

BUSINESS SUPPORT OVERVIEW AND SCRUTINY COMMITTEE

3 FEBRUARY 2015

CAPITAL & REVENUE BUDGET 2015/16

Portfolio Holder: Councillor Alan Jarrett, Finance

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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 draft capital and revenue budgets.

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 On 2 December, Cabinet was asked to consider the draft capital and revenue budgets for 2015/16 and to forward them to Overview and Scrutiny as work in progress, inviting them to offer comments on the proposals outlined. 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 is 11 March 2015.

2.3 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

3. Budget monitoring 2013/14

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 over spend 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. Budget Preparation Assumptions

4.1 The draft budget presented by Cabinet builds upon the resource projections and principles set out in the Medium Term Financial Plan (MTFP) considered by Cabinet on 30 September 2014. The budget to be approved by Council in February 2015 will need to adhere to the MTFP 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 £12.3 million gap for 2015/16 rising to a £27.3 million deficit for 2017/18 to be addressed through the budget preparation process. This report

is part of that process and, whilst acknowledging the issues overall, focusses on those issues pertinent to Business Support.

- 4.3 Resource assumptions for Revenue Support Grant, Business Rate share, Council Tax and New Homes Bonus are critical in the development of a balanced budget and the cabinet report set out the latest view of these. There is an inevitable risk that these assumptions could change prior to budget setting in February, not least with the Finance settlement to be confirmed in January 2014 (provisional release in December). The latest forecast also utilises our latest NNDR projection for 2014/15 as a base but it should be stressed that this is a forecast and could be subject to variation that could be of significance as was seen with the closure of Kingsnorth power station and a loss of rate share for the Council of almost £2 million and the on-going issues of rate appeals dating back to 2005. It also remains an assumption that Council will approve a 1.999% increase in Council Tax, which even so will still see Medway firmly in the lower quartile of council tax levied nationally.
- 4.4 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.
- 4.5 The aggregate reduction in Government grant support (now expressed as SFA) since CSR 2010, for which 2014/15 is 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 14.3% additional cut in the July technical consultation takes this total to almost 48% by 2015/16 and climbing.
- 4.6 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.
- 4.7 In addition, and following from the RSG comment in 4.6 relating to the RPI indexation of the business rate multiplier this will also 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.
- 4.8 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.

- 4.9 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 4.8 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.
- 4.10 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.
- 4.11 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

4.12 The 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 nil assumption for pay awards and the introduction of Medpay and this remains;
- The MTFP reflected demographic projections for Adult Social Care based on ADASS assumptions at a 3% provision for growth in adult social care, offset by a funding assumption of savings from reablement; and
- Provision for both 2014/15 pressures and demographic growth in children's social care budgets.

5. Summary of draft revenue budget

5.1 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 4 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 below summarises the change in these assumptions set against the MTFP for 2015/16 and whilst this gives an 'at a glance' impression that the pressures have simply been removed the position is more complex than that with some removal, some reduction and additional savings. The analysis of this movement for BSD is set out in Appendix 1b with the directorate summary at Appendix 1a. Table 2 below summarises the overall impact with BSD highlighted.

5.2 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 so clearly there remains a lot of work to do particularly to address the 2015/16 position.

5.3 The Draft Budget identified net pressures of £0.407 million for the directorate in addition to the MTFP position, the major part of which related to the double count of Compass Centre savings in the MTFP and the cut in Housing Benefit administration grant which is forecast to reduce further in 2016/17 and 2017/18 by £160,000 and £140,000 respectively. These are set out in Appendix 1b.

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)			112,235							
General Fund Services	49,382	712	47,958	605	(288)	48,275	3,061	51,336	2,208	53,544
Public Health	579		579			579		579		579
Business Support (BS):										
General Fund Services	24,174	48	23,899	432	(25)	24,306	(230)	24,078	140	24,216
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. Meeting the funding gap

- 6.1 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 no significant improvement compared to that forecast in the MTFP largely as a consequence of the issues outlined in section 5 above.
- 6.2 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 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.
- 6.3 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.
- 6.4 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.
- 6.5 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.*

7. Draft capital budget proposals 2014/15

- 7.1 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 on-going 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 – the major part of which at £45.363 million is within the remit of this committee. It is currently forecast that £58.9 million of this programme will spend in 2014/15 with a

further £25.7 million in the years beyond. The £0.8 million over spending in C&A will be funded from grants but this will likely mean that future schemes will need to be supported by other sources (RCC components highlighted).

- 7.2 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.
- 7.3 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 that are set out in table 3 below.

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

- 7.4 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

7.5 Publication of the Local Government Finance Settlement is expected in late December and whilst capital grants are anticipated to be in line with the assumptions in Table 4, the capital programme for 2015/16 can only be considered as provisional at this stage.

8. Housing Revenue Account – Draft Budget 2015/16

8.1 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.

8.2 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.

- 8.3 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.
- 8.4 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.
- 8.5 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.

9. Conclusions

- 9.1 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.
- 9.2 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.
- 9.3 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.

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 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.

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. 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.

12. Financial and legal implications

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

13. Recommendations

13.1 Members are requested to:

- Consider the draft capital and revenue budget for 2015/16, proposed by Cabinet on 2 December 2014, insofar as they affect this overview and scrutiny committee;
- Consider the opportunities and implications of any other efficiencies or revenue generating measures for this committee;
- Incorporate any feedback to Cabinet with that from other overview and scrutiny committees as reported later in this agenda.

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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