Medway COUNCIL
Serving You

Cabinet – Supplementary Agenda No.1

A meeting of the Cabinet will be held on:	
Date:	Tuesday, 28 September 2021
Time:	3.00pm
Venue:	Civic Suite - Level 2, Gun Wharf, Dock Road, Chatham ME4 4TR

Agenda

For further information please contact Jon Pitt, Democratic Services Officer/Teri Reynolds, Democratic Services Officer on Telephone: 01634 332715/332104 or Email: democratic.services@medway.gov.uk

Date: 21 September 2021

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Medway Council
Serving You

CABINET

28 SEPTEMBER 2021

FINANCIAL OUTLOOK 2022/23

Portfolio Holder: Councillor Alan Jarrett, Leader of the Council
Report from: Phil Watts, Chief Finance Officer
Author: Katey Durkin, Head of Finance Strategy

Summary

This report sets out the initial assumptions underpinning the financial pressures projected by the Council's services alongside projections of the Council's income streams insofar as they impact the 2022/23 budget.

1. Budget and policy framework

1.1. It is the responsibility of Cabinet, supported by the management team, to develop a draft revenue budget. This report identifies the key issues that need to be addressed as part of that budget preparation.

1.2. This report has been circulated separately to the main agenda. Therefore, the Cabinet is asked to accept this report as urgent to enable consideration of the matter at the earliest opportunity given that the draft budget proposals must be presented to the Cabinet at its meeting in November, in accordance with the Council's Constitution.

2. Background

2.1. In previous years a Medium Term Financial Strategy (MTFS) has been prepared for the Cabinet in Autumn. However, the ongoing effects of the pandemic continue to impact on both expenditure and income and as the government is not set to announce its Spending Review until 27 October 2021, it is not possible to produce meaningful projections across the medium term at this stage. Instead, from February 2022 our medium term projections will be reported to the Cabinet alongside the final budget presented to its meeting in February of each year.

2.2. The MTFS 2020-2023 was considered by Cabinet on 17 November 2020 and identified a potential revenue shortfall of £11.710million in 2021/22 rising to £20.353million in 2022/23. During the following months, a range of savings proposals were identified to close the majority of that gap, however the final 2021/22 budget includes £7.025million of one-off funding, including £4.005million of funding from reserves. Furthermore, the first round of the Council's revenue budget monitoring for 2021/22 forecasts a pressure of £8.457million, indicating a significant inherent pressure in the base budget for 2022/23, almost entirely attributable to pressure on placement costs within Children's Services.

3. Expenditure projections

3.1. Children and Adults Directorate

3.2. The Children and Adults Directorate accounts for almost 70% of the Council's total net revenue budget. A range of pressures across the sector including demographic growth, new unfunded burdens and scarcity of providers have all driven significant cost pressures for all upper tier local authorities, and at Medway these have been reflected in significant additional investments made to these services year on year. Our current projections indicate that in order to continue to meet our statutory responsibilities, our budget for Children's Services would need to grow by £15million while our Adult Social Care services budget would need to grow by almost £11million.

3.3. Children's Services

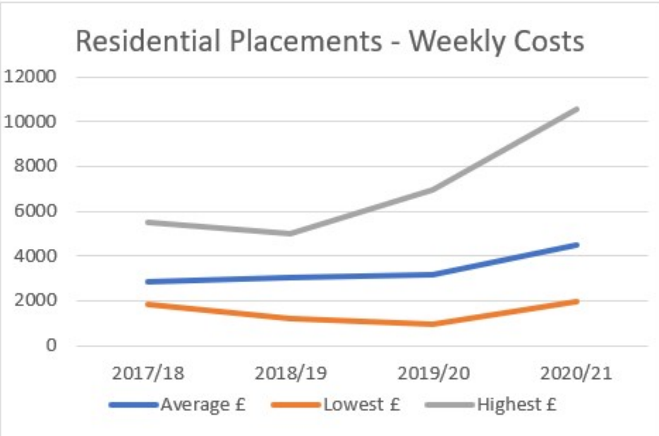
3.3.1. In August 2019 Ofsted concluded their inspection of Medway's Children's Services with the overall judgement for Medway of Inadequate and an independent Children's Services Commissioner was appointed by the Secretary of State. Since then, the Council has made significant additional investment into services for Children and Young People to ensure the delivery of our improvement journey. The 2020/21 revenue budget for Children's Services saw a £7million increase with a further £9million added to the service budget for 2021/22, alongside capital investment of £800,000.

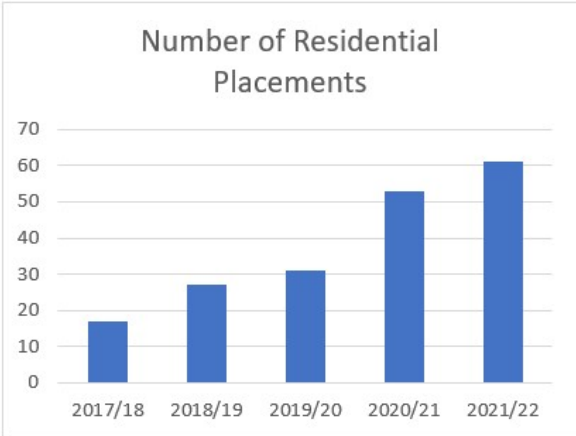
3.3.2. This investment has clearly contributed to improvements in the service, and in her final report to the Secretary of State in December 2020 the Commissioner recommended that Medway had the capacity to continue to run its children's service and was committed to making the necessary improvements. During recent assurance visits, the inspection team found that the senior leadership team had made progress in developing the necessary foundations to develop and improve the consistency and quality of practice, and that no child was found to be at risk of harm and there were no priority areas for action identified. However, despite this significant budget growth, the first round of the Council's revenue budget monitoring for 2021/22 projects an overspend on Children's Services of £7.577million, primarily driven by increases in the number and unit costs of Residential, Supported Accommodation and Independent Fostering Agency placements.

3.3.3. The Council recognises that there is a cohort of children and young people whose needs were not met by the service prior to 2019, and who now have much more complex needs and require higher levels of support. These individuals represent our most expensive placements, with some packages of support consisting of 1:1, 2:1 or even more care, day and night required in order to ensure the safety of the individuals and the providers of that care. Programmes of family support and early intervention work are now in place which we anticipate will mean fewer individuals would require such intensive, and therefore expensive placements in the future.

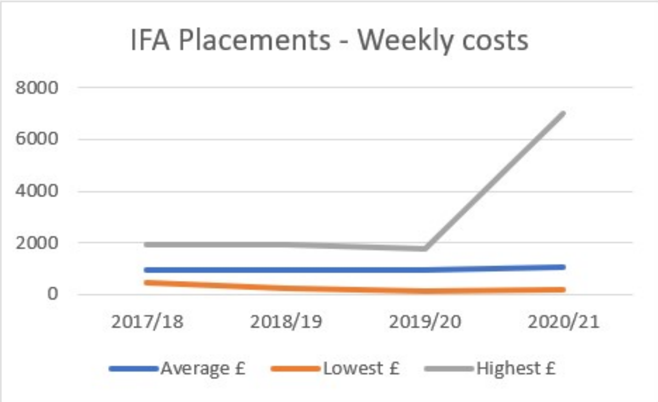
However, this increasing complexity of need, combined with the scarcity of suitable placements is driving significant financial pressures at Medway. The three key areas of activity in which pressures are projected in Children's Services are residential placements, Independent Fostering Agency (IFA) placements, and supported accommodation placements.

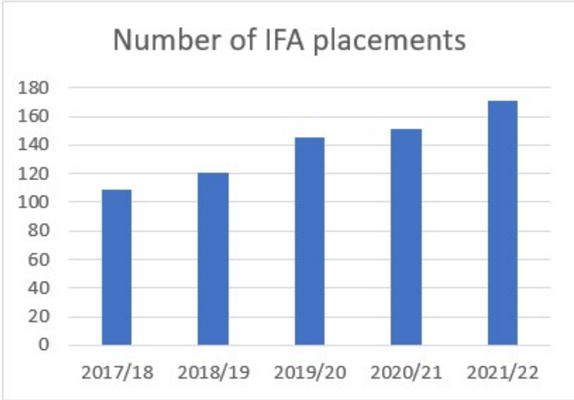
3.3.4. Residential Placements – the number of children in residential care has trebled since 2017/18 when there were 17 residential placements, to the projected level in 2022/23 of 61. The average weekly cost of placements has increased by 60%, from £2,820 per week in 2017/18 to £4,518 in 2020/21. The significant variance in the level of support required means there is a large disparity between the cost of our least and most complex packages of support, however as the chart showing weekly costs below shows, the growth in the cost of our most expensive placements is the most significant change; in 2017/18 our most expensive placement was £5,500 per week, while in 2020/21 that had almost doubled to £10,520. Our assumptions reflect an increase of £4.470million the budget to fund the growth projected in this area.



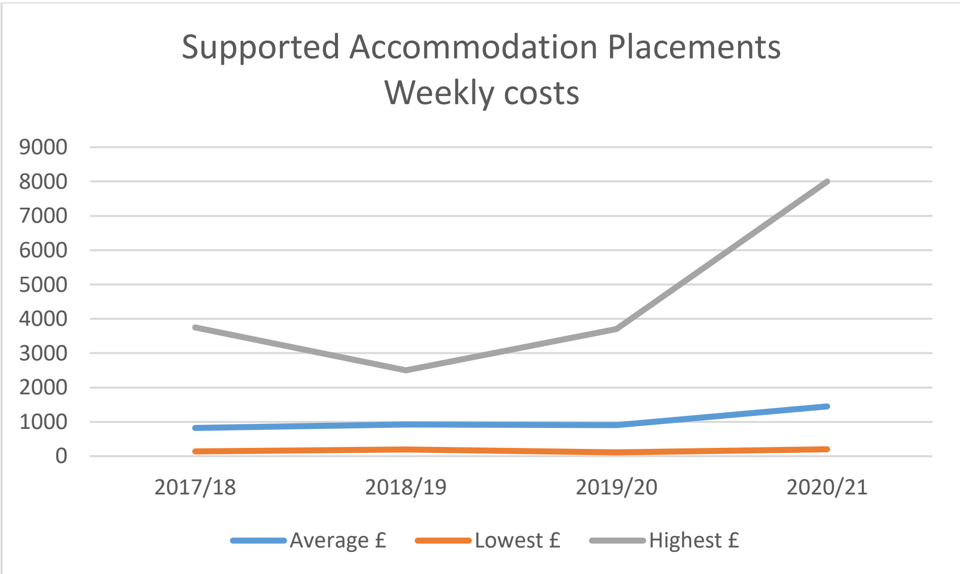


3.3.5. IFA Placements – Medway Council's in-house fostering service operates in a competitive market against neighbouring Local Authorities and registered independent fostering agencies (IFAs) that heavily dominate the recruitment of foster carers from the same pool of people; there are 81 national and regional IFAs who recruit carers from the Medway area. The IFAs are more commercially focused, work solely from a fostering perspective and in most cases offer a more attractive financial and support package and consequently, placements with IFAs cost the Council significantly more than in-house fostering placements. In August 2021, the Cabinet approved an improved 'offer' for Medway's in-house foster carers, including a new allowances scheme and a range of concessions. The package is intended to attract and retain a higher level of in-house foster carers, and reduce the need to use external IFA placements. The charts overleaf show that the number of IFA placements has increased from 109 in 2017/18 to 151 in 2020/21, and while the average cost of those placements has not significantly increased, the increasing complexity of need of some of our children and young people have made the cost of our most expensive placements jump from an average of below £2,000 up to 2019/20, to in excess of £7,000 in 2020/21. Our assumptions reflect an increase of £2.950million the budget to fund the growth projected in this area.





3.3.6. Supported Accommodation Placements – Providing family-based support and advice to help young people get education, employment or training as well as develop the confidence and skills to live independently, historically placements in Supported Accommodation cost less than Residential Placements. With local authority demand for placements now outstripping provider availability, the Council's ability to negotiate placement costs is very limited. While the number of children and young people in Supported Accommodation Placements has remained fairly static since 2017/18 at around 165 each year, the average weekly cost has increased over that period from £822 to £1,449 per week. As with IFA placements, the increasing complexity of need of some of our children and young people have made the cost of our most expensive placements has almost doubled in the period, from £3,750 in 2017/18 to £8,000 in 2020/21. In 2021/22, the Council's most expensive Supported Accommodation placement is a higher weekly cost than any of our Residential Placements. Our assumptions reflect an increase of £2.520million the budget to fund the growth projected in this area.



3.3.7. In January 2021 the Local Government Association reported that the six largest independent providers of placements had made £219million in profit in the year to that date. The report also showed that some independent providers of children's residential and fostering placements are achieving profits of more than 20% on their income. Also in January 2021, the government announced the Independent

Review of Children’s Social Care. While the review is still underway, in August 2021 the Chair of the review wrote to the government with early findings in advance of the Spending Review 2021. The letter sets out the need for urgent investment from the government, focussed on three key areas:

- Family help – “*Significant additional funding for effective family help that makes a difference to the lives of children and families and reduces demand for acute services is needed*.”
- Homes for Children in Care – “*New investment should be used to rebalance away from ‘for profit’ provision towards public and not for profit options and should incentivise quality, building upon existing best practice and ensuring provision exists where it is most needed*.”
- Mental health of Children in Care – “*Many children in care are suffering from extremely poor mental health and struggling to get meaningful support […] this Spending Review and Government’s broader focus on Covid-19 recovery planning and investment is an opportunity to do something sooner to help this uniquely vulnerable group of children who are disproportionately likely to have experienced abuse and neglect*.”

We will seek to engage in the review and continue to work with other local authorities at both officer and Member level to lobby the government to address this funding shortfall and the new burdens imposed on local authorities in recent years. In their submission to this review, the North East branch of the Association of Directors of Children’s Services (ADCS) said that the current market *“increasingly resembles a series of cartels, able to regulate the supply of provision to retain profit margins and make considerable private profit from public funding”*.

3.3.8. Medway’s Outline Sufficiency Strategy 2020-2025 sets out our key priorities to improve outcomes for children and young people and reduce the cost of the service. Our strategy will:

- Seek to improve family resilience and the ability of families to care for their own children through early intervention;
- Reduce the need for repeated removals of children into care;
- Facilitate children safely returning home;
- Facilitate children leaving care to other permanent families;
- Improve the number of in-house foster carers in Medway and their capacity to take on more complex or hard to place children;
- Provide specialist high intensity support for complex looked after children within Kent and Medway;
- Create time and space to assess the needs of looked after children and ensure that placements and support meet those needs to avoid repeated breakdowns and escalating need; and
- Improve the range and quality of accommodation for our care leavers within Medway.

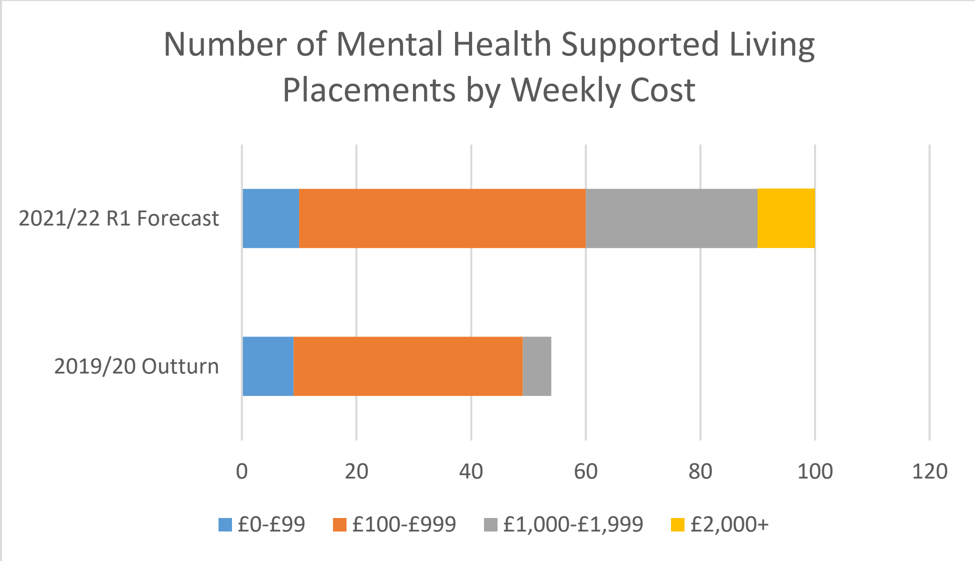
3.3.9. Work is underway to review the highest cost Residential Placements to ensure this cohort of children and young people are receiving the most appropriate care in the most cost-effective way possible.

3.4. Adult Social Care

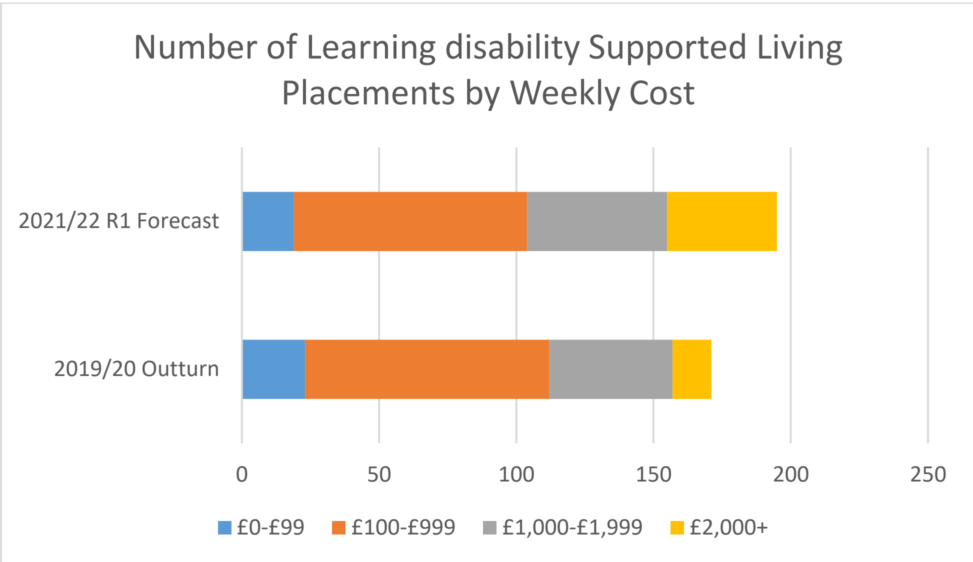
3.4.1. Our Adult Social Care service currently supports more than 2,600 adults with care needs and assesses and reviews around 2,500 people per year. The population of adults requiring support is growing, and the number of people aged 65 and over in Medway with a limiting long-term illness, whose day-to-day activities are limited a lot, is projected to rise by 20% between 2020 and 2030. The pandemic caused significant pressure in Adult Social Care, across the division and the impacts continue to be felt long after the crisis period in 2020. The pressure on the Medway Foundation Trust has continued with a significant increase in the number of people attending the hospital. The impact of the pandemic on people’s mental health is already starting to emerge with the number of Mental Health Act Assessments (MHAA) increasing and becoming more complex, and due to the complex needs of people with mental ill-health, we are seeing an increase in the level of care needed to support people. Social care providers in the market continue to experience significant cost pressures including increases in the National Living Wage and rising inflationary costs, alongside Covid-19 impacts including the requirement for Personal Protective Equipment and enhanced cleaning, while social distancing requirements continue to impact on capacity. Nationally there continue to be issues with the recruitment and retention of social care staff with the resultant staff shortages making reliance on expensive agency staff a further pressure within the service.

3.4.2. The first round of revenue budget monitoring for 2021/22 projects a total spend of £77.187million, meaning direct spend on Adult Social Care services has increased by £9.718million since 2017/18, an increase of 17.2% overall or around 3.4% each year. During that period, direct spend on those with disabilities (the largest area of spend) increased by around 15% while direct spend on those with mental ill-health increased by 152% from £2.549million to £6.416million. Spend on Older People Services has remained largely consistent over the same period although it remains the second largest area of spend.

3.4.3. Supported Living: Mental Health – The net spend on Mental Health Supported Living packages has increased from just under £1million in 2019/20 to a forecast spend of £4.02million in 2021/22. As the chart overleaf shows, in 2019/20 there were only 5 packages costing more than £1,000 per week, the highest of which was £1,898. The first round of budget monitoring for 2021/22 includes 40 packages costing more than £1,000 per week, 10 of which are over £2,000 per week with the highest being £3,765 per week.



3.4.4. Supported Living: Learning Disability – The net spend on Learning Disability Supported Living packages has increased from £7.381million in 2019/20 to a forecast spend of £10.563million in 2021/22. As the table below shows, in 2019/20 there were only 14 packages costing more that £2,000 per week the highest of which was £5,764. The first round of budget monitoring for 2021/22 includes 40 packages costing more than £2,000 per week, 8 of which were over £3,000 per week with the highest being £6,590 per week.



3.4.5. Our projections reflect the impact of demographic growth and cost pressures across Supported Living Services growth on the Adult Social Care budget as a pressure of £6.260million.

3.4.6. Older People Residential Care – At Medway, residential/nursing care for older people has traditionally been delivered across four levels of care need; standard residential care, dementia residential care, standard nursing care and dementia/enhanced nursing care. For each of these levels of care, the Council established what it considered a reasonable cost as the band price. The table below shows how these band prices have been inflated over time to support the provider market.

Year	Banding – Cost per week (£)			
	Standard Residential (3)	Dementia Residential (3+)	Standard Nursing (4)	Dementia Nursing (4+)
2017-18	409.62	502.95	489.46	594.20
2018-19	416.17	511.00	497.29	603.71
2019-20	422.83	519.18	505.25	613.37
2020-21	429.60	527.49	513.33	623.18
2021-22	433.90	532.76	518.46	629.41

3.4.7. Initially some providers would charge a 'top up' for enhanced facilities i.e., a larger room, or ensuite bathroom with those costs being paid by the third party (usually a family member). There were however also some providers who would charge prices in excess of the relevant band price, which owing to the scarcity of suitable placements, were absorbed by the Council. Now there are a number of care homes which will no longer accept our band price and as a result the number and cost of 'top-ups' paid by the Council has increased steadily over the past few years as shown in the table below. As other Local Authorities are paying higher rates, there is a risk that if we do not keep pace, providers may no longer accept placements from the Council.

	2017/18 Outturn Nursing	2022/23 Projection Nursing		2017/18 Outturn Residential	2022/23 Projection Residential
Number of placements above band price	142	157		178	189
Average cost above band price (£)	62.84	87.52		59.23	91.43

3.4.8. Our projections reflect the impact of demographic growth and cost pressures in Residential/Nursing Care on the Adult Social Care budget as a pressure of £3.201million.

3.4.9. Homecare staffing – Difficulties in attracting and retaining a homecare workforce are well publicised nationally. The United Kingdom Homecare Association's published Minimum Price for Homecare services from April 2021 is £21.43 per hour; they say this allows full compliance with the National Living Wage and the delivery of sustainable quality homecare services to local authorities. The average rate paid in the South East is over £19 per hour. Medway's average hourly rates for framework providers were increased from £15.86 in 2017/18 to £16.89 in 2021/22, an overall increase of 6.49% or an average of 1.3% each year over the period, however our average hourly rates for framework providers are currently the lowest in the South East. While partly attributable to the way the framework contract was retendered on a locality basis to reduce travel time and the relatively small scale of the area, the scarcity of providers and suitable placements in

Medway means that the Council is already making placements with providers outside of the framework contracts let. There is an emerging risk around providers ceasing operations due to financial circumstances which would have a detrimental impact on our ability to meet our statutory responsibilities under the Care Act. Our budget assumptions reflect an increase in hourly rates of 5%, at a projected cost of £566,000.

3.4.10. In July 2021 Cabinet agreed Medway's Adult Social Care Strategy 2021-2025. The strategy recognises that in common with all adult social care services across the country, we need to change and adapt as we cannot meet growing levels of demand within the budget we have, and the predicted demand over the next ten years shows this challenge will only grow. The Strategy aims to ensure that we safeguard our residents and improve outcomes for our service users, while ensuring that the service we provide achieves the best value for the Council. The vision for Adult Social Care in Medway is based on a strategic approach to Prevent, Reduce, Delay Need and Meet Need with 2021/22 seeing the start of a transformational shift towards early intervention and recovery. By 2025 the service will have shifted from a reactive model of care to one that focusses on empowerment, and is working towards ensuring:

- That we are better able to identify earlier those at risk of their needs rising and facing the risk of crisis and dependency,
- That we make early intervention and recovery the default offer for those in short-term need or crisis, helping them to rebuild their strengths, confidence, and independence,
- That we work to replace traditional service offers that simply manage conditions with new innovative solutions that maximise opportunities for individuals to live their lives well,
- That we promote personal responsibility and place more power in the hands of individuals and their families to take decisions on their own care and support needs,
- That we will work with our providers to ensure the best possible levels of care provision for those who cannot live independently.

3.4.11. The Adult Social Care Transformation Programme is currently focussing on the following key areas of work:

- Front Door – the service recognises a need to improve the process at the Front Door to reduce Adult Social Care demand, improve triage and improve the experience for customers.
- Client Finance – the service recognises a need to improve a number of processes around Client Finance to improve efficiency and effectiveness and to improve the experience for our customers.
- Structure, system and processes – work is underway to map all key service processes and client journeys through the service, with improvements to be piloted to inform future service design.
- Preparing for Adulthood – the Directorate recognises a need to improve the transitions process from Children's Social Care to Adult Social Care to ensure that all service users are assessed in good time to determine eligibility and to guarantee a successful transition.

- Assistive Technology – the service recognises a need to research and introduce additional assistive technologies, alongside traditional equipment, and TeleCare, to enable clients to remain independent in their own homes.
- Employee engagement and wellbeing – through engagement with staff, the service have identified a range of opportunities to improve staff training and inductions, employee wellbeing, employee engagement and recruitment and retention.
- Adult's needs analysis – the service wishes to introduce an Adult Social Care Needs Analysis to establish whether we need to expand on the current commissioned service offer to better support the need.
- Mental Health – Mental Health has been highlighted in both the ADASS report and by staff as an area for improvement.
- Learning Disability provision - Business Change are supporting Adult Social Care to determine demand and capacity for Learning Disability provision (including respite provision), and to establishing whether there is a business case to expand existing provision.
- Targeted reviews – the service continues to review placements to ensure the most appropriate care is secured in the most cost-effective way possible.
- Block bed usage – work is underway to review the block bed capacity and suitability for our current service users.

3.5. Education

3.5.1. In 2014 the Children and Families Act brought about significant reforms raising the age limit for the provision of statutory support to children with SEND from 19 to 25. This led to an explosion in the number of children with Education, Health and Care Plans (EHCPs), with national numbers increasing by 50,000 cases, a 46% rise in the first five years. In addition, the compulsory school age has also increased from 16 to 18 years and many of our young people continue into college at 19 years old. It has been recognised at a national level that this new burden has not been met with adequate funding uplifts from the government, and most upper tier authorities have seen successive and significant overspends across the period.

3.5.2. In Medway, by 2019/20 this pressure had resulted in a significant overspend, with the Council charging £5.460million of High Needs expenditure to the DSG high needs reserve, increasing the deficit on this reserve to £9.184million. As required, the Council submitted a Deficit Recovery Plan to the Department of Education at the end of June 2019, however this plan acknowledged that it would not be possible to bring the reserve to balance, without additional funding, in spite of proposing significant savings of circa £3.5million per annum. Continued growth in this area during 2020/21 meant that by the end of March 2021, the high needs element of the DSG reserve balance represented a deficit of £16.261million, of which £1.790million will be repaid by schools from future years funding; therefore the cumulative deficit on the High Needs block is £14.051million with a further £420,000 on the Early Years block.

3.5.3. The latest data shows that the total number of EHCPs has continued to increase. In England, the number of EHCPs in January 2021 was 10% higher than the previous year. This is mirrored by the position in Medway, with a 9% increase (representing 211 additional EHCPs) in the year to January 2021, which followed an 11.9% increase seen in the year before.

	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s
DSG Expenditure	100,151	101,495	102,305	102,615
Total DSG Grant Income	(95,753)	(98,147)	(100,601)	(103,116)
DSG Pressure	**4,398**	**3,348**	**1,705**	**(501)**
Opening DSG High Needs Reserve Deficit	14,051	18,449	21,797	23,502
In-year movement	4,398	3,348	1,705	(501)
Closing DSG High Needs Reserve Deficit	**18,449**	**21,797**	**23,502**	**23,001**

3.6. **Regeneration, Culture & Environment Directorate**

3.6.1. The key financial pressure forecast across our ‘Place’ services is reduced income from our fee earning services, due to the ongoing impact of the pandemic:

- Parking Services – Income in respect of Parking was budgeted to generate just under £8million per year before the pandemic. Lockdowns significantly reduced demand for town centre car parking and the ongoing popularity of working from home means reduced demand in the longer term is likely, with this MTFS projecting a shortfall in income from Parking in 2022/23 of £772,000. Income through the service is projected to recover to the 2020/21 budgeted levels by 2023/24.
- Sport, Leisure, Tourism and Heritage – Pre-pandemic, the Council budgeted for income of £4.1million though these facilities, most of which remained closed to the public throughout 2020/21 only reopening in Spring and Summer of 2021. We have focussed on ensuring that the facilities are managed to ensure customers feel safe to return, and though still significantly below pre-pandemic levels of usage, in the current financial year customers have returned in higher numbers than originally anticipated with significant increases in memberships between April and July, with 800 new joiners. Swimming lessons have also proved popular with numbers booked on equal to or exceeding pre-Covid levels at all three sports centres. Our current projections represent a shortfall in income of just under £440,000 for 2022/23, with income anticipated to return to the 2020/21 budgeted level by 2023/24.
- Cultural Services – These services were budgeted to generate £1.7million in direct income before the pandemic and with some facilities towards the very end of the government’s roadmap for reopening, significant income shortfalls continue to be forecast. Income through our Theatres is projected to be £203,000 below budget in 2022/23.

Our emerging parking strategy is being developed to reflect the permanent shift in usage brought about by the pandemic, particularly around commuter use of car parks. Work to develop our strategic approach to the delivery of parking services to fit Medway moving forward includes:

- Ensuring Medway has the right capacity in the right locations to support residents, businesses and visitors;

- Maximising the efficiency and effectiveness of the service operating model;
- Making better use of technology, including cashless parking, friction-free parking (similar to how the Dart-Tag operates) and use of Automatic Number Plate Recognition to reduce costs of enforcement.

Across our Sports, Leisure, Tourism and Heritage and Cultural Services where income shortfalls are projected for 2022/23, we are focussing on the following:

- Reviewing our operating models to maximise efficiency and ensuring we provide the right facilities and services in the right way to meet customer demand,
- Working with Public Health colleagues to ensure we maximise the use of our facilities to support public health aims and demonstrate effective use of Public Health grant funding,
- Ensuring we maintain an appropriate Covid-19 response in line with the latest Public Health advice, for instance ensuring high standards of cleanliness, promoting mask-wearing and social distancing so that visitors can be confident attending our facilities is safe, and
- Ensuring our publicity and marketing campaigns are effective and reach our target audiences.

3.6.2. Our Highway Network is one of our largest and most valuable publicly owned assets with a current replacement value of over £2billion. It connects residential dwellings with businesses and places of interest for visitors and plays a key role in both supporting the Council's Regeneration Programmes and our vision of Medway becoming a leading Waterfront University City. Our assumptions reflect the annual cost increase for our contract of £140,000. We will be undertaking a fundamental review of how we fund our services and meet our aspirations in this area.

3.6.3. Medway's continued population growth drives increasing levels of waste arising for our service to collect, recycle and dispose. Our projections reflect the forecast increases in waste arisings, alongside annual contractual uplifts across the waste collection and disposal contracts, with these pressures totalling £700,000 for 2022/23.

3.6.4. Our capital programme is detailed in the Capital Strategy, and currently stands at £475.661million, of which £419.164million represents services delivered through the Regeneration, Culture and Environment Directorate. Where our staff carry out work on these that is integral to the creation of long-term assets, we charge an appropriate element of the cost of those staff to those schemes. During 2020/21 the Council's external auditors reviewed the mechanism by which salary costs were charged and concluded that we were charging more than the Accounting Code allowed, and as such adjustments were made in the 2019/20 and 2020/21 accounts to address this. As service budgets are based on the previous charging mechanism, this adjustment represents a pressure to the budget for 2022/23 and beyond, which is projected as a pressure of £715,000:

- Highways £270,000,
- Integrated Transport £350,000, and
- Valuation & Asset Management £95,000.

3.6.5. The Council purchased the Pentagon Centre in 2019 as a key strategic element of our ambitious plans to regenerate Chatham. In addition to its strategic value and the ongoing capital investment in the site, the centre is budgeted to generate more than £1million net income through the rental of the units. In January 2021 the Council was awarded £9,497,720 from the government's Future High Streets Fund, from which £500,000 has been allocated to the transformation of the Pentagon Centre, reconfiguring the first floor for community use. Enabling works are expected to begin at the end of the current financial year and with the first floor units vacated, there will be a shortfall in rental income compared to budget and as landlord, the Council will be liable for Business Rates in respect of those premises. This results in a projected pressure of £1.236million in 2022/23, however this issue is short term, with income anticipated to return to budgeted levels from 2023/24.

3.7. Business Support Department & Centralised Services

3.7.1. Apart from the Department's share of the allowance for a 1% pay award for staff, the only other pressures within the Department relate to Member and elections support, increasing external audit fees and external levies, as detailed in Appendix 3.

3.8. Staff pay award

3.8.1. While pay awards are agreed following due process and local negotiations with Trades Unions, for the purposes of this Financial Outlook report, we have assumed a pay award resulting in an annual uplift of 1% for staff amounting to £907,000.

4. Resource projections

4.1. On 7 September 2021 the Chancellor of the Exchequer launched the Spending Review 2021 (SR21), which will conclude on 27 October 2021 alongside the government's Autumn Budget. The announcement confirmed that SR21 would set the government departmental resource and capital budgets for the three years 2022/23 to 2024/25.

4.2. Central to the Spending Review announcement was the publication of the Build Back Better document, which set out government's plan for health and social care. The reforms include:

- The introduction of a cap on personal care costs of £86,000 from October 2023.
- Increasing the upper capital limit (the threshold above which somebody is not eligible for local authority support towards their social care costs) from £23,250 to £100,000 from October 2023.
- Increasing the lower capital limit (the threshold below which somebody does not have to make a contribution towards their care costs from their capital) from £14,250 to £20,000.
- If somebody has capital between £20,000 and £100,000 the local authority may fund some of their care, but they may have to contribute up to 20% of their chargeable assets per year (in addition to their income).

The reforms are to be funded through the introduction of a new 1.25% Health and Social Care Levy from April 2022; initially through the National Insurance scheme, and from April 2023 as a legally separate tax for all workers including those above the State Pension Age. In addition, dividend tax rates will be increased by 1.25% to contribute to the Health and Social Care Levy.

4.3. Receipts raised through the new levy will be ringfenced to the NHS for the first three years, and from 2025/26 allocation will be a matter for the Chancellor of the Exchequer through the Budget. For the first three years the government has confirmed it will invest £5.4billion into adult social care, however it is widely anticipated in the sector that this will only mitigate the impact of the reforms. Government departments have been asked to identify at least 5% savings and efficiencies from their day-to-day budgets through SR21. Regarding local authority funding, the announcement confirmed that "The Government will ensure Local Authorities have access to sustainable funding for core budgets at the Spending Review. We expect demographic and unit cost pressures will be met through Council Tax, social care precept, and long-term efficiencies; the overall level of Local Government funding, including Council Tax and social care precept, will be determined in the round at the Spending Review in the normal way."

4.4. At this stage, there are no clear indications as to the likely quantum of funding for local authorities through the Settlement. While the introduction of a 5% departmental savings target suggests grant funding allocations could be lower, the announcements allude to a continuation of the flexibility to levy an Adult Social Care precept on Council Tax. In the absence of any clarity, our funding projections effectively assume a holdover from 2021/22 with no significant change in Baseline Need Funding. We are however projecting that the government's trajectory to remove the New Homes Bonus regime will continue with the Council's forecast income through that grant projected to reduce from £986,000 in 2021/22 down to £88,000 in 2022/23.

4.5. The allocation of the national quantum of funding to individual local authorities is calculated through a mechanism intended to distribute available funding on the basis of need and resources. In February 2016 the government announced the Fair Funding Review, which was intended to set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best available evidence. The Fair Funding Review was originally intended to take effect from 2020 onwards, would be use three main 'cost drivers': population, deprivation and sparsity, together with additional cost drivers related to specific local authority services. In 2019 the government announced the deferral of the Fair Funding Review due to Brexit, and again announced a deferral in 2020 due to the Covid-19 pandemic. There have been no announcements as to when the review will be implemented, however it is anticipated this will take place in 2022, impacting from the 2023/24 budget.

4.6. 2021/22 One-off budgets

4.6.1. The Council's 2021/22 budget included £31.284million of one-off Covid-19 related grant and £4.005million funding from reserves. The removal of expenditure pressures directly related to Covid-19 accounts for £28.264million. As such, the removal of the one-off elements of the 2021/22 budget results in a pressure of £7.025million for the 2022/23 budget.

4.7. Income from Local Taxation – the Collection Fund

4.7.1. Income from Council Tax and Business Rates is held in a ringfenced collection fund account, from which authorities draw the budgeted level of income in each year irrespective of actual income collected. Any shortfall on income collected compared to that budgeted level results in a collection fund deficit which is recovered by reducing the amount of income the Council can budget for in the following year.

4.7.2. Given the scale of deficits expected owing to the pandemic, the Chancellor announced that repayments to meet collection fund deficits accrued in 2020-21 can instead be phased over a three-year period (2021-22 to 2023-24) to ease immediate pressures on budgets. Two other funding streams to support collection funds for 2021/22 budgets were announced;

- the Local Council Tax Support Grant aimed to help councils deal with the increased cost of providing Local Support for Council Tax, from which the Council's budget for 2021/22 includes £2.196million, and
- the Tax Income Guarantee scheme, whereby the government will compensate local authorities for 75% of irrecoverable losses in council tax and business rates income in respect of 2020-21, through which the Council's budget for 2021/22 includes our estimate of £1.437million.

Other than the ability to spread any deficit arising from 2020/21, there is no indication that any other support for collection fund losses will be provided for 2022/23 and therefore no additional support is included in our current projections.

4.8. Business rates

4.8.1. Under the current system most local authorities retain 50% of rates collected (at Medway Council this is 49% with 1% paid to Kent Fire Authority) with the balance paid to the Government. The government has set a baseline funding level for each authority and for each year calculates a business rates baseline based on the average of business rates collected in the previous two years. Where an authority's business rates baseline exceeds its funding baseline, they pay the difference to central government as a tariff, which is used to pay for a top-up for authorities whose funding baseline is less than its business rates baseline. These tariffs and top-ups are uprated each year by the business rates multiplier, now CPI.

4.8.2. To coincide with the Fair Funding Review, (originally scheduled for 2019, now anticipated in 2022) the proportion of local business rate retention was intended to rise from 50% to 75% with several grants (most notably Public Health Grant and Revenue Support Grant) being ended at that point, to prevent this change causing a 'windfall' for local government. Instead, the review would be used to change business rate baselines with a new baseline applied in the first year, but not reviewed annually; this would mean that in the years after implementation, individual councils' incomes would diverge from the baseline, as their business rate revenues grow by different amounts. This was to be a deliberate outcome of rate retention, intended to encourage councils to try to increase their rate revenues instead of being dependent on the government for funds. A Business Rates Revaluation was also planned for 2020/21, in which the valuation of each property as calculated by the Valuation Office Agency would be updated. This was also postponed to provide businesses with more certainty on their liabilities in the wake of Covid-19, and is now anticipated in 2022 alongside the other reforms.

4.8.3. While the Collection Fund balance at the end of 2020/21 represents a deficit, the element of this which would feature in the Council's projections for 2022/23 is £519,224. However in setting the current year budget we overestimated what the deficit would be by £601,761, increasing the projected income for 2022/23 by £82,537. In addition to the recovery of the deficit, our analysis suggests that the business rates taxbase in Medway has fared better than our 2020 forecasts, and as such our current projections assume growth of a total of £4million in Business Rates and Section 31 grants received in government compensation for reliefs awarded.

4.9. Council Tax

4.9.1. The Council Taxbase refers to the number of Band D equivalent dwellings in a local authority area and is used to determine the level of council tax an authority charges each dwelling. To calculate the tax base for an area, the number of dwellings in each council tax band is adjusted to take account of any discounts, premiums or exemptions. The resulting figure for each band is then multiplied by its proportion relative to Band D (from 6/9 for Band A to 18/9 for Band H) and the total across all eight bands is calculated. The calculations which underpin the local government finance settlement assume that the national taxbase will grow, with the current national assumption being growth of 1.7% over 2020/21 and 2021/22. Despite the continued regeneration of Medway, the impact of the Covid-19 pandemic has meant that the Council's Taxbase has reduced, after many years of successive growth. Increases in the number of claims for Local Support for Council Tax and higher than anticipated levels of Single Person Discount are the primary drivers of this reduction at Medway.

4.9.2. The Collection Fund balance at the end of 2020/21 represents a deficit of £4.791million in respect of Medway's Council Tax share, however the ability to spread this across three financial years means the element of this which features in the projections for 2022/23 is £1.861million. In budgeting for the 2021/22 financial year we estimated the deficit on the collection fund relating to 2020/21 at £192,000 lower than the actual figure, with the shortfall in our projection representing a further pressure for the 2022/23 budget.

4.9.3. In the Final Settlement for 2021/22, the Government again extended the Adult Social Care precept for a further year, adding 3% above the referendum limit to the Council Tax, and taking Medway's Council Tax by 4.994%. While the government's announcements around social care reform alluded to the continuation of the flexibility to levy a social care precept, in the absence of any clarity our projections do not assume the Adult Social Care Precept will be repeated in 2022/23 and we await an announcement from the Chancellor on 27 October 2021.

5. Conclusions

5.1. Our initial projections for the cost of services in 2022/23 would amount to an increase to the budget requirement of £33.718million, while the removal of one-off elements of the 2021/22 budget would add a pressure of £7.025million. Our initial projections for income mitigate this, representing growth of £7.734million. These projections arrive at a potential budget gap for the Council of £33.010million.

5.2. We are working to review all of the key projections in this report; examining the latest activity data, challenging current costs and reassessing the trends projected. We will take every action possible to reduce our projections on that basis. Officers and Portfolio Holders are also working to develop an urgent package of solutions to mitigate the financial pressures this report projects. We continue to lobby the government for a local government finance settlement that reflects the growing burdens in social care, and we await the Chancellor's Budget Announcement on 27 October 2021.

6. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Demographic Growth	Further demographic pressures may surface across social care above those assumed in our projections.	Close monitoring of demand for service to identify pressures early, robust budget monitoring.	C2 (Significant likelihood, major impact)
Special Educational Needs and Disabilities	Further increases in the number of children requiring support, and in the complexity of needs may surface above those assumed in our projections.	Close monitoring of demand for service to identify pressures early, robust budget monitoring.	C2 (Significant likelihood, major impact)
Inadequate funding	If the local government settlement does not provide sufficient funding, there is a risk to the future sustainability of the local authority sector.	Officers and Members continue to work closely to identify savings.	C1 (Significant likelihood, critical impact)

7. Consultation

7.1. Members are consulted on the development of the final budget as follows:

Initial budget proposals to Cabinet	16 November 2021
Reports to Overview and Scrutiny	December 2021 / January 2022
Budget proposals to Cabinet	8 February 2022
Budget proposals to Council	24 February 2022

8. Financial implications

8.1. The financial implications are set out in the body of the report and in the attached appendices.

9. Legal implications

9.1. There are no direct legal implications to this report.

10. Recommendations

10.1. The Cabinet is asked to note the forecast level of budget pressures and funding for 2022/23 and the projected budget deficit identified.

10.2. The Cabinet is asked to agree to bring forward proposals, through the financial planning process, to address the projected budget deficit.

11. Suggested reasons for decisions

11.1. This report is important in providing the framework underpinning the budget setting process for 2022/23.

Lead officer contact

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Appendices

Appendix 1 – Financial Outlook Summary
Appendix 2 – C&A Pressures
Appendix 3 – RCE Pressures
Appendix 4 – BSD & Centralised Services Pressures

Background papers

Medium Term Financial Strategy 2020-2023 – Report to Cabinet 17 November 2020
https://democracy.medway.gov.uk/ieIssueDetails.aspx?IId=29564&PlanId=0&Opt=3#AI24512

Financial Outlook Summary

Directorate	2021/22 Round 2 Budget £000s	Removal of one-off Covid-19 budgets £000s	Adjusted base budget £000s	Budget Adjustment Required £000s	2022/23 Forecast Requirement £000s
Children and Adult Services	252,703	(3,187)	249,515	28,786	278,301
Regeneration, Culture & Environment	71,168	(8,989)	62,179	4,615	66,794
Business Support Department	23,426	(668)	22,758	317	23,075
Covid-19 Grant Expenditure	17,201	(17,201)	0	0	0
Budget Requirement	**364,497**	**(30,045)**	**334,452**	**33,718**	**368,170**
Council Tax	(137,333)	1,691	(135,642)	(2,125)	(137,767)
Retained Business Rates & Baseline Need Funding	(59,900)		(59,900)	(4,034)	(63,934)
New Homes Bonus	(986)		(986)	899	(88)
Education Related Grants	(99,406)		(99,406)	(2,473)	(101,879)
Adult Social Care Related Grants	(13,912)		(13,912)	0	(13,911)
Public Health Grant	(17,581)		(17,581)	0	(17,581)
Budgeted Use of Reserves	(4,005)	4,005	0	0	0
Covid-19 Ringfenced Grant Income	(17,201)	17,201		0	
Covid-19 Non-ringfenced Grant Income	(14,173)	14,173	0	0	0
Estimated Available Funding	**(364,497)**	**37,070**	**(327,427)**	**(7,734)**	**(335,160)**
Budget Gap - General Fund	**0**	**7,025**	**7,025**	**25,984**	**33,010**

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Children and Adults Directorate

Pressures	**2022/23 Pressures at Financial Outlook (Sept 2021) £000s**
Adult Social Care	
Adult Social Care demographic growth	2,993
Adult Social Care cost of current placements in excess of current budget	3,746
Adult Social Care price increases	4,013
Kent and Medway Care Record implementation	25
Total Adult Social Care	**10,777**
Children's Services	
Children's Social Care demographic growth	4,573
Children's Social Care cost of current placements in excess of current budget	9,726
Children's Social Care price increases	752
Total Children's Services	**15,051**
Pay Award	**485**
Total C&A	**26,313**

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Regeneration, Culture and Environment Directorate

Pressures	**2022/23 Pressures at Financial Outlook (Sept 2021) £000s**
Front Line Services	
Environmental Services - Increases in waste arisings	113
Environmental Services - Contractual uplifts for collection and disposal (3%)	408
Environmental Services - Medway Norse contractual uplifts (1%) for Waste Collection/Street Cleansing, HWRC and Green Spaces	176
Parking Services - projected income shortfall	772
Highways - Infrastructure contractual uplift (2%)	134
Highways - Impact of revised mechanism for charging staff costs to capital programme	270
Integrated Transport - Impact of revised mechanism for charging staff costs to capital programme	350
CCTV Partnership - contractual uplift (2%)	15
Climate Change - Permanent resource to support and deliver Action Plan	75
Total Front Line Services	**2,313**
Culture and Community	
Sports centres - projected income shortfall	440
Heitage attractions - projected income shortfall	100
Theatres - projected income shortfall	204
Libraries - self-service machines support and maintenance contracts	13
Total Culture and Community	**757**
Regeneration	
Pentagon Centre - projected income shortfall	1,236
Valuation and Asset Management Service - Impact of revised mechanism for charging staff costs to capital programme	95
Valuation and Asset Management Service - Projected income from letting out office accommodation in Gun Wharf	(32)
Total Regeneration	**1,299**
Pay Award	**246**
Total Regeneration, Culture & Environment	**4,615**

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Business Support Department

Proposed Pressures	**2022/23 Pressures at Financial Outlook (Sept 2021) £000s**
Legal and Governance	
Member Allowances annual uplift	10
Elections Reserve - increase in annual contribution required to fund 2023/24 elections	12
Total Legal, Contracts & Property	**22**
Corporate Services	
Audit fee increases	70
Total Corporate Services	**70**
Pay Award	**176**
Total BSD	**268**

Levies - increased cost of Coroners Service, Environment Agency and Internal Drainage Board levies	49

Total Centralised Costs	**49**

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