

## **BUSINESS SUPPORT OVERVIEW & SCRUTINY COMMITTEE**

**19 SEPTEMBER 2013**

### **MEDIUM TERM FINANCIAL PLAN 2014/17**

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#### **Summary**

This report reviews the major financial issues facing the Council during this and the next six years. It also provides a framework for the more detailed preparation of the draft Revenue Budget for 2014/17. **This report will be formally submitted to Cabinet on 1 October 2013.**

#### **1. Budget and Policy Framework**

- 1.1 The Council's annual budget and council tax setting establishes the Council's budget framework, and sets out the funding of services. The Medium Term Financial Plan (MTFP) identifies the key issues that need to be addressed as part of that budget preparation. This MTFP will mesh with the review of the Council Plan for 2014/17 to integrate budget setting with service planning and ensure priorities and funding are matched.

#### **2. Background**

- 2.1 The MTFP approved by Cabinet last October identified a 3-year scenario and quantified the issues in some detail such that it formed a robust basis for the budget that was agreed in February this year and importantly became a crucial reference for future financial planning. As in previous years the approved budget for 2013/14 of necessity focussed on the immediate need to produce a balanced budget in the face of a continued squeeze on public finances. However the revenue summary attached as Appendix 2 to the Council report did forecast the potential deficits facing the Council for 2014/15 (£6.3m) and 2015/16 (£13.1m). The report also identified areas of work that sought to assist in meeting some of this challenge, particularly the Better for Less Programme and the Category Management initiative. However, even before changes to the funding regime brought about by the 2013 Budget and the June announcements for CSR 2013, it was recognised that there is still some way to go before a robust long-term plan is fully developed.
- 2.2 2012/13 once again saw the Council underspend against the budget set, reinforcing the robustness of the budget set and effectiveness of control processes. This and the ability to date to deal with significant deficits at draft

budget stage has demonstrated the strength of the Council's existing financial management but must not be allowed to lead to complacency in consideration of future budget positions for 2014/15 and beyond against a backdrop of continued and severe reductions in Government support.

- 2.3 The Council's financial position remains challenging with an acknowledged low resource base both in terms of per capita grant and council tax. For Dedicated Schools Grant (DSG) the underlying rise in primary pupil numbers continues but is muddled by the migration to Academy status and the consequent reduction in levels of grant that are pupil driven. There is also a negative impact from academies seceding from Council control in that the terms of their set up mean that the Council loses both the delegated budgets for those schools but also a share of central budgets by way of a 'top-slice' of central funding (LACSEG) and £5.9 million was removed from baseline funding for 2013/14 as a consequence. There is a part return of this funding by way of the Education Services Grant (ESG) and £3.6 million was returned as a specific grant in 2013/14. However the ESG is formulaic based on non-academy pupil numbers and as more schools convert to academies then the grant will diminish. Furthermore in the CSR 2013 announcements it was declared that the grant available nationally would be reduced by 25% from 2015/16.
- 2.4 It is also clear, even at this early stage, that the future budget requirement, incorporating investment in meeting strategic objectives allied with demographic change will exceed available resources, exacerbated by the certainty of significant reductions in Government support.

### **3. Advice and analysis**

- 3.1 Spending Review 2010 (SR 2010) draws to an end in 2014/15 with published reductions in headline Formula Grant allocations (now Revenue Support Grant and Baseline Non Domestic Rate) of 11.9%, 8.3%, 3.7% and 8.6% the latter being the January 2013 announcement for 2014/15 which has now been overwritten with a further 1.1% reduction. In total this now amounts to an aggregate reduction of 33.6% - significantly outpacing the 28% promise in CSR 2010.
- 3.2 CSR 2013 was announced on 26 June this year and the major headlines were:
- (As trailed) 10% cut to the resource budget in 2015/16
  - Council tax freeze funding extended for 2 years from April 2014
  - Real cut to Local Govt spending will only be 2.3% once all sources of income are included...
  - Heseltine's Single Local Growth Fund will be £10bn over 5 years (drastically less than recommended).
  - Community Sports, arts and museums cut by 5% in 2015/16
- 3.3 The reality of these announcements is beginning to unfold and a 'technical consultation' on the 2014/15 and 2015/16 settlement was announced on 26 July together with exemplifications on these changes. The effect for baseline Government support is an additional 14.3% cut in RSG/NDR compared to the January settlement announcement of an 8.6% cut for 2014/15. Medway is not alone in this with KCC suffering a 14% reduction and Kent District Councils being cut by 15.96% to 16.6%. In addition New Homes Bonus for 2015/16

onwards is cut by 35% to fund the LEP investment pot (the Local Growth Fund) and Education Services Grant is also cut by 25% these two being an effective cut in expected resource for 2015/16 of £2.9m.

- 3.4 The headline 2.3% figure quoted by Government is as a consequence of including targeted funding from a number of sources, the largest of which is the proposed £3.8bn transfer from Health budgets. The reality is that half of that funding already exists in supporting joint NHS/Social Care initiatives and the new proposal is to create an Integrated Transformation Fund subject to the following national conditions, which will need to be addressed in plans to be developed jointly by Clinical Commissioning groups (CCGs) and Local Authorities, and signed off by each of these parties and the local Health and Wellbeing Board, subject to the following national conditions:
- Plans to be jointly agreed;
  - Protection for social care services (not spending);
  - As part of agreed local plans, 7-day working in health and social care to support patients being discharged and prevent unnecessary admissions at weekends;
  - Better data sharing between health and social care, based on the NHS patient number (it is recognised that progress on this issue will require the resolution of some Information Governance issues by the Department of Health);
  - Ensure a joint approach to assessments and care planning;
  - Ensure that, where funding is used for integrated packages of care, there will be an accountable professional;
  - Risk-sharing principles and contingency plans if targets are not met – including redeployment of the funding if local agreement is not reached; and
  - Agreement on the consequential impact of changes in the acute sector.
- 3.5 In addition to the £3.8bn LA/NHS integrated fund the following additional national allocations were announced to offset, on a national basis, the identified local funding reduction:
- A new fund of £330 million for transforming services. This will comprise a £200 million extension of the Troubled Families programme to support another 400,000 families, £100 million to enable efficiencies in service delivery, and a £30 million revenue fund plus a £45 million capital fund to drive transformational change in the Fire and Rescue Service;
  - A joint programme with the Department for Education on reviewing pressures in children's services;
  - Flexibility to use capital receipts from asset sales to fund one-off revenue costs of reforming services; and
  - Support for two further council tax freezes in 2014-15 and 2015-16, to complement the existing three year freeze which has help cut council tax in real terms by almost 10 per cent.
- The above is an extract from the Ministerial Statement on 25 July 2013*
- 3.6 SR 2013 also announced that public sector pay increases would be limited to an average of 1% for 2015/16 and an end to increments in the Civil Service.

3.7 High level spending needs have been reviewed as part of the preparation of this report and are narrated and summarised in sections that follow but given the extraordinary resource position it is more than ever the case that the MTFP for 2014/17 must encapsulate the strategic priorities for Medway as set out in the Council Plan and the two guiding principles or core values of:

- Putting our customers at the centre of everything we do; and
- Giving value for money.

The Council Plan is the council's business plan. It has four priority areas and sets out what will be done to deliver these and how we will tell what difference has been made. Those five priorities are:

- Adults maintain their independence and live healthy lives;
- Children and young people have the best start in life in Medway;
- Everyone benefiting from the area's regeneration; and
- Safe, clean and green Medway

These priorities and the progress towards their delivery are monitored quarterly alongside the financial performance of the Council integrating measures of cost and service delivery success.

3.8 Over the life of this medium term financial plan, the policy context in which the council and its partners work will continue to change. This MTFP and the forthcoming council plan refreshes will need to be able to respond to these changes. Key dimensions include:

- Radical changes to the health system with new responsibilities for public health and health and well-being transferring to the council
- Continued reform of the education system with increasingly autonomous academies and free schools, but councils continuing to have responsibility for school improvement
- Decentralisation and localism with increased expectations about community and neighbourhood involvement in commissioning services
- Increase in personalisation and choice across all services areas
- Presumption against local authority direct provision of services, and increased emphasis on payment by results.

#### **4. Assessment of Likely Available Resources**

4.1 The size of the Council's revenue budget is determined by three major factors:

- The support from central government by way of Revenue Support Grant, other Specific Grant and DSG;
- The Council share of the amount collected for local business rates (NNDR); and
- The amount raised locally by council tax.

4.2 The Local Government Finance Settlement announced in January 2013 set out Grant expectation for both 2013/14 and 2014/15 and these are now a matter of record. However for 2014/15 and 2015/16 these have been significantly amended by recent announcements set out in the preceding paragraphs.

- 4.3 2013/14 is the first year of the application of the Resource Review 2012. This resulted in the localisation of funding for NNDR subject to a 50% share being returned to Central Government. This was a major technical reform of Local Government finance and there is considerable risk in estimating the Council share of this resource stream. In agreeing the budget for 2013/14 the Council adopted the baseline position set out in the Start-up Funding Assessment (SUFA) which estimated a receipt of £42.119m as the Council share. This was some £1.9m greater than the figure returned to Government in the NNDR estimate submitted in January prior to budget setting. This difference is accounted for by the new regulations Government issue for the treatment of valuation appeals that permit the spreading of pre 2013 effect over 5 years. Movement in the valuation base is outside of Council control, either as a consequence of changes agreed by the Valuation Office or as a consequence of business failure or new business start-up. Some of these can be quite spectacular events such as the ceasing of power generation at Kingsnorth which means the loss of a rateable value in excess of £7m and a consequential loss of income to the Council of almost £2m. The latest forecast, against a backdrop that a number of appeals were settled prior to the 31 March, is for an income share some £1.1m greater than that used in the budget.
- 4.4 Despite the implication of the title, business rates retained by local authorities will continue to be subject to calculation and adjustment through a complex model. This will ensure that even if rate collection increases significantly the total amount retained by Local Government will not exceed the national spending limits for Local Government set by Treasury. Any surplus will be returned to Central Government where it will be used to fund specific grants currently funded by Government from other sources. Any local increase in the business rate footprint (after taking into account Government thresholds) will be reflected in the amount that is retained locally but conversely any local decrease will impact on resources. The model includes a wide range of assumptions and also incorporates the tariffs and top-ups included by Central Government to try to protect those areas where there would be insufficient resources to provide the base line level of service assumed.
- 4.5 The new funding regime has significantly simplified the resourcing model for Council expenditure. However as set out in paragraphs 3.5 and 3.6 there is still the potential for complexity to be re-introduced.
- 4.6 In respect to Council Tax levied, Medway's position in 2013/14 remains one of the lowest in both our peer group of Mainland Unitaries (7<sup>th</sup> lowest) and nationally (19<sup>th</sup>). However, for non-schools (DSG) expenditure, Council Tax represents only 21% of the resources supporting the 2013/14 budget.
- 4.7 The former capping regime is now replaced with a process for referenda for 'excessive' Council Tax increases. Essentially Government determines the rate of increase above which it is deemed to be excessive. This is similar to the old "capping" regime but the level will be announced before budget and council tax levels are set. Any proposal to exceed the set level will need to be supported by an alternate budget to meet the determined increase and subject to a local referendum. For 2014/15 and 2015/16 the increase beyond which it is deemed to be excessive is 2%.

4.8 SR 2013 also announced that the offer of a grant equivalent to a 1% increase in council tax would be available for both 2014/15 and 2015/16. Based on previous Council Tax Freeze Grant offers, this would mean two separate council tax freeze grants, but, if this is the case, there is a question over how long the funding for each offer will be for. The national funding was announced at £833m and this compares to £450m for the 2013/14 scheme. Therefore, it would appear that there would be sufficient funding for at least the following offer:

- 2014/15 offer – funding for two years at 1%
- 2015/16 offer – funding for one year at 1%

There is no guarantee of funding beyond 2015/16.

4.9 The Taxbase upon which the current council tax is set was agreed as 76,712 Band D equivalents which is significantly lower than previous years because of the discount effect of the Council Tax Reduction Scheme that replaced Council tax Benefit for 2013/14. As at the end of July the Taxbase was 76,747 reflecting an increase in the rate of new properties being added. Original predictions were that 661 new properties would be completed this year and 444 have already been added since the Taxbase calculation was performed so we remain on target to achieve and likely exceed the estimate. Growth for the next few years is predicted to be similar and whilst banding and discounts are unpredictable, not least because of the new Council Tax Support scheme, it is considered that a 0.5% growth rate is a reasonable assumption on current arrangements. Accordingly assumptions underpinning the revenue receipts are a Taxbase of 77,096 and 77,481 respectively for 2014/15 and 2015/16.

4.10 Another significant change in 2013/14 was the transfer of responsibility for Public Health Services from the then PCT to Local Authorities. A ring –fenced grant was announced as part of the January 2013 Settlement. This amounted to £13.170m for 2013/14 and £14.280m for 2014/15. SR 2013 did not address this grant and the revenue resource assumptions in this report have assumed that the 2014/15 position remains static for the future.

4.11 SSR 2013 included provision to create a Single Local Growth Fund of £2.8bn to be funded in part by a £400m cut in the level of New Homes Bonus paid in 2015/16 and beyond. This equates to a 35% reduction in grant payable (£400m/£1.1bn originally planned). For Medway this will mean a reduction of £1.96m for 2015/16 and £2.3m in 2016/17.

4.12 In the January Settlement this year Government removed £5.9m of Medway funding in respect of support for schools (LACSEG adjustment). This funding was taken back to the centre and re-distributed to academies with a pupil based proportion returning to the Council as Education Services Grant (ESG). For 2013/14 this was £3.6m. SR 2013 announced that this grant, nationally worth £800m, would be cut by £200m i.e. 25% in 2015/16. The grant effectively funds the statutory services that Councils have to provide to schools from General Fund resources such as school improvement, education services management, governor support etc. For 2015/16 this amounts to an estimated cut of £0.9m.

4.13 For DSG there is some logic in an expectation of a slightly better position overall given the predicted increase in pupil numbers from 40,979 in 2013/14 to 43,689 in 2016/17. However it is difficult to see an increase in the per pupil funding rate which means an effective real cut in funding equivalent to inflationary pressure. An added complication will be the transfer funding for Academies that is

predicted to rise from £75.084m in 2013/14 to £106.8m in 2016/17 based on known and anticipated conversions. The table below summarises the expected position:

**Table 1 – Schools Funding**

	2013/14	2014/15	2015/16	2016/17
Schools Block: Pupil Numbers	36,826	37,678	38,208	38,719
Early Years Block: Pupil Numbers	2,615	2,730	2,850	2,975
High Needs Block: Pupil Places	1,538	1,876	2,005	1,995
Total all pupils	40,979	42,284	43,063	43,689
DSG (gross)	£206,234,000	£217,377,582	£222,864,600	£225,445,620
Academy deductions	-£75,084,000	-£86,810,201	-£99,513,117	£106,841,597
<b>DSG (net)</b>	<b>£131,150,000</b>	<b>£130,567,381</b>	<b>£123,351,483</b>	<b>£118,604,022</b>
Pupil Premium	£5,351,500	£7,351,644	£6,462,444	£5,868,344
Academy deductions (est)	-£261,900	-£889,200	-£594,100	-£390,000
Sixth Form Funding excluding academies	£164,023	£139,420	£57,408	£0
<b>Net Schools Funding</b>	<b>£136,403,623</b>	<b>£137,169,245</b>	<b>£129,277,235</b>	<b>£124,082,367</b>

- 4.14 Overall assumptions for inflationary increases are 1% for pay, consistent with the SR 2013 announcement, 2% for the re-introduction of increments, and nil provision for general inflation where there is no contractual commitment.
- 4.15 Table 2 below illustrates potential resources for 2014/17 based upon the assumptions in 4.2 to 4.14.
- 4.16 In addition to the revenue resources referred to above the Council does have access to reserve balances. However, whilst the balance of General Reserves (i.e. those not allocated for an earmarked purpose) has increased in recent years as a result of budget underspending, it is still at a minimal level. Additionally, in setting the budget, the Council agreed a number of changes to earmark specific balances such that at 31 March 2013 the uncommitted general reserve and the contingency balance amounted to some £8.5m. Taken in context to the recurrent saving requirement illustrated in this report, and the risks and costs that are likely in achieving financial balance, it is clear that they do not represent a solution to the financial equation.

**Table 2: Potential Resources for 2014/2017**

Description	2013/14	2014/15	2015/16	2016/17*
	£m	£m	£m	£m
<b>Funding assessment - % decrease</b>		(9.3)%	(13.4)%	(11.5)%
- Revenue Support Grant	63.311	51.845	37.843	27.001
- Baseline business rates share	42.119	43.493	44.713	46.057
<b>Total Funding Assessment Baseline</b>	<b>105.430</b>	<b>95.338</b>	<b>82.556</b>	<b>73.058</b>
<b>Additional Business Rate share</b>	<b>0</b>	<b>1.093</b>	<b>1.077</b>	<b>1.152</b>
		+0.5%	+0.5%	+0.5%
Taxbase	76,712	77,096	77,481	77,869
<b>Council Tax (£1,141.47 baseline + 2% pa)</b>	<b>87.565</b>	<b>89.763</b>	<b>92.016</b>	<b>94.325</b>
<b>New Homes Bonus</b>	<b>3.613</b>	<b>4.698</b>	<b>3.618</b>	<b>4.261</b>
<b>Public Health Grant</b>	<b>13.170</b>	<b>14.280</b>	<b>14.280</b>	<b>14.280</b>
<b>Use of Reserves</b>	<b>0.970</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>School Specific Funding:</b>				
<b>DSG (based on forecast pupil numbers)</b>	<b>206.234</b>	<b>217.378</b>	<b>222.865</b>	<b>225.446</b>
<b>Pupil Premium</b>	<b>5.351</b>	<b>7.352</b>	<b>6.462</b>	<b>5.868</b>
<b>Sixth Form Funding excluding academies</b>	<b>0.164</b>	<b>0.139</b>	<b>0.057</b>	<b>0</b>
<b>Academy Transfer</b>	<b>(76.191)</b>	<b>(87.699)</b>	<b>(100.107)</b>	<b>(107.232)</b>
<b>Pupil Numbers</b>	40,979	42,284	43,063	43,689
<b>Funding per pupil (basic £)</b>	4,352	4,352	4,352	4,352
<b>ESG</b>	<b>3.597</b>	<b>3.476</b>	<b>2.669</b>	<b>2.719</b>
<b>Other Specific Grants</b>	<b>0.427</b>	<b>0.419</b>	<b>0.412</b>	<b>0.400</b>
<b>Summary Resources:</b>				
<b>DSG and other Schools based funds</b>	<b>135.558</b>	<b>137.170</b>	<b>129.277</b>	<b>124.082</b>
<i>(Increase)/Decrease in resource</i>		<i>(1.612)</i>	<i>7.893</i>	<i>5.195</i>
<b>Non-DSG</b>	<b>214.772</b>	<b>209.067</b>	<b>196.628</b>	<b>190.195</b>
<i>(Increase)/Decrease in resource</i>		<i>5.705</i>	<i>12.439</i>	<i>6.433</i>

\* 2016/17 figures are estimates

\*\* 2013/14 Schools funding is post March 2013 DSG adjustments that reduced the base funding from £139.303m to £135.558m



## 5. Spending Priorities

- 5.1 It is clear that for 2014/15 and beyond the Council will need to be restricting rather than identifying increased spending requirements. That is evident in the assumptions made for pay and prices in spite of the current situation where RPI continues to run at some 3%. However there will be areas where either for legislative reasons, uncontrollable demands, or contractual obligations, there will still be spending pressures that will serve to magnify the nature of the problem in balancing the budget equation.
- 5.2 It is not the purpose of this document to plan the service needs of departments but nonetheless there are a number of key spending issues that sit alongside the priorities of the council. These are highlighted below and set out in Table 3 that follows.

### *Regeneration Community and Culture*

- Highways have identified an investment need of £750,000 to address worsening indicators for carriageway condition. Inflationary pressures of £135,000 will need to be funded if a 'real terms' cut in highway maintenance is to be avoided (this increase is on-going for future years) and further pressures are included for frequency of grounds maintenance (£135,000) and electricity increases (street lighting) £119,000.
- Waste Services are currently forecasting an additional £1.04m requirement. Of this £581,000 results from anticipated price increases from the inflationary uplift £426,000 and from landfill tax increases £155,000. Similar increases are assumed in following years. The remaining pressure of £461,000 arises from tonnage increases and other contract variations experienced in the current year. It should be noted that the enhanced recycling service commencing in October 2013 may have a significant impact on these projections.
- Integrated Transport reflects a potential 3%, year on year, growth in the demand for older persons concessionary travel and further pressures are expected to result from the retendering of supported bus services and the need to replace the Villager community bus.
- Housing solutions foresee a continued rise in homelessness costs (2014/15 £144,000) although the pressure is mitigated by savings identified in prevention budgets.
- The budget requirement for Leisure & Culture will reduce by £245,000 with the removal of the one-off legacy investment

### *Children's and Adults*

Children and Adult Services is the largest directorate, representing the greatest call on available resources. As always, the most significant financial risks for the directorate are within social care and the major forecast pressures are outlined below:

- The demographic pressures on demand-led, services for the elderly and disabled continue to be an issue. The Office of National Statistics predicts steady growth in Medway's population, but more significantly the growth in the number of people over 65 is expected to increase by 4% during 2013. This will inevitably be reflected in increasing numbers of people requiring

care, however the demographic projections in the MTFP have been restricted to specific known pressures. In addition to further investment in reablement and the continuation of self-directed support, the emphasis will shift away from direct provision and towards better commissioning. The authority will also look to greater integration of health and social care and to enabling the voluntary sector;

- The Council's medium term financial plan assumes no general inflation, however this position would not be sustainable within Social Care and so 2% has been applied to private and voluntary sector placement budgets.
- The growth in the number of looked after children in Medway continues and the current pressure of £1.1m is provided for but there is an assumption that the re-structuring and additional staffing also catered for in this projection will enable these numbers to stabilise.
- SEN transport costs have escalated beyond budget in 2013/14 and this pressure is recognised. However there is work underway to reconfigure the manner in which this service is provided which should stabilise costs going forward and potentially provide savings.
- The LA inspired re-organisation of primary schools has generated redundancy costs that the Council rather than the schools has to provide for and this has generated a pressure of £0.3m although this should reduce for the future.

#### *Business Support/Corporate Issues*

- One-off staff payments agreed for 2013/14, if not repeated in later years, will generate a saving against base budget of £375,000.
- Savings on accommodation do not arise until 2015/16 with the removal of running costs on Kingsley House £59,000 and Compass £385,000. However, the saving on Compass in 2015/16 is likely to be offset by significant dilapidation costs and a significant cost risk, £800,000 has been identified for the continued use of Riverside.
- There is no provision for two outstanding issues namely:-
  - Facilities Management. The base budget currently assumes a reduction of £582,000 pa from (local and central) FM related overheads. To date the source of these savings is not confirmed.
  - The thin client project will require financing costs of some £265,000 pa. Client contributions to fund this have yet to be agreed.

5.3 It is almost inevitable that other issues may surface as the budget preparation moves into detailed formulation but, as last year, this is a comprehensive analysis. There will also be an aspiration to move at greater speed towards the priority areas but in that regard the challenge will be in re-directing resource at the same time as addressing an unprecedented reduction in Government funding support. Tables 5 and 6 below summarise the net effect of these amounts when compared to resource assumptions set out in Table 3 and reveal a Gross Deficit for 2014/15 of £16.214m rising to £34.666m in 2015/16 and an enormous £62.994 by 2020 as revealed in Appendix 1, the summary resources for 2013/14 – 2019/20.

**Table 3: Summary Additional Resource Requirement – against 2013/14 base**

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<i>Regeneration, Community and Culture</i>			
Front Line Services	2.522	0.986	1.004
Development, Housing and Transport	0.144	0.185	0.240
Leisure & Culture	(0.190)	0	0
Ground maintenance (across RCC)	0.121	0.052	0.053
Pay award and increments	0.625	0.636	0.646
<i>Children and Adults</i>			
Adult Social Care	1.697	1.641	1.715
Children's Care	2.241	0.309	0.313
Commissioning	0.328	0	0
Inclusion	1.144	0	0
Schools Retained Funding & Grants	0.300	0	0
Pay award and increments	0.950	0.966	0.982
<i>Business Support/Corporate Issues</i>			
Legal & Corporate Services	0.100	0.866	(0.232)
Financial Services	(0.720)	0	0
Democracy & Customer First	0	0	0
Comms, Performance & Partnerships	0	0	0
Organisational Services	0.056	0.149	0
Pay award and increments	0.711	0.723	0.735
<i>Public Health</i>			
	1.110	0	0
<b>TOTAL</b>	<b>11.139</b>	<b>6.513</b>	<b>5.456</b>
<b>-GENERAL FUND</b>	<b>11.139</b>	<b>6.513</b>	<b>5.456</b>
<b>Less- BfL savings</b>	<b>(0.630)</b>	<b>(0.500)</b>	<b>0.000</b>
<b>-DSG</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>

**Table 4: Net Resources**

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Summary Resources:			
<b>School Specific Funding:</b>			
(Additional) / Reduced Resources (based on forecast pupil numbers)	1.612	(7.893)	(5.195)
Additional Resource Demand	(1.612)	7.893	5.195
<b>Net (Surplus)/Deficit</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>General Fund</b>			
Reduced Resources	5.705	12.439	6.433
Additional Resource Demand	11.139	6.513	5.456
<b>Gross Deficit</b>	<b>16.844</b>	<b>18.952</b>	<b>11.889</b>
BfL Savings	(0.630)	(0.500)	0
<b>Net Deficit</b>	<b>16.214</b>	<b>18.452</b>	<b>11.889</b>

## 6. Balancing Resources and Demands

- 6.1 The organisation is already embarked on a major transformation exercise to improve services to our customers and deliver efficiencies (Better for Less - BfL). The first 4 phases of that project which will deliver new ways of working in customer contact and administration will deliver savings estimated at approximately £5.4m per annum by their completion from 2016/17 onwards. 63% of these savings have already been taken from budgets with a further £2m profiled to be achieved in 2014/15 and 2015/16.
- 6.2 There is a separate BfL Category Management project which is anticipated to deliver some £5 million to £10 million of savings by more effective commissioning and procurement over the MTFP period. The first procurement exercise for the new Category Management approach was for Homecare Services at the end of 2012/13 and this has saved £1.9m. Further pipeline savings for Facilities Management, Agency Staff and High Cost Placements are anticipated to yield an additional £2.1m and there is a programme of work to follow which should yield further savings.
- 6.3 In addition to this transformation programme there is a need to make immediate progress in a number of areas where there are potentially significant efficiencies to be gained without impacting significantly on service delivery to residents. Initial areas to be covered are:
- *Tackling the growth in looked after Children numbers;*
  - *Continued transformation of adult social care including delivery of enablement, extra care and personalisation agendas;*
  - *Potential shared service arrangements with other councils and public agencies;*
  - *Property rationalisation;*
  - *Opportunities for market testing; and*
  - *Additional efficiencies from the Implementation of Category Management.*
- 6.4 Given the resource position it is equally important that the Council embarks upon a rational review of costs, performance and priorities. The Council's approach to managing performance has improved significantly over the past few years and our external auditors have acknowledged a "step change improvement" in the way the Council monitors itself and is able to report on and manage its performance. The development of the Council Plan forms the backbone of these improvements. It was not written for inspectors – it was written for the Council itself to use to deliver its priorities that were developed by services, drawing from consultation and evidence of quality of life in Medway and is monitored in a similar fashion using resident opinion from a number of sources to track success.
- 6.5 The plan is underpinned by a limited and high level set of measures of success, so that for each priority Members can track a cluster of indicators to gauge progress, to enable Members to see how well the Council's actions are making a difference and are giving value for money, and provide a way of communicating with the public about the difference the Council is making.
- 6.6 The current Council Plan includes the following specific actions relating to improving efficiency and delivering VFM for our residents:

- Work proactively with partners to share services for greater efficiency;
- Continue to develop our workforce;
- Embed a VFM and performance culture in Medway and improve the effectiveness of the council's business planning and performance management systems; and
- Ensure our procurement delivers the best value for the council.

6.7 The integrated reporting of finance and performance information strengthens the VFM credentials by ensuring we focus on both outcomes and costs.

## 7. Timetable

7.1 The timetable for production of the Medium Term Financial Plan and Draft Budget Proposals is as follows:

Report to Cabinet	01 October 2013
Report to Business Support Overview & Scrutiny	19 September 2013
Portfolio/Directorate reviews	September to November
Initial budget proposals to Cabinet	26 November 2013
Reports to Overview & Scrutiny	December/January
Draft budget to Cabinet	11 February 2014
Budget proposals to Council	20 February 2014

7.2 Business and service planning will run in tandem with the budget setting process.

## 8. Conclusion

8.1 The Medium Term Financial Plan identifies our spending needs for 2014/15 and beyond. Whilst the Government support beyond 2015/16 remains in doubt, it is clear that there will be substantial savings still to be achieved against current costs and against the initial directions in SR2013.

8.2 Whilst table 4 identifies a potential deficits for 2014/15 to 16/17 of £16.214m, £18.452 and £11.889. The cumulative effect of these to known resource declarations i.e. 2015/16 is £34.666m despite allowing for a potential council tax increase of 2% pa yielding almost £4.5m and further savings from the 'Better for Less' programme estimated at £1.1 million. Without these the gap would have been just over £40m. Clearly any council tax increase will be a matter for political judgement closer to the time and that in turn will be influenced by decisions made by central Government. The savings from the BfL programme are a mix of delivered change and also estimates that have yet to be supported by the detail of delivery programmes and, whilst in the short-term these are underpinned by the non-recurring revenue saved, it is critical that the potential is pursued with vigilance. Against this background it is very clear that there is a need to both curtail aspirations and identify efficiencies and more radical changes to service delivery to produce a balanced financial position over the next three years and this will not be an easy process given the efficiency programmes of previous years.

8.3 Irrespective of the eventual forecast shortfall in resources arising from the budget requirement, it must remain the Council's main strategic aim to achieve a sustainable budget without recourse to reserves. To that effect it is critical that both existing and emerging requests for pressures are challenged out of the process where possible and that due weight is given to driving forward the efficiency agenda and the search for more radical and cost effective means of delivery. This is consistent with the VFM philosophy and the measures described in section 6 will be a key part of that process over the term of this plan.

## **9. Financial and Legal Implications**

9.1 These are contained within the body of the report.

## **10. Risk Management**

10.1 The risks exposed by a failure to effectively manage the resource planning and allocation process to achieve priorities and maintain effective service delivery are great. The uncertainties about recovery from the current recession and the consequences in terms of future financial assistance and targets imposed by Government will make this process difficult.

10.2 RSG and DSG are but important Government funding streams but other significant sums are being received through generated income from Business Rates, Council Tax and fees and charges which must not be underplayed.

10.3 The transfer of responsibility from the DWP to the Council in respect of the 'localisation' of Council Tax Support means that the risks for demographic growth and council tax increases are similarly passed across. It remains too soon to establish how effective Council Tax collection will be.

10.4 The transfer of responsibility for Public Health Services is a significant change and whilst there is some limited certainty about resource, expenditure is yet to be completely defined. There remains a risk that resources allocated by Government are insufficient to meet statutory obligations.

## **11. Diversity Impact Assessment**

11.1 The council has legal duties to give due regard to race, gender and disability equality in carrying out its functions. This includes the need to assess whether any proposed changes have a disproportionately negative effect on people from different ethnic groups, disabled people and men and women, which as a result may be contrary to these statutory obligations. The Medium Term Financial Plan identifies the resources available, which will determine the service priorities within the Council Plan. Diversity Impact Assessments will be undertaken and reported to Members as part of the budget and service planning process as the quantum of resources and hence the impact on Council services unfolds.

## **12. Recommendations**

12.1 The Committee is invited to comment on the report.

**Lead Officer:**

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**Background Papers:**

Medium Term Financial Plan 2013/2016 – Cabinet 2 October 2012:

<http://democracy.medway.gov.uk/ieIssueDetails.aspx?IId=8872&Opt=3>

Capital and Revenue Budgets 2013/2014 – Report to Council 21 February 2013.

<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=19127>

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## REVENUE BUDGET SUMMARY 2013-2014

Directorate	2013-14 Qtr 1 Budget	2014-15 Forecast Requirement	2015-16 Forecast Requirement	2016-17 Forecast Requirement	2017-18 Forecast Requirement	2018-19 Forecast Requirement	2019-20 Forecast Requirement
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Children and Adult Services							
- DSG and School Specific Spend	137,807	135,673	127,781	122,586	122,586	122,586	122,586
- Public Health	140	140	140	140	140	140	140
- General Fund Services	112,572	119,232	122,147	125,156	128,329	131,543	134,815
Regeneration, Community and Culture (RCC)							
- General Fund Services	52,549	55,771	57,629	59,571	61,272	62,979	65,017
- Public Health	155	155	155	155	155	155	155
Business Support (BS):							
- General Fund Services	21,621	21,769	23,507	24,010	24,967	26,036	26,917
- DSG	1,496	1,496	1,496	1,496	1,496	1,496	1,496
- Public Health	303	303	303	303	303	303	303
Public Health	12,572	13,682	13,682	13,682	13,682	13,682	13,682
Interest & Financing	14,892	14,892	14,892	14,892	14,892	14,892	14,892
Levies	879	879	879	879	879	879	879
Projected savings from 'Better for Less'	(912)	(1,542)	(2,042)	(2,042)	(2,042)	(2,042)	(2,042)
<b>Budget Requirement</b>	<b>354,074</b>	<b>362,450</b>	<b>360,568</b>	<b>360,829</b>	<b>366,659</b>	<b>372,649</b>	<b>378,842</b>
Council Tax	(87,565)	(89,763)	(92,016)	(94,325)	(96,693)	(99,120)	(101,608)
Revenue Support Grant	(63,311)	(51,845)	(37,843)	(26,993)	(17,594)	(10,608)	(5,916)
Business Rate Retention	(42,119)	(44,586)	(45,790)	(47,209)	(48,814)	(50,474)	(52,190)
New Homes Bonus	(3,613)	(4,698)	(3,618)	(4,261)	(4,319)	(4,599)	(5,180)
DSG	(132,224)	(130,567)	(123,351)	(118,604)	(118,604)	(118,604)	(118,604)
Other School Specific Grants	(7,079)	(6,602)	(5,926)	(5,478)	(5,478)	(5,478)	(5,478)
Specific Grants	(4,024)	(3,895)	(3,081)	(3,120)	(3,109)	(3,100)	(3,091)
Public Health Grant	(13,170)	(14,280)	(14,280)	(14,280)	(14,280)	(14,280)	(14,280)
Use of Reserves	(970)	0	0	0	0	0	0
<b>Estimated Available Funding</b>	<b>(354,074)</b>	<b>(346,235)</b>	<b>(325,904)</b>	<b>(314,271)</b>	<b>(308,892)</b>	<b>(306,263)</b>	<b>(306,346)</b>
<b>Budget Gap - General Fund</b>	<b>0</b>	<b>16,214</b>	<b>34,664</b>	<b>46,559</b>	<b>57,767</b>	<b>66,387</b>	<b>72,495</b>

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## Children and Adult Services Directorate

## GENERAL FUND REVENUE BUDGET

General Fund Activities	2012/13 Outturn Variance £000's	2013/14 Q1 Forecast Variance £000's	2014/15 Pressures +/- £000's	2015/16 Pressures +/- £000's	2016/17 Pressures +/- £000's	2017/18 Pressures +/- £000's	2018/19 Pressures +/- £000's	2019/20 Pressures +/- £000's
Commissioning & Client Financial Affairs	(340)	(47)	0	0	0	0	0	0
Older People	26	(878)	0	0	0	0	0	0
- Inflation: Older people (average 2% pa).			351	358	365	372	380	387
- Demographic Projections (based on POPPI projections)			429	371	398	518	518	535
Independent Review & Safeguarding Children Board	85	56	0	0	0	0	0	0
Social Care Management	351	(1,322)	0	0	0	0	0	0
Physical Disability	605	119	0	0	0	0	0	0
- Inflation: People with a physical disability (average 2%).			192	196	200	204	208	212
- Demographic Projections (based on PANSI projections)			54	84	113	89	89	96
Learning Disability	(318)	961	0	0	0	0	0	0
- Inflation: People with a learning disability (average 2%).			418	359	366	374	381	389
- Demographic Projections (based on PANSI projections)			199	220	215	188	188	190
Link Service Centres	(9)	1,291	0	0	0	0	0	0
Mental Health	(398)	(179)	0	0	0	0	0	0
- Inflation: Mental health services (average 2%).			40	41	42	43	44	44
- Demographic Projections (based on PANSI projections)			14	12	16	13	13	12
<b>Adult Social Care Total</b>	<b>1</b>	<b>0</b>	<b>1,697</b>	<b>1,641</b>	<b>1,715</b>	<b>1,800</b>	<b>1,820</b>	<b>1,866</b>
Safeguarding Team	(136)	107	0	0	0	0	0	0
CRAST Team	(223)	625	0	0	0	0	0	0
- Cost of restructured division in response to OFSTED recommendations			800	0	0	0	0	0
Specialist Childrens' Services	1,255	1,314	0	0	0	0	0	0
- Cost of Current Service: Higher than anticipated LAC nos.			1,100	0	0	0	0	0
- Inflation: Fostering and residential (2% pa).			229	234	238	243	248	253
- Demographic Projections (based on ONS 0-17 population projections)			112	75	75	131	131	122
Children's Care Management Team	77	205	0	0	0	0	0	0
Child Protection	(23)	(44)	0	0	0	0	0	0
Children's Care Training	(45)	0	0	0	0	0	0	0
<b>Children's Care Total</b>	<b>905</b>	<b>2,207</b>	<b>2,241</b>	<b>309</b>	<b>313</b>	<b>374</b>	<b>379</b>	<b>375</b>
Directorate Management Team	619	(18)	0	0	0	0	0	0
Commissioning, Contracts & Business Support	(502)	(83)	0	0	0	0	0	0
- Risk to CCG contribution towards Preventative Fund and voluntary sector grants			228	0	0	0	0	0
School Organisation & Student Services	(155)	160	0	0	0	0	0	0
- Temple Site NNDR pending being brought back into operational use			100	0	0	0	0	0
Commissioning Management Team	74	(17)	0	0	0	0	0	0
<b>Commissioning Total</b>	<b>37</b>	<b>42</b>	<b>328</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Health and Wellbeing	(21)	4	0	0	0	0	0	0
Integrated Youth Support Services	(280)	(34)	0	0	0	0	0	0
Psychology & Inclusion	(5)	1,187	0	0	0	0	0	0
- Cost of Current Service: SEN Transport based upon Q1 forecast			1,144	0	0	0	0	0
Inclusion Management Team	29	29	0	0	0	0	0	0
Early Years	(582)	12	0	0	0	0	0	0
Schools Commissioning & Traded Services	(290)	24	0	0	0	0	0	0
School Challenge & Improvement	49	0	0	0	0	0	0	0
<b>Inclusion Total</b>	<b>(1,099)</b>	<b>1,222</b>	<b>1,144</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Finance Headings	(4)	(171)	0	0	0	0	0	0
HR Headings	(315)	300	0	0	0	0	0	0
- Redundancies arising from school reorganisations and deficit plans			300	0	0	0	0	0
School Grants	(0)	0	0	0	0	0	0	0
<b>Schools Retained Funding and Grants Total</b>	<b>(319)</b>	<b>129</b>	<b>300</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Pay Award (1% pa)</b>			<b>317</b>	<b>320</b>	<b>323</b>	<b>326</b>	<b>329</b>	<b>333</b>
<b>Increments (2% pa)</b>			<b>633</b>	<b>646</b>	<b>659</b>	<b>672</b>	<b>685</b>	<b>699</b>
<b>DIRECTORATE TOTAL</b>	<b>(476)</b>	<b>3,601</b>	<b>6,660</b>	<b>2,915</b>	<b>3,010</b>	<b>3,173</b>	<b>3,214</b>	<b>3,272</b>

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## REGENERATION, COMMUNITY AND CULTURE

	Actual		Pressures / Savings					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Front Line Services</b>								
Highways	304	0						
- Contract inflation (2.5%) Revenue - if not cash limited			96	98	101	103	106	109
- Contract inflation (2.5%) Capital - if not cash limited			39	40	41	42	43	44
- Medway Tunnel (capital programme funding will end)								300
- Address worsening NI carriageway condition			750	25	25	25		
- Grass & trees, cutting frequency & traffic management			135					
- New electricity supply contract (Highways & Parking)			119					
Integrated Transport	(540)	(21)						
- Older persons - 3% demographic pressure			117	121	124	128	132	136
- Retendering supported bus services			64	110	110	110	110	110
- Replacement cost - Villager community bus			60					
Road Safety	9	26						
Traffic Management	38	78						
Parking	(163)	(120)						
Waste Services	236	0						
- Landfill Tax £80 per tonne 14/15 - additional £8 per tonne			155	155	155	155	155	155
- Additional tonnages			319					
- Contract inflation (2.5%)			426	437	448	459	470	482
- New collection contract BOQ / frequency / Vos			142					
- Procurement cost amortisation						(33)	(33)	(33)
Community Safety Partnership	(97)	1						
Environmental Health Commercial	(207)	3						
Environmental Services	(45)	(82)						
Safer Communities Support	(1)	1						
CCTV / Lifeline	(28)	2						
Strood Depot Services	(44)	(20)						
Front Line Support	88	76						
Major Projects	77	73						
- Staff recharge to capital			100					
<b>Total Front Line Services</b>	<b>(373)</b>	<b>17</b>	<b>2,522</b>	<b>986</b>	<b>1,004</b>	<b>989</b>	<b>983</b>	<b>1,302</b>
<b>Housing &amp; Regeneration</b>								
Housing & Regeneration Support	87	70						
Economic Development	130	110						
Flood & Coast Protection		(17)						
Planning Policy & Design	(83)	(38)						
Development Management	56	49						
Social Regeneration & Europe	32	15						
Building Control	(14)	0						
Housing Solutions	105	79						
- Homelessness			144	185	240			
Homechoice	(2)	(1)						
Private Sector Housing	(16)	2						
Housing Disabled Adaptations	(18)	(5)						
Property Management	(13)	(4)						
Housing Strategy	(57)	(1)						
Housing Performance	(8)	0						
Centralised Budgets	(179)	0						
Housing Related Support	0	0						
<b>Total Housing &amp; Regeneration</b>	<b>20</b>	<b>259</b>	<b>144</b>	<b>185</b>	<b>240</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Leisure and Culture</b>								
L&C Management Group	69	3						
Leisure & Sports	(90)	2						
- Remove sporting legacy investment (one-off 13/14)			(245)					
Arts, Theatres & Events	346	183						
Heritage	4	13						
Greenspaces and Country Parks	(126)	29						
Tourism	(1)	3						
Libraries	(13)	50						
- Archives database replacement			55					
<b>Total Leisure &amp; Culture</b>	<b>189</b>	<b>283</b>	<b>(190)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Regeneration, Community &amp; Culture Directorate Support</b>	<b>388</b>	<b>(10)</b>						
<b>Grounds Maintenance</b> - (across RCC) - contract inflation			51	52	53	54	56	57
<b>Grounds Maintenance</b> - (across RCC) - cleansing			70					
<b>Pay rise per annum 1%</b>			208	210	213	215	217	219
<b>Increment per annum 2%</b>			417	425	434	442	451	460
<b>Total for Regeneration, Community &amp; Culture</b>	<b>224</b>	<b>549</b>	<b>3,222</b>	<b>1,858</b>	<b>1,943</b>	<b>1,700</b>	<b>1,707</b>	<b>2,039</b>

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## BUSINESS SUPPORT DEPARTMENT

	Actual		Pressures / Savings					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Legal &amp; Corporate Services</b>								
Legal Services	65	1						
Land Charges & Licensing	(113)	14						
Building & Design	176	3						
- Reduce design fee surplus			100	100	100	100		
Category Management	80	0						
Category Management Workstreams								
Asset and Property Management	(691)	(18)						
- Vacation of Compass Centre (March 2015)				(385)				
- Compass Centre dilapidations				385	(384)			
- Vacation of Kingsley House (June 2012)				(59)				
- Structural repairs Riverside - Capital ?				800				
- Reduced rental from property holdings				25	52	109	309	109
Centralised Budgets	(7)							
Corp Services Vacancy Target	88	88						
<b>Total Legal &amp; Corporate Services</b>	<b>(402)</b>	<b>88</b>	<b>100</b>	<b>866</b>	<b>(232)</b>	<b>209</b>	<b>309</b>	<b>109</b>
<b>Finance</b>								
Benefit Payments	0	15						
Revenues and Benefits Admin Total	(91)	(54)						
NNDR Discretionary Relief	(6)	(6)						
Rural Liaison Grants	0	0						
Ward Improvements	(20)	0						
Corporate Management	(89)	0						
Non Distributed Costs	29	0						
Corporate Provisions	(447)	0						
- Removal of one-off staff payments April 2013			(375)					
- Removal of staff payments April 2012			0					
- Removal of contingency budget			(345)					
BSD Management Team	(18)	(30)						
Financial Management	(211)	(130)						
Financial Systems	25	0						
Financial Support	(19)	(17)						
Creditors and Income Services	(26)	0						
Audit Services	(41)	2						
FS Vacancy Saving Target	106	106						
<b>Total Finance</b>	<b>(808)</b>	<b>(114)</b>	<b>(720)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Democracy &amp; Customer First</b>								
Democratic Services	(62)	(8)						
Members and Mayoral Services	(62)	(53)						
Electoral Services	(26)	(21)						
Community Interpreters	(59)	0						
Registration Services	(78)	(117)						
Bereavement Services	(33)	50						
Customer Contact	(21)	18						
Customer First	(57)	(3)						
CF Vacancy Saving Target	150	150						
<b>Total Democracy &amp; Customer First</b>	<b>(248)</b>	<b>16</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Communications, Performance &amp; Partnerships</b>								
Performance & Intelligence	(176)	(2)						
Communications and Improvement	87	0						
Better for Less	137	9						
Administration Hub	124	28						
CPP Vacancy Saving Target	99	99						
<b>Total Communications, Performance &amp; Partnerships</b>	<b>271</b>	<b>134</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Organisational Services</b>								
Human Resource Services	(227)	(154)						
Adult Education	41	38						
ICT	(107)	96						
- Impact of BfL telephony & system maintenance			56					
- Potential loss of NHS hosting contract				41				
- Potential net loss of PCT income re Healthy Living Centres				108				
OS Vacancy Saving Target	107	107						
<b>Total Organisational Services</b>	<b>(186)</b>	<b>87</b>	<b>56</b>	<b>149</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Pay rise per annum 1%</b>			237	239	242	244	247	249
<b>Increment per annum 2%</b>			474	484	493	503	513	524
<b>Total for Business Support Department</b>	<b>(1,373)</b>	<b>211</b>	<b>147</b>	<b>1,738</b>	<b>503</b>	<b>957</b>	<b>1,069</b>	<b>882</b>