

CABINET

2 DECEMBER 2014

CAPITAL & REVENUE BUDGET 2015/16

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Summary

This report presents the Council's draft capital and revenue budgets for 2015/16. In accordance with the constitution, Cabinet is required to develop 'initial budget proposals' approximately three months before finalising the budget and setting council tax levels at the end of February 2015.

The draft budget is based on the principles contained in the Medium Term Financial Plan (MTFP) 2014/18 approved by Cabinet at the end of September and reflects the latest formula grant assumptions announced as part of Local Government Finance Settlement 2014/15 and 2015/16 Technical Consultation in July 2014.

1. Budget and Policy Framework

1.1 It is the responsibility of Cabinet, supported by the management team, to develop a draft capital and revenue budget.

2. Constitutional rules

2.1 The budget and policy framework rules contained in the constitution specify that Cabinet should produce the initial budget proposals. These should be produced and submitted to overview and scrutiny committee three months before the Council meeting that is scheduled to determine the budget and council tax. The overview and scrutiny committees have a period of six weeks to consider these initial proposals. Any proposals for change will be referred back to Cabinet for consideration.

2.2 Under the constitution Cabinet has complete discretion to either accept or reject the proposals emanating from the overview and scrutiny committees. Ultimately it is Cabinet's responsibility to present a budget to Council, with a special Council meeting arranged for 26 February 2015. The adoption of the budget and the setting of council tax are matters reserved for Council. The statutory deadline for approving council tax for 2015/16 is 11 March 2015.

3. Budget monitoring 2014/15

3.1 The Round 1 revenue monitoring report, considered by Cabinet on 30 September 2014, forecast a net overspending on services of some £4.5 million. This was

largely as a consequence of the significant pressures facing Children's Services in particular and these were reflected both in the MTFP paper and again in this report. This presents a very serious situation for both the current financial year and exacerbates a very challenging financial situation looking ahead. A great deal of work will need to be done by all directorates to minimise the forecast overspend and the consequent call on the Council's reserves.

- 3.2 For the capital programme the Round 1 forecast is that the programme will overspend on budget by £828,000 on the remaining programme of £83.8 million. (Forecast spend 2014/15 £58.9 million, 2015/16 and beyond £25.7 million). This was principally the consequence of unforeseen asbestos removal at two of the academy sites and overspends on Wainscott Primary and New Horizons Academy. These have been funded from the basic needs grant.

4. Medium Term Financial Plan

- 4.1 The Council's Medium Term Financial Plan (MTFP) is refreshed annually, with the underlying aims of:

- Ensuring a sustainable budget, without recourse to the use of reserves;
- Generating efficiencies, in partnership with others where appropriate, for reinvestment in priority spending;
- Assessing the revenue impact of funding streams supporting capital investment decisions, whether that be from grants, prudential borrowing, use of reserves, or capital receipts; and
- Avoiding the sanction of central government controls, for example capping now in the guise of a local referendum requirement.

- 4.2 The MTFP considered by Cabinet on 30 September 2014 presented a high level summary of the budget requirement for the next three years and identified a £12.403 million gap for 2015/16 rising to a £27.324 million deficit for 2017/18 to be addressed through the budget preparation process. As always, the MTFP is prepared alongside the Council Plan and reflects the Council's priorities, as articulated by two core values and four key outcomes:

- 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 four priorities are:

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

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.

- 4.3 This link between the service and financial plans is essential. Indeed both the budget and council plan have followed a similar reporting timetable, providing Members with regular monitoring of the Council's overall performance.
- 4.4 The revenue support grant, retained business rates and council tax yield have all been revised since the MTFP and are discussed in section 6 below.
- 4.5 Other key assumptions underpinning the budget requirement for 2015/16 and future years include:
- Zero uplift for general inflation, although some specific inflation assumptions have been applied where there is a contractual or unavoidable commitment;
 - For the MTFP there was a 0% assumption for pay awards or Medpay and this remains;
 - The MTFP had some provision for demographic growth in children's social care budgets but this has now had to be revised upwards; and
 - An overall assumption of a 2.5% increase in income from fees and charges save for parking charges which remain frozen until 2017 in accord with the decision at Council in February 2014.

5. Council Plan

- 5.1 The Council Plan is the organisation's over-arching business plan, setting out the priorities and outcomes the council wants to achieve during the next financial year. The 2014/15 Council Plan was streamlined to four priority areas, monitored by a set of measures of success. The plan also set out the Council's key projects to be delivered under each priority theme. Moving forward into 2015/16 the planned measures of success will be refreshed alongside the budget, to confirm the outcomes the Council wishes to focus on to deliver its priorities. The plan will also identify which key projects the Council will strive to deliver in the forthcoming financial year. It is imperative that the Council Plan continues to reflect council priorities, is fit for on-going inspection requirements and is achievable within anticipated resources.
- 5.2 The plan will be underpinned by a relevant suite of measures of success, aligned to each priority theme. Each measure will be developed by services and draw on the results from resident consultations, to reflect the key deliverables for each priority. The measures will be highly focused to allow Members to gauge progress for each priority area and demonstrate how the Council's actions are making a difference.

6. Resources

- 6.1 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 (RSG), 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.
- 6.2 The Local Government Finance Settlement announced in January 2014 set out Grant expectation for both 2014/15 and 2015/16 and these are now a matter of record. However for 2015/16 this has now been amended following the announcement that the RPI increase for the business rate multiplier would be 2.3%

rather than the forecast 2.76%. The effect of this would be to decrease the Government share of business rate income and require a reduced RSG distribution to remain within overall spending targets. The impact for Medway is a forecast reduction in RSG of £201,000. The definitive position will not be known however until January 2015 although it is expected that there will be a provisional settlement announced in December as has been the past practice.

- 6.3 The aggregate reduction in Government grant support (now expressed as Settlement Funding Assessment or SFA) since CSR 2010, for which 2014/15 was the last funding year, is 33.6% compared to an original target declaration of 28%. However there is no sign of a reduction in the pace of change for Government support and the 14.1% additional cut in the 2015/16 announcement in January 2014 takes this total to almost 48% by 2015/16 and climbing.
- 6.4 In addition to this it must be remembered that Medway's 'base line' funding from central government is already low compared to comparator authorities. Analysis of CLG data for the SFA shows that for 2015/16 Medway is scheduled to receive £307 per capita (£355 in 14/15) compared to an average of £349 (£406 in 14/15) for comparator authorities, a shortfall of some 12%.
- 6.5 2014/15 is the second 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 and 1% to the Fire Authority. This was a major technical reform of Local Government finance and there was and is considerable risk in estimating the Council share of this resource stream. In setting the budget for 2013/14 the Council adopted the baseline position set out in the SFA which estimated a receipt of £42.119m as the Council share. In the event this was £320,000 more than the amount credited as the Medway share after allowing for the 5-year phasing of outstanding appeals that pre-dated April 2013. The estimation of the outstanding appeal liability is nothing short of guesswork given that we do not control the process, which is run through the Valuation Office, and we have no control over submission of appeals against the valuation for rates purposes established by the 2005 and 2010 valuation lists. Appeals are still outstanding against the former, despite promises by Government that all appeals would be settled before the next revaluation in 2017 and in fact we are predicting an increase in the required provision for outstanding appeals of some £2.1 million which has the effect of reducing the Medway share of business rate income by some £1.0 million based on our 49% share. Between the end of June and the end of September 2014 we were notified by the Valuation Office of 84 new appeals against the 2010 listing with a combined Rateable Value (RV) of £9.7 million and an estimated appeal cost of £936,000. Total outstanding appeal costs are estimated at £10.2 million.
- 6.6 In addition, and following from the RSG comment in 6.2, the RPI indexation of the business rate multiplier will now be +2.3% rather than the +2.76% previously anticipated and this will reduce Medway's income share from business rates by £193,000. This is offset by the £1.071 million gain arising from the +2.3% increase. However the net gain against previous NNDR assumptions in the MTFP is £458,000 for 2015/16 and this is shown in Table 2 below.
- 6.7 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 nationally 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.

- 6.8 In respect to Council Tax levied, Medway's position in 2014/15 remains one of the lowest in both our peer group of Mainland Unitary Councils (9th lowest of 55) and nationally (35th of 325) despite increasing Council Tax by the maximum permitted without falling foul of referenda rules.
- 6.9 The now established 'referenda' rules replace the former capping regime and require that any proposal to exceed a Government determined 'excessive' amount will require a local referendum to be held to confirm the increase. For 2014/15 the declared increase beyond which it was deemed to be excessive was 2% and there is no reason to suppose that 2015/16 will be more generous but the precise level will need to await ministerial announcement.
- 6.10 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 £833 million and this compares to £450 million 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% (confirmed and adjusted in the RSG baseline)
 - 2015/16 offer – funding for one year at 1%
- There is no guarantee of funding beyond 2015/16 yet for the 2015/16 component.
- 6.11 The taxbase upon which the current council tax is set was agreed as 78,407 Band D equivalents, which includes the discount effect of the Council Tax Reduction Scheme (CTRS) that replaced Council Tax Benefit in 2013/14. The latest estimate of the final taxbase for 2014/15 is 78,958 Band D equivalents. Projecting forward from this and including the recently approved 150% rate for long-term empty properties produces a forecast for next year of 79,588 Band D equivalents. This translates into an income gain of £938,000 against the MTFP assumption.
- 6.12 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 £13.170 million for 2013/14 and £14.280 million for 2014/15. Public Health England has confirmed that this will be the funding level for 2015/16 as well. The revenue resource assumptions in this report have assumed that the 2015/16 position remains static for the future.
- 6.13 There was a fear that the creation of a Single Local Growth Fund of £2.8 billion was to be part funded by a £400 million cut in the level of New Homes Bonus (NHB)

paid in 2015/16 and beyond but this proposal has now been dropped and the NHB scheme remains for 2015/16 and 2016/17 at least. The original scheme is set to finish at that point but since it was funded from Formula Grant it is assumed that it will continue on, or some other equivalent redistribution will occur for 2017/18 and beyond. Taxbase numbers have increased as referred to in 6.11 but this was in part expected and also partly due to a decline in discounts granted for the CTRS. Unfortunately new building and particularly the affordable component have not been as high as the MTFP forecast and latest projections show a reduction of £207,000 against the MTFP forecast.

- 6.14 At the end of July 2014 the Department for Education (DfE) announced changes to the Education Services Grant emanating from an earlier consultation prompted by SR 2013. The effect of this was already allowed for in last year's MTFP and indeed as a consequence of increases in the number of pupils the anticipated grant for 2015/16 has increased from £2.139 million to £2.221 million albeit still a £0.985 million reduction on 2014/15.
- 6.15 For DSG there is some logic in an expectation of a slightly better position overall given the predicted increase in pupil numbers from 41,520 in 2014/15 to 43,499 in 2017/18. 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 £83.299 million in 2014/15 to £127.063 million in 2017/18 based on known and anticipated conversions. The table below summarises the expected position:

Table 1. Schools Funding

	2014/15	2015/16	2016/17	2017/18
Schools Block: Pupil Nos.	37,029	37,529	38,029	38,529
Early Years Block: Pupil Nos.	2,615	2,730	2,850	2,975
High Needs Block: Pupil Places	1,876	2,005	1,995	1,995
Total all pupils	41,520	42,264	42,874	43,499
DSG (gross)	£209.171m	£214.300m	£216.845m	£219.586m
Academy deductions	£(83.299)m	£(91.536)m	£(116.171)m	£(127.063)m
DSG (net)	£125.872m	£122.764m	£100.675m	£92.522m
Pupil Premium	£6.152m	£6.498m	£6.467m	£6.436m
Sixth Form Funding excluding academies	£1.654m	£0.050m	£0	£0
Net Schools Funding	£133.678m	£129.312m	£107.142m	£98.958m

- 6.16 At this stage no allowance has been built into the forecasts for pay inflation given the scale of deficit to be recovered. However it is recognised that there has been a sustained period of nil pay increase and the newly negotiated 'Medpay' arrangements have also been designed to cater for a performance based approach to annual pay increments. In broad terms a 1% addition to the General Fund, non-schools, pay bill, would require an £800,000 additional resource. Any impact in schools would need to be met from the delegated budget provided through the DSG. A further nil provision for general inflation where there is no contractual commitment is also assumed although fees and charges (except parking which is frozen) are assumed to increase by a benchmark 2.5%.

6.17 The summary of resource assumptions incorporating the comments above is shown in Table 2 below which also incorporates the summary expenditure demands discussed in section 7 below.

Table 2: Draft Revenue Budget 2014/2018

	Round 1 Budget	Round 1 Forecast Var.	MTFP Forecast	Base Adj/ Pressures	Savings	Forecast Req.	MTFP Forecast	Forecast Req.	Savings	Forecast Req.
Directorate	2014/15	2014/15	2015/16	2015/16	2015/16	2015/16	2016/17	2016/17	2017/18	2017/18
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Children and Adult Services (C&A):										
DSG and School Specific Exp	132,181	0	127,815			127,815	(22,170)	105,645	(8,184)	97,461
Public Health	886		886			886		886		886
General Fund Services	110,436	3,411	112,235	2,877	(3,132)	111,980	(831)	111,149	(637)	110,512
Regeneration, Community and Culture (RCC)										
General Fund Services	49,296	712	47,892	605	(288)	48,209	3,061	51,270	2,208	53,478
Public Health	579		579			579		579		579
Business Support (BS):										
General Fund Services	24,240	48	23,965	432	(25)	24,372	(230)	24,142	140	24,282
DSG	1,497		1,497			1,497		1,497		1,497
Public Health	303		303			303		303		303
Public Health	12,512		12,512			12,512		12,512		12,512
Interest & Financing	14,243		14,243			14,243		14,243		14,243
Levies	879	73	1,039			1,039		1,039		1,039
Projected savings from 'Better for Less'	(404)		(589)			(589)		(589)		(589)
Norse JVC	(263)		(263)			(263)		(263)		(263)
Pay and Grade Review	473		0			0		0		0
Budget Requirement	348,858	4,244	342,114	3,914	(3,445)	342,583	(20,170)	342,583	(6,473)	315,940
Estimated Funding										
Dedicated Schools Grant	(125,872)		(122,764)			(122,764)	22,089	(100,675)	8,153	(92,522)
Other School Specific Grants	(7,806)		(6,548)			(6,548)	81	(6,467)	31	(6,436)
Council Tax	(91,285)		(93,570)		(938)	(94,508)	(2,365)	(96,873)	(2,431)	(99,304)
Revenue Support Grant	(52,392)		(38,263)	201		(38,062)	9,894	(28,168)	8,427	(19,741)
Business Rate share	(44,916)		(45,344)		(458)	(45,802)	(877)	(46,679)	(1,659)	(48,338)
New Homes Bonus	(5,582)		(6,307)	207		(6,100)	(931)	(7,031)	49	(6,982)
Education Support Grant	(3,206)		(2,139)		(82)	(2,221)	197	(2,024)		(2,024)
Specific Grants	(419)		(446)	215		(231)		(231)		(231)
Public Health Grant	(14,280)		(14,280)			(14,280)		(14,280)		(14,280)
Use of Reserves	(1,100)		(50)			(50)		(50)		(50)
Estimated Available Funding	(352,998)	0	(346,236)	623	(1,478)	(330,566)	28,088	(302,478)	12,570	(289,908)
Budget Gap										
- DSG	0	0	0	0	0	0	0	0	0	0
- General Fund	0	4,244	12,403	4,537	(4,923)	12,017	9,064	19,935	7,079	26,032

6.18 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 under spending, 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 2014 the uncommitted general reserve and the contingency balance amounted to some £8.1 million. 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 reserves do not represent a solution to the financial equation.

7. Summary of draft revenue budget

7.1 The MTFP built upon the more detailed work that had been the feature of the previous plan. As such it represented a very real projection of spending demand and resource expectation for the period. As section 6 has identified, a number of the resource assumptions have now varied, and clearly work has been progressing on also addressing the spending demands and identifying areas where savings can be made. Table 2 above summarises the change in spending pressures and additional savings set against the MTFP, and the appendices 1a to 1c provide detail. Whilst table 2 gives an 'at a glance' impression that little has changed in the overall position for 2015/16 it disguises the fact that significant additional savings of almost £5 million have been found but have then been eroded by additional pressures of an almost equal sum and in particular from Children's Social Care, of £2.9 million, bringing total pressures in this area for 2015/16 to £5.4 million.

7.2 The forecast budget gap for 2015/16 now stands at £12.017 million for General Fund services and increases to £26.032 million for 2017/18. Clearly there remains a lot of work to do particularly to address the 2015/16 position.

7.3 The revenue budget pressures facing individual directorates in 2015/16 were comprehensively reflected in the MTFP and Appendices 1b - 3b set out both those previously identified and the movement since. The more significant changes are summarised below for information:

7.3.1 Children and Adult Services (Appendix 1a)

The MTFP identified general fund pressures of £4.5 million, representing the recurrent impact of the current projected overspend and additional inflationary and demographic pressures in 2015/16, and savings of almost £2.7 million were identified to offset these pressures. However pressures in Children's Social Care have continued to present, adding a further pressure of £2.8 million on top of the £2.6 million already included in the MTFP, and evenly split between staffing and placement costs, and this is unlikely to turn around until 2016/17. Baseline adjustments have added a further £77,000 as set out in the appendix largely with the issues being subsumed in the new pressures. Adult services has identified £3.1 million of savings to offset these pressures

7.3.2 Regeneration, Community and Culture (Appendix 1b)

The MTFP identified net savings of £799,000 and these are set out again in the Appendix. Unfortunately baseline adjustments have added a net pressure of £605,000 largely as a consequence of an erroneous assumption that the anticipated balance of waste grant would be available to offset revenue. This is

clearly no longer the case and there is sufficient resource demand to require all available grant reserve and exceed that with very significant pressures in 2016/17 and 2017/18. Further savings of £288,000 have been identified by the capitalisation of staffing and other costs.

7.3.3 Business Support (Appendix 1c)

The MTFP identified net pressures of £0.730 million for the department, the major components being the non-recurring provision for legal and compensation costs in respect of Local Land Charges litigation, the loss of Government subsidy for benefit administration, and additional costs for the Coroners Court levy previously supported by the police authority. Baseline pressures of £432,000 have arisen largely from the double counting of the Compass Centre saving.

7.3.4 Public Health

The Public Health function is now established as a responsibility of the Council and funded via a ring-fenced grant. For 2014/15 that grant is £14.28 million and any unspent funds will need to be rolled forward in a reserve to protect the ring-fenced nature of these funds. In similar fashion any in-year over spending of the grant will be a call upon the reserve. For 2015/16 it has already been announced the grant will remain at £14.28 million but there is no information beyond that and therefore the assumption for 2016/17 and beyond is that funding will remain static.

7.3.5 Interest and Financing

The continued low interest rates with a crude 2% gap between medium and long-term borrowing and investment returns has meant that there has been no new borrowing by the council with the treasury team utilising internal cash balances to fund 'borrowing' decisions associated with the capital programme. The most recent outturn for treasury reported to Cabinet on 15 July 2014 revealed that the function made a small surplus of £43,000 against the £14.893 million budget for the year.

7.3.6 Levies

This budget covers the levies raised by the Coroners Court, Internal Drainage Board, Environment Agency (flood defence) and Kent and Essex Sea Fisheries. In each case the Council has no choice but to pay the levy demanded but does have representation on the bodies setting the budget upon which the levies are based. The forecast requirement is based on the current budget except in respect of the Coroners Court levy where it is noted at 7.3.3 that there is an expected pressure of £160,000 for additional costs previously supported by the police authority.

7.3.7 Planned use of reserves

In setting the budget for 2014/15 Council approved the non-recurrent use of £1.3 million of reserves with £250,000 of that being spread over 5 years to support the continuation of the Christmas free parking initiative. The £1.1 million reserve funding in 2014/15 is withdrawn from the budget for 2015/16 although the £50,000 funding of Christmas parking is reinstated for the next 4 years.

8. Meeting the funding gap

- 8.1 Table 2, above, highlights a funding gap of £12.017 million in relation to General Fund services for 2015/16 rising to £26.032 million in 2017/18. This is unfortunately a very similar position to that reported in the MTFP at the end of September.
- 8.2 There has to be some caution over the resource projections as they are based on exemplifications of possible funding scenarios and assumptions for taxbase and business rates that could change. The Council will also not know the definitive position in regard to Government support until the final settlement in January 2015 albeit the provisional settlement due in late December should provide greater certainty.
- 8.3 The organisation is nearing completion of the transformation of customer contact and administration, initiated through the Better for Less programme. This was expected to deliver savings estimated at approximately £5.4 million per annum but this has been revised to £4.5 million with the final phase tasked to deliver £800,000 across 2014/16 with £589,000 to be completed during 2015/16.
- 8.4 The Category Management workstream has the stated potential to deliver up to £10 million of savings through the more effective commissioning and procurement of services over the MTFP period. The first procurement exercise in relation to Homecare Services saved £1.9 million. New contracts for Homecare Services were introduced at the end of 2012/13 and this resulted in reduced contract costs of £1.9 million per annum. Further savings for Facilities Management, Agency Staff and High Cost Placements are anticipated to yield an additional £2.2 million of reduced costs in 2014/15 and there is a programme of work planned to secure further savings.
- 8.5 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 targeted by Officers and Portfolio Holders will be:
- *Tackling the ever increasing financial demand from Children's Social care;*
 - *Continued transformation of adult social care including delivery of enablement, flexicare housing and the personalisation agendas;*
 - *Opportunities for more efficient use of Public Health Grant;*
 - *Potential shared service arrangements with other councils and public agencies;*
 - *Property rationalisation;*
 - *Opportunities for market testing; and*
 - *A review of fees and charges (excluding parking) across a whole range of service areas.*

9. Draft capital budget proposals 2015/16

- 9.1 The Council has enjoyed a significant capital investment in recent years, supported by Government grants for both regeneration and the establishment of three new academies, together with ongoing support for the Local Transport Plan, additional primary school places, SEN capacity, social care transformation and Disabled Facilities Grants. The Capital programme currently stands at £83.8 million and it is currently forecast that the Council will spend £58.9 million in 2014/15 with a further £25.7 million forecast during subsequent years. The £0.8 million over spending will

be funded from grants but this will likely mean that future schemes will need to be supported by other sources.

- 9.2 The current capital programme reflects slippage from previous years, together with the 2014/15 grant allocations, other additional approvals such as the 'Growing Places' funds and the HRA development programme. The Department for Education also announced its Basic Need Grant allocation for the three years to 2016/17 and all of this funding is already reflected in the current programme. This programme will continue to be delivered throughout 2015/16 and beyond and Table 3 below summarises planned expenditure and provides an analysis of how it is funded.

Table 3. Current Capital Programme

	C & A	BSD	RCC	Member Priorities	Total
	£000's	£000's	£000's	£000's	£000's
Forecast Expenditure					
2014/15	30,046	2,070	26,207	575	58,897
2015/16	4,730	866	15,143	15	20,754
2016/17	213	435	2,688	0	3,336
2017/18	13	305	1,325	0	1,643
Total	35,002	3,675	45,363	590	84,630
Funding Source					
Grants	25,858	0	11,377	0	37,235
Developer & other contributions	2,700	0	2,616	0	5,316
Capital Receipts	3,879	2,366	3,229	590	10,064
Reserves & revenue	2,565	0	6,574	0	9,139
HRA reserves & revenue	0	0	11,198	0	11,198
Borrowing	0	1,309	10,369	0	11,678
Total Funding	35,002	3,675	45,363	590	84,630

- 9.3 Whilst the financial settlement no longer includes any revenue support for capital, local authorities still have access to 'unsupported' borrowing through the prudential regime for capital, providing that these capital investment plans are affordable, prudent and sustainable. Developer contributions and capital receipts might also become available for capital investment, as well as HRA balances, but at this stage of the budget setting process, it is assumed that future investment will be restricted to the current programme, supplemented by the Council's expectations in relation to Government grant.
- 9.4 Table 4 outlines our assumptions regarding future capital grant allocations and with the exception of Basic Needs Grant, which is already reflected in the current capital programme, this funding will be added to the current capital programme subject to Government Departments confirming their final allocations. It should be noted that the forecast resources include a substantial new allocation of funds from the Local Growth Fund via the LEP as announced by the Leader at Council in July.

Table 4. 2015/18 Government grant assumptions

	2015/16	2016/17	2017/18 onwards	Total
	£000's	£000's	£000's	£000's
Department for Education				
Basic Needs Grant (see para 9.3)	2,237	2,349	TBC	4,586
Capital Maintenance Grant (pupil projections)	1,935	1,545	1,243	4,723
Devolved Formula Capital (pupil projections)	359	287	231	877
Department of Health 'Better Care Fund'				
Disabled Facilities Grant	922	TBC	TBC	922
Adult Social Care Transformation Grant	556	TBC	TBC	556
Department of Transport				
LTP - Integrated Transport	2,389	TBC	TBC	2,389
LTP - Highways Maintenance	2,122	TBC	TBC	2,122
Communities and Local Government (via LEP)				
Local Growth Fund	1,900	5,100	21,600	28,600
Flood Defences	3,000	1,000	1,000	4,000
Total Government Grant	12,520	12,181	24,074	48,775

- 9.5 Whilst the Basic Needs Grant is known for the next two years the other Department for Education capital grants have not been announced yet, however the funding methodology is clear and is based upon a 'per pupil' component. The assumptions underpinning Table 1 have been applied to estimate the Capital Maintenance Grant and Devolved Formula Capital for the next three years. The Council has also secured £32.6 million of capital funding via the Local Enterprise Partnership and this should align with planned expenditure.
- 9.6 Publication of the Local Government Finance Settlement is expected in December and whilst capital grants are anticipated to be in line with the assumptions in Table 4, the capital funding available for 2015/16 can only be considered as provisional at this stage.
- 10. Housing Revenue Account – Draft Budget 2015/16**
- 10.1 The Housing Revenue Account (HRA) must be operated for all local authorities with a retained housing stock and is "ring-fenced" from the General Fund. The account details the costs associated with the management and maintenance of the Council's housing stock. As at 1 April 2014, the Council owned 3,016 properties, 287 of which were homes for independent living. There are a further 199 leasehold flats, for which the Council owns the freehold and collects service charges. The stock numbers reduce year on year as a result of tenants exercising their right to buy the home they live in although in recent years this has been a minimal number. There is also now a plan for a new build programme which will add 13 new properties to the current housing stock from February 2015 under HRA House building Programme.

- 10.2 The current monitoring projects the HRA will make a surplus for the 2014/15 financial year of just over £1.063 million. There was also a bought forward accumulated balance on the account as at 1 April 2014 of £1.969 million. Existing commitments require £1.307 million to finance the 2014/15 HRA capital planned maintenance programme, and this taken together with the need to maintain a contingency balance of circa £0.750 million will leave an estimated accumulated balance on the account of £0.975 million available for reinvestment in the HRA.
- 10.3 From 2015/16, the Government has set out a new rent setting policy for social landlords for social sector rents to be increased by up to the previous year's September CPI (September 2014 CPI was 1.2%) + 1% annually for ten years. Cabinet approved this policy on 28 October 2014 and the 2015/2016 budget build and rent calculation will follow this policy. Rent charges relating to garages will increase by inflation.
- 10.4 Service charges have in the past been calculated using estimated costs based upon actual charges for previous years. Guidance states that the cost of providing services to tenants should be fair and fully recovered and Members previously agreed that some of the charges could be increased at a level in excess of inflation where costs are not currently being recovered.
- 10.5 Generally, all expenditure will remain at 2014/15 levels for 2015/16 to reflect the current economic climate. The only exceptions to this will be contracts that are subject to annual inflationary increases or contracts subject to increases or decreases as a result of retendering.

11. Conclusions

- 11.1 These initial budget proposals represent the next step towards developing the 2015/16 revenue budget in comparison to the MTFP and whilst the movement from the MTFP position is disappointing considerable work has underpinned the changes, particularly in understanding the position for Children's Social Care. However the budget agreed by Council for 2015/16 and indeed for future years will have to have a zero deficit so there is clearly much still to do, particularly to identify and implement the measures to close the future gaps and be deliverable in year. Experience has shown that savings measures of the scale that the predicted deficits demand will have a significant lead time to delivery.
- 11.2 However as the report also indicates, the available resources for the Council are still subject to some uncertainty and this will not be resolved until early next year. At this stage it is not expected that Government funding will deteriorate further for 2015/16 but that risk will remain until the final allocations are announced and for the future the prospect of further deterioration is very real.
- 11.3 There remains considerable work required in order to both present a balanced budget for 2015/16 and identify a strategy to meet the further deficit for 2016/17 and beyond in time to be deliverable. This will be undertaken during the period leading up to the Cabinet meeting on 10 February 2015. Overview and Scrutiny committees have a vital role assisting in this process – both to review existing proposals and also to suggest new ones.

12. Risk Management

- 12.1 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 uncertainty caused by the current debate on the national deficit recovery programme and the consequences in terms of future financial assistance and targets imposed by Government will make this process difficult.

13. Diversity Impact Assessment

- 13.1 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. These draft budget proposals predict the resources available, against which to 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 impact of the financial settlement on Council services becomes clearer.

14. Financial and legal implications

- 14.1 The financial implications are fully detailed in the report. There are no direct legal implications.

15. Recommendations

That Cabinet:

- 15.1 Instructs officers to work with the local MP's and lobby ministers and Government for a more equitable share of resources for Medway;
- 15.2 Request that officers continue the work with Portfolio Holders to come up with solutions to bridge the funding gap;
- 15.3 Forwards the provisional draft budget to Overview and Scrutiny as work in progress inviting them to offer comments on the proposals outlined;

16. Suggested reasons for decision

- 16.1 It is the responsibility of Cabinet to develop draft budget proposals for consideration by Overview and Scrutiny Committees. These draft proposals are the first stage of the budget consultation process leading to further discussion by Cabinet on 10 February 2015 and formal council tax setting on 26 February 2015.
- 16.2 The timetable for consideration by overview and scrutiny is as follows:

Business Support	4 December 2014
Children and Young People	9 December 2014
Health and Adult Social Care	11 December 2014
Regeneration, Community and Culture	18 December 2014
Business Support	3 February 2015
Cabinet	10 February 2015
Council	26 February 2015

Background papers:

Medium Term Financial Plan 2014/18 – Cabinet 30 September 2014:
<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=25099>

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BUDGET BUILD 2015-2016 - BASE BUDGET ADJUSTMENTS

	Pressures / Savings					
	MTFP 2015-16 £000s	Further Proposals 2015-16 £000s	MTFP 2016-17 £000s	Further Proposals 2016-17 £000s	MTFP 2017-18 £000s	Further Proposals 2017-18 £000s
<u>Baseline Adjustments</u>						
Impact of ART on high cost placements		41				
Deflator on packages for disabled children		31				
Adj to savings from Youth Services review		80				
Demographic Projections (based on ONS 0-17 population projections)		(75)				
<u>Children Social Care</u>						
Additional Staffing	865	1,435	0	(491)		(592)
Additional cost of placements: current placement costs	1,382	1,171	0	(655)		(390)
Additional cost of placements: Increase in numbers of placements	251	194	223		253	
Inflation on fostering placements	92		92		92	
Impact of commissioning strategy	(1,100)					
<u>Adult Social Care</u>						
- Demographic Projections (based on ADASS projections)	1,550		1,597		1,643	
- Effect of Extra Care Housing	(516)		(533)		(547)	
- Effect of Reablement	(1,034)		(1,064)		(1,096)	
- Care Act			16,569		7,055	
- Care Act funding from Central Government			(16,569)		(7,055)	
DoLS service	387					
DERiC.		(158)				
Admin Fee for Self Funders		(24)				
Capping community care costs for adults with learning and physical disabilities.		(260)				
Dynamic Purchasing System		(500)				
Community Equip VAT saving		(100)				
ASC Transport		(110)				
Use of Better Care Fund		(1,900)				
<u>Inclusion & School Improvement</u>						
- Potential Management Structure Saving		(80)				
DIRECTORATE TOTAL	1,877	(255)	315	(1,146)	345	(982)
Baseline Adj/Pressures Savings	4,527 (2,650)	2,877 (3,132)	18,481 (18,166)	0 (1,146)	9,043 (8,698)	0 (982)

BUDGET BUILD 2015-2016 - BASE BUDGET ADJUSTMENTS

	Pressures / Savings					
	MTFP 2015-16 £000s	Further Proposals 2015-16 £000s	MTFP 2016-17 £000s	Further Proposals 2016-17 £000s	MTFP 2017-18 £000s	Further Proposals 2017-18 £000s
Baseline Adjustments						
- Use of DCLG grant		900				
- Retendering supported bus services		(110)				
- Homelessness		(185)				
Front Line Services						
Highways						
- Contract inflation (2.66%)			130		133	
- Remove one-off potholes	(450)					
- Remove one-off Member Priorities	(200)					
Waste Services						
- Landfill Tax (£80 per tonne 14/15, linked to inflation for 15/16)	27		24		21	
- Changes in waste arisings	52		25		46	
- Contract inflation for disposal (2.5%)	171		180		188	
- Contract inflation for collection (2.5%)	337		359		372	
- Use of DCLG grant	(587)		587			
- Shortfall after DCLG fund runs out			1,222		1,100	
- Procurement cost amortisation					(33)	
Housing & Regeneration						
Economic Development						
- Remove one-off Apprenticeships Medway Queen	(30)					
- Remove on-off Airport Campaign	(100)					
Social Regeneration & Europe						
- Community Centres Income	65					
Housing Solutions						
- Homelessness	213		244		317	
Leisure and Culture						
Arts, Theatres & Events						
- Remove one-off HMS Lancaster	(15)					
- Remove one-off Sponsorship	(45)					
Heritage						
- Remove one-off Home of Dickens	(60)					
Greenspaces (and Country Parks)						
- Contract inflation Ground Maintenance			104		64	
- Regulatory pressure; increased cleansing and signage vegetation clearance			106			
- Remove one-off Hempstead Allotments	(20)					
- Remove one-off Play Areas	(200)					
Libraries						
- Strood & Twydall Library Community Hubs staffing pressures	43					
Star Chamber 2						
Star Chamber 3						
Capitalised Regen salaries		(88)				
CCTV capitalised costs		(200)				
Cost of Promotion staff Waste Services		80				
Waste Promotion staff funded from DCLG grant		(80)	80			
DIRECTORATE TOTAL	(799)	317	3,061	0	2,208	0

Baseline Adj/Pressures	908	605	3,061	0	2,208	0
Savings	(587)	(288)	0	0	0	0
Non Rec Removals	(1,120)					

BUDGET BUILD 2015-2016 - BASE BUDGET ADJUSTMENTS

	Pressures / Savings					
	MTFP 2015-16	Further Proposal 2015-16	MTFP 2016-17	Further Proposal 2016-17	MTFP 2017-18	Further Proposal 2017-18
	£'000	£'000	£'000	£'000	£'000	£'000
Baseline Adjustments						
- Vacation of Compass Centre (March 2015)		385				
- Reduce design fee surplus		(100)				
- Remaining full year effect of finance restructure		75				
- Admin hubs		25				
Legal & Corporate Services						
- Refund and litigation cost pressure - may impact 14/15	390		(390)			
- Cabinet Decision 10/06/14 Disposal Of Premises At Doust Way		47				
- Vacation of Compass Centre (March 2015)	(385)					
Corporate Finance						
- Potential HB Grant Admin reduction (Est. 10%)	180		160		140	
- Remaining full year effect of finance restructure	(75)					
Communications, Performance & Partnerships						
- Remaining full year effect of admin hub restructure		(25)				
Levies						
- Coroner service transfer from police to LAs	160					
Directorate Total	110	407	(230)	0	140	0

Baseline Adj/Pressures	730	432	160	0	140	0
Savings	(460)	(25)	(390)	0	0	0