-
  - A reduction of £13.4 million in Formula Government grant is being applied to Middlesbrough for 2015/2016. This equates to a 14.9% reduction.
  - Had we received the average reduction in "Spending power" an additional £6 million would have been available to support services to our residents.
11. The position for 2015/2016 is broadly in line with the current Medium Term Financial Plan projections.
12. The following table outlines the level of government support proposed over the next year together with the adjusted allocation for 2014/2015.

	2014/2015 Adjusted £` million	2015/2016 £' million	Variance %
Core Services Funding	80.0	66.4	
Council Tax Freeze	1.2	1.2	
Early Intervention Funding	7.0	6.4	
Learning and Disability Health Reform	1.5	1.5	
Other	0.3	1.1	
	90.1	76.7	-14.9
Funding Source			
Revenue Support Grant	49.1	34.9	
Retained Business Rates	41.0	41.8	
	90.1	76.7	-14.9

## **Revenue Budget 2015/2016**

13. In preparing the 2015/2016 draft 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 resources are directed to Council priorities in accordance with the agreed Middlesbrough 2020 Vision.
- to maximise the efficient, effective and economic use of resources, in conjunction with partners where appropriate,
- to keep Council Tax increases to a minimum
- 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 ensure effective budget consultation processes are followed.
- to ensure that the impact of legislative changes are considered as part of the budget setting process

## **Revenue Budget Assumptions 2015/2016.**

14. The following budget assumptions have been applied: -

### **Pay awards and inflation**

15. A provision has been made for the estimated impact of the 2 year pay award agreed in 2014 (average 2.2% over 2 years). Running costs and other Inflation have been provided at an increase of 1%. No inflation has been provided for supplies and services and is expected this to be met from efficiency savings. A 1% increase in inflation represents a £1 million cost to the Council.

16. Income from fees and charges has been assumed to increase on average by 1.0%. This excludes car parking charges and statutory charges.

### **Safeguarding & Children's Care**

17. There are a number of identified potential pressures relating to the Safeguarding & Children's Care outcome. These pressures have been based on assumptions in respect of levels of demand.
18. A summary of the current assessment is shown below: -

<b>Net pressures</b>	<b>2015/2016 £` Million</b>	<b>2016/2017 £`million</b>	<b>2017/2018 £` Million</b>
<b>Additional In year</b>	<b>3.175</b>	<b>3.000</b>	<b>3.000</b>
<b>Mitigation</b>	<b>-1.000</b>	<b>-1,000</b>	<b>-1.000</b>
<b>Cumulative over MTFP</b>	<b>2.175</b>	<b>4.175</b>	<b>6.175</b>

### **Adults Social Care**

19. Within the Adults Social Care outcome a provision has been made to address ongoing unavoidable demand led pressures. The current assessment is shown below: -

<b>Net pressures</b>	<b>2015/2016 £` Million</b>	<b>2016/2017 £`million</b>	<b>2017/2018 £` Million</b>
<b>Additional In year</b>	<b>2.300</b>	<b>2.400</b>	<b>2.300</b>
<b>Mitigation</b>	<b>-0.767</b>	<b>-0.800</b>	<b>-0.766</b>
<b>Cumulative over MTFP</b>	<b>1.533</b>	<b>3.133</b>	<b>4.667</b>

### **Other Changes**

20. Provision has been made for the impact of grant changes including New Homes Bonus (£500,000), Better Care Fund (£500,000)
21. 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 Mayors Vision.

22. Provision of £470,000 has been made for the proposed implementation of the living wage. This has a positive impact on 965 of the lowest paid employees within the Council.

### **Budget Reductions**

23. The recommended budget reductions for 2015/2016 are shown at Appendix A and are summarised in the following table: -

Service Area	Budget Reduction 2015/2016 £` Million
Economic Development & Communities	
(1) Economic Development	0.784
(2) Supporting Communities	1.437
(3) Improving Public Health	1.100
Wellbeing Care and Learning	
(4) Learning & Skills	0.030
(5) Safeguarding & Children's Care	1.150
(6) Social Care	0.530
Commercial & Corporate Services	
(7) Environment, property & Commercial Services	1.130
(8) Finance & Investment	3.943
(9) Organisation & Governance	
Central	3.965
	14.069

### **Adequacy of Financial Reserves**

24. The Council is required to maintain an appropriate level of reserves and balances. Whilst current guidance is not prescriptive, all authorities are required, when reviewing their medium term financial plans to consider the establishment and maintenance of reserves.
25. Proper consideration has to be given to: -
- a. working balances to help cushion the impact of uneven cash flows and to avoid unnecessary temporary borrowing;
  - b. general fund reserves to provide a contingency for the impact of unexpected events or emergencies; and
  - c. specific earmarked reserves to meet known or predicted liabilities

26. The Chief Finance Officer has advised that he considers it is appropriate to maintain a minimum of between £4.0 million and £4.5 million over the medium term. This advice is based on the extent to which budget monitoring processes are working effectively, an assessment of financial risks and the extent to which specific provisions are available to meet known and expected liabilities.
27. Middlesbrough does not hold excessive Reserves and Balances when compared to other authorities. An exercise conducted by the Audit Commission as to the level of Reserves and Balances held by authorities as at 31<sup>st</sup> March 2013 show that Middlesbrough is in the lowest 10%.
28. The following table indicates the projected position for reserves based on a review undertaken at the end of December 2014 :-

	£` Millions
As at 1 April 2014	9.633
2014/2015 Estimated Outturn	1.737
Planned use in 2015/2016	-2.175
Planned use over the Medium Term Financial Plan	-2.400
Estimated at 31 March 2016	6.795

### **Robustness of Budget Calculations**

29. It is the opinion of the Chief Finance Officer that the budget calculations for 2015/2016 are robust in that;
- proper medium term budget planning and monitoring processes are in place and maintained which ensure that known commitments are provided for and budgets are set in real terms with the effect on service delivery clearly identified;
  - appropriate provisions are made within the budget for pay and inflation;
  - a prudent view of the net costs of the Council's overall cash flow and prudential borrowing is taken;
  - an analysis of financial risks affecting the budget are completed; and
  - appropriate consideration is given to the level of Council Tax and external funding available to the Council.

## Equality Impact Assessment

30. The Public Sector Equality Duty (PSED) (as set out in the Equality Act 2010) places a statutory duty on the Council in exercising its functions, to have regard to the need to:
- eliminate discrimination, harassment and victimisation;
  - advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
31. Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:
- remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic
  - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;
  - encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
32. It must also have due regard to the steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.
33. The protected characteristics are: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation. Where proposed decisions may be relevant to one or more of these protected characteristics, the Council is obliged to assess the impact. If there is judged to be an adverse impact on these characteristics that is relevant to the duty above steps are taken to consider whether it can be avoided or mitigated. Where it cannot be avoided or mitigated, a decision can only be taken if it can be justified.
34. Proposals have been developed which protect frontline services and the town's most vulnerable groups as far as possible. To ensure due regard has been given to the requirements of the PSED, and that members are able to fully assess the impact of the proposed budget, each relevant proposal was subject to an Impact Assessment screening in line with the Council's approved policy (attached). 14 stage one Impact Assessments were completed as a result. There are a number of factors which have affected the amount of impact assessments that are completed to support the budget proposals:
- a proportion of proposed savings are being achieved from continued implementation of previous decisions



- a number of savings proposals will be realised from in-year decisions on detailed proposals and will be impact assessed at that point before decisions are taken.

Following the screening stage:

One of the proposals was considered (removal of Council subsidies) to have potential differential impacts.. This issue was considered as part of the development of the proposal and due regard was given to the Public Sector Equality Duty. Alternative services and other solutions will be available. Additional detail is provided at Appendix D.

Appendix C and D set out a summary of the Equality Impact assessments and detailed Equality Impact Assessments on each individual budget reduction respectively

### **35. FINANCIAL IMPLICATIONS**

36. The budget prepared on the above principles provides an extra £4.6 million investment in key services, including:

- £2.175 million for care for children and young people
- £1.533 million for care for older people and vulnerable adults
- £0.400 million capital investment
- £0.470 million living wage

37. The 2015/2016 draft budget does minimize impact on front line services, but efficiency savings cannot meet the projected gap over the medium term. There will be a requirement to reduce front line services.

#### **Determination of Council Tax**

38. A number of factors have been considered in respect of the level of Council Tax increase including our current level of Council Tax, the current levels of inflation, pressures from caring for our vulnerable people, the level of budget reductions required and the medium to long term implications of the Governments Autumn Statement and the Local Government Finance settlement 2015/2016.

39. The impact of the Governments proposed freeze grant has also been considered. At the point of preparing this report the Government have yet to outline the Council Tax referendum criteria. An assessment has been undertaken on the basis of the current criteria which indicates, should the Council decide to accept the freeze grant,:-

- an additional requirement for further budget reduction of £400,000 in 2015/2016; and
- an overall additional gap shortfall of £17 million over the next 10 years .

40. The Council is required to set a budget for 2015/2016. The budget will determine the level of resources to be made available to services and forms part of the determination of the Council Tax to be levied in 2015/2016.

41. The draft Budget requirement for 2015/2016 is estimated to be £119.917 million as detailed in Appendix B.
42. The basic (Band D) Council Tax for Middlesbrough as a whole is calculated as follows: -

	£	£
Budget Requirement		119,917,000
Less:		
Revenue Support Grant	34,899,303	
Top up Payment	21,630,119	
Local Share of NNDR	19,989,174	76,518,596
Net requirements		43,398,404
Council Tax Collection Fund Surplus		-827,608
(a)		42,570,796
Taxbase (b)		30,836
Basic Council Tax (a) / (b)		1,380.56

43. The table above relates only to Middlesbrough Council's element of the Council Tax and excludes Cleveland Police Authority and Cleveland Fire Authority precepts.
44. The level of Council Tax associated with the budget requirement represents a 1.85% increase on the current year's level for Middlesbrough Council's element of the Council Tax for those areas without precepts
45. The estimated Council tax for the areas of the Council which include parish precepts:-

a) Nunthorpe:-

	£	£
Add Parish precept:	7,000	
Divided by Tax Base	1,905	
Equals		3.67
<b>Band D Tax</b>		1383.79

b) Stainton & Thornton:-

	£	£
Add Parish precept:	6,500	
Divided by Tax Base	588	
Equals		11.05
<b>Band D Tax</b>		1391.17

## **Prudential indicators, Investment Strategy and Minimum Revenue Provision**

46. The Local Government Act 2003 created a new legal framework for capital investment from April 2004 and Local Authorities are required by law to follow the CIPFA Prudential Code.
47. The key objectives of the Prudential Code are to ensure, within a clear framework, the Council's capital programme is affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.
48. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out indicators that must be used, and the factors that must be taken into account within treasury management.
49. The Prudential Code introduced guidance regarding the way in which surplus funds are invested and guidance requires that an Annual Investment Strategy is approved by Council.
50. The Government issued guidance relating how local authorities set aside some of their revenues as provision for debt repayment. This requires authorities to prepare an annual statement of their policy on for determining the Minimum Revenue Provision.
51. The fundamental objective in considering the affordability of the Council's capital plans is to ensure that the total capital investment of the authority remains within sustainable limits and, in particular, to consider its impact on the local authority's "bottom line" council tax. Affordability is ultimately determined by a judgement about available resources.
52. In considering the affordability of its capital plans, the Council must consider all of the resources currently available to it and estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years. The authority is also required to consider known significant variations beyond this timeframe. This requires the maintenance of three-year revenue forecasts and three-year forward estimates of council tax as well as three-year capital expenditure plans. These are rolling scenarios, not fixed for three years.
53. Appendix E sets out the proposed prudential indicators together with the investment strategy and minimum revenue provision policy.

## RECOMMENDATIONS

54. It is recommended that: -

- a) Members note that the Chief Finance Officer confirms that the following recommendations :-
  - i) Represent a robust budget which has been based on an assessment of all known commitments and liabilities
  - ii) That appropriate provisions have been made;
  - iii) That estimated working balances over the medium term have been considered as adequate
- b) The budget reductions outlined at Appendix A be supported;
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Nunthorpe Parish	£1,383.79
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## REASONS

55. The Council is required under legislation to set a revenue budget and agree the level of Council Tax for 2015/2016.

## **BACKGROUND PAPERS**

56. No background papers were used in the preparation of this report:

### **AUTHOR:**

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