

CABINET

24 NOVEMBER 2015

DRAFT CAPITAL AND REVENUE BUDGET 2016/17

Portfolio Holder: Councillor Alan Jarrett, Finance

Report from/Author: Phil Watts, Chief Finance Officer

Summary

This report provides an update on progress towards setting the Council's draft capital and revenue budgets for 2016/17. 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 2016.

The draft budget is based on the principles contained in the Medium Term Financial Plan (MTFP) 2016/20 approved by Cabinet in September and reflects the latest formula grant assumptions.

1. Budget and Policy Framework

- 1.1. It is the responsibility of Cabinet, supported by the management team, to develop a draft 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 25 February 2016. The adoption of the budget and the setting of council tax are matters reserved for Council. The statutory deadline for approving council tax for 2016/17 is 11 March 2016.

3. Budget monitoring 2015/16

- 3.1. The round 2 revenue monitoring report, considered elsewhere on this agenda, forecasts a net overspending on services of some £5.8 million after management action. This is primarily a consequence of the significant pressures facing Children's and Adult Social Services and these have to a large extent been reflected in the

MTFP assumptions. As well as representing a serious issue in the current financial year, a failure to reduce costs in a sustainable way would only serve to exacerbate an already challenging financial outlook going forward. A great deal of work will need to be done by all directorates to reduce the forecast overspend and the consequent call on the Council's limited reserves.

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;
- Recognising the revenue impact of capital investment decisions, whether funded from grants, prudential borrowing, reserves or capital receipts.
- Delivering members key priorities

4.2. The MTFP considered by Cabinet on 29 September 2015 presented a high level summary of the budget requirement for the next three years and identified a £13.8 million deficit in 2016/17, increasing to £41.9 million by 2019/20, which will need to be addressed through the budget setting process. As always, the MTFP is prepared alongside the Council Plan and seeks to reflect the Council's core values and service priorities. The MTFP summary is included at Appendix 1. The directorate level budget assumptions, thus far in the process, are presented in more detail in Appendix 2.

4.3. The timing of this draft revenue budget coming to Cabinet is unfortunate, as the Chancellor has subsequently indicated that his Autumn Statement outlining the spending review will be announced on 25 November 2015. It is extremely likely that the pressure on public finances will increase and in July the Chancellor asked all Government departments to model expenditure reductions of between 25% and 40%. In his speech on 9 November he announced a provisional deal with the CLG to reduce expenditure by 8% per annum, equating to 30% over four years, however there is little point speculating at this stage, given the uncertainty inherent in the Chancellor's conference speech, which stated that local authorities would be able to keep 100% of business rates at the expense of grant funding.

4.4. Since production of the MTFP, officers have been working with the Cabinet to formulate savings proposals to address the projected revenue budget deficit. This work is ongoing and the impact of these proposals will be reflected in the budget recommendations to be considered by Cabinet on 9 February 2016. The broad measures being considered are outlined in this report.

5. Balancing the 2016/17 budget

5.1. Revenue Support Grant (RSG)

The MTFP assumes that the RSG reduces to around £7.4m by 2019/20, however in his conference speech on 5 October the Chancellor announced that the RSG would disappear completely by the end of this Parliament and in its stead local authorities would retain 100% of business rates. This would of course be subject to a similar system of tariffs and top-ups to ensure that there are no significant winners and losers, however it does imply that the pace of reduction in the RSG could be faster than previously predicted, which will place additional pressures on council services.

5.2. Council Tax

Until we know what conditions Government intend to impose on increases to council tax, the MTFP continues to assume 2% per annum. As for the tax base there are three main determinants – the number of band D equivalent households, the change in the level of claimants under the council tax reduction scheme and the estimated collection rate. Based upon the numbers of new homes anticipated, a 0.5% per annum increase in the tax base has been assumed in the MTFP, however Members will be aware that changes to the council tax reduction scheme are currently being consulted upon and a reduction in the maximum discount available (from 75% to 65%) would be expected to yield around £500,000 per annum in additional council tax.

5.3. Business Rates

The MTFP assumes a steady increase in business rate income, reflecting only a modest increase in the multiplier. Further work is being undertaken to assess the potential increase in the rateable value of businesses in Medway, brought about through inward investment and business growth on the back of the Council's regeneration plans.

5.4. Review of Treasury Management

At its meeting on 15 October Council agreed two measures in seeking to maximise the investment returns on surplus cash balances. An amount of £3.0m has already been invested in the CCLA Property Fund, which currently generates annual dividends of 4.75%. In addition to this £2.0m has been added to the capital programme for direct investment in property. Officers are working to an indicative target of 7.00% per annum.

5.5. Digital Transformation

The early phases of this programme are progressing well and whilst it is not anticipated that the full year effect of the £450,000 savings target for 2015/16 will be met this year, more detailed proposals are being formulated to deliver significant savings over the medium term.

5.6. Social Care

Excluding expenditure on education via the Dedicated Schools Grant, social care is the largest component of the revenue budget and between them adult social care and children's care account for almost £120 million per annum. Furthermore the number of children coming into the system continues to rise and so a whole suite of proposals are being formulated to address the three main cost drivers – increasing demand for services from children and young adults requiring care, the high unit cost of some care packages and the impact on caseloads and staffing requirements of the overall number of children in the care system.

5.7. Commercial charging

Opportunities are being explored to reduce the extent to which the local authority subsidises discretionary spend. Whilst the Council's leisure, arts and cultural services generate significant revenues, both to the local authority and the wider economy, they do not fully recover direct costs. Officers have been tasked with identifying options to address this subsidisation, through more commercial charging, other sources of funding or alternative delivery models. The other significant area under review includes services trading with schools and academies.

5.8. Alternative delivery models

Medway Council has already been operating a number of different delivery models, including the Norse partnership and the building control partnership. Others are

being implemented, such as the CCTV trading company and the Internal Audit shared service arrangement with Gravesham, but other opportunities are being considered, primarily shared service arrangements, but also newer more innovative models such as social impact bonds.

5.9. Category Management

The category management team continues to work closely with services to ensure that contract renewals, new contracts and new delivery models achieve maximum efficiency, both in terms of revenue and capital expenditure.

5.10. Management restructure

At its meeting on 27 October Cabinet agreed to commence consultation on the restructuring of senior management, which would result in a leaner corporate centre whilst also creating an Assistant Director post responsible for all of the services and functions required to drive the transformation agenda. These proposals would save almost £300,000 on their own, but there would clearly be scope for further efficiencies from a more detailed review of the roles and structures beneath.

5.11. Many of the workstreams would be expected to deliver savings over the medium term, but officers are well aware of the need to deliver a significant proportion of the overall savings target (£42.0 million over four years) during 2016/17 and in all of the proposals under consideration, there will be a requirement for 'quick wins'.

6. The Capital Programme

6.1. At this stage there is nothing new to report in relation to the capital programme, which reflects planned capital expenditure over the medium term (2015/16 to 2018/19) and incorporates everything we currently know about capital grant allocations for the next three years. The following table reiterates the current programme as reported in the Capital Monitoring report for quarter 2.

Capital Programme	C & A	RCC	HRA	BSD	Member Priorities	Public Health	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Budget profile							
2015/16	20,484	25,006	7,619	2,052	402	296	55,859
2016/17	9,128	13,989	8,067	599	0	0	31,783
2017/18	2,922	18,154	4,903	241	0	0	26,220
2018/19	2,680	5,785	0	0	0	0	8,465
Total	35,214	62,934	20,589	2,892	402	296	122,327
Funding Source							
Borrowing	0	6,300	0	632	0	0	6,932
Capital Grants	23,002	50,644	0	266	0	0	73,912
Capital Receipts	2,341	3,463	0	1,200	402	0	7,406
RTB Receipts	0	378	0	0	0	0	378
S106 Contributions	7,333	849	0	0	0	0	8,182
Revenue / Reserves	2,538	1,300	20,589	794	0	296	25,517
Total Funding	35,214	62,934	20,589	2,892	402	296	122,327

7. The Housing Revenue Account

- 7.1. Whilst this report focuses on the general fund position, it should be noted that recent government announcements to reduce rent charges by 1% year on year for a four year period will need to be factored into the Housing Revenue Account (HRA) financial strategy. Work has commenced on a review of the impact on the 30 year business plan.

8. Conclusions

- 8.1. These outline budget proposals represent the next step towards developing the 2016/17 revenue budget. The budget to be agreed by Council for 2016/17 and indeed for future years will have to balance to available resources, so there is clearly much work still to do. The deficit over the medium term is too great to rely on a 'salami slicing' approach and the Council's transformation agenda will be fundamental to closing the gap, as will a focus on the largest area of spending and a significant contributor to the size of the deficit – social care services for both children and adults. Work will continue to be undertaken during the period leading up to the Cabinet meeting on 9 February 2016. Overview and Scrutiny committees have a vital role assisting in this process, both to comment on the approaches outlined in this report and to propose new ones.
- 8.2. The resources available to the Council are still subject to some uncertainty and we will not be fully aware of the scale of the challenge facing it until after the Autumn Statement on 25 November. It is however clear that the Council will need to seek to maximise the council tax base and exploit opportunities for business rate growth over the medium and longer term.

9. Risk Management

- 9.1. The risk of failing to effectively manage the resource planning and allocation process to achieve priorities and maintain effective service delivery is great. The uncertainty in relation to the outcome of the spending review only serves to increase this risk.

10. Diversity Impact Assessment

- 10.1. 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. Diversity Impact Assessments will be undertaken and reported to Members when the revenue budget proposals are presented to Cabinet in February 2016.

11. Financial and legal implications

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

12. Recommendations

- 12.1. Cabinet is recommended to:
- 12.2. Instruct officers to continue to work with Portfolio Holders in formulating robust proposals to balance the budget for 2016/17 and beyond;
- 12.3. Refer the provisional draft budget to overview and scrutiny committees as work in progress inviting them to offer comments on the proposals outlined.

13. Suggested reasons for decision

- 13.1. 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 consideration by Cabinet on 9 February 2016 and formal council tax setting by Council on 25 February 2016.
- 13.2. The timetable for consideration by overview and scrutiny is as follows:

Business Support	3 December 2015
Children and Young People	8 December 2015
Regeneration, Community and Culture	10 December 2015
Regeneration, Community and Culture	28 January 2016
Business Support	2 February 2016
Cabinet	9 February 2016
Council	25 February 2016

Background papers:

Medium Term Financial Plan 2016/20 – Cabinet 29 September 2015:
<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=28440>

Report author: Phil Watts, Chief Finance Officer
Tel: 01634 332220, E-mail: phil.watts@medway.gov.uk

Appendices:

Appendix 1 Summary of the MTFP Deficit for the Period 2016/17 to 2019/20
Appendices 2a-d Directorate 2016/17 Draft Budget Requirements

Summary of the MTFP Deficit for the Period 2016/17 to 2019/20

Appendix 1

Directorate	2015/16 Quarter 1 Budget	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
Children and Adult Services					
- DSG and School Specific Spend	111,467	112,496	103,535	94,573	94,573
- Public Health	1,660	1,660	1,660	1,660	1,660
- General Fund Services	108,810	114,391	115,275	116,117	116,959
Regeneration, Community and Culture (RCC)					
- General Fund Services	46,494	48,455	50,988	52,394	54,121
- Public Health	1,130	1,130	1,130	1,130	1,130
Business Support (BS):					
- General Fund Services	21,840	22,967	23,127	23,051	23,151
- DSG	1,498	1,498	1,498	1,498	1,498
- Public Health	678	678	678	678	678
Public Health	13,334	14,658	14,658	14,658	14,658
Interest & Financing	13,243	13,243	13,243	13,243	13,243
Levies	1,039	1,039	1,039	1,039	1,039
'BFL' / Digital Transform	(450)	(450)	(450)	(450)	(450)
NORSE	(263)	(263)	(263)	(263)	(263)
Category Management Contract Savings	(1,800)	(1,800)	(1,800)	(1,800)	(1,800)
Pay Award	800	1,600	2,400	3,200	6,400
Budget Requirement	319,481	331,301	326,718	320,728	326,596
Council Tax	(95,250)	(99,650)	(100,079)	(102,585)	(105,154)
Revenue Support Grant	(38,784)	(29,272)	(21,070)	(13,441)	(7,441)
Business Rate Retention	(45,866)	(46,325)	(46,788)	(47,256)	(47,728)
New Homes Bonus	(6,242)	(7,508)	(7,162)	(7,116)	(7,734)
DSG	(106,745)	(106,602)	(96,733)	(86,863)	(86,863)
Other School Specific Grants	(6,220)	(7,391)	(8,299)	(9,207)	(9,207)
Education Services Grant	(2,236)	(2,345)	(2,277)	(2,209)	(2,209)
Other Specific Grants	(186)	(186)	(186)	(186)	(186)
Public Health Grant	(16,802)	(18,126)	(18,126)	(18,126)	(18,126)
Use of Reserves	(1,150)	(50)	(50)	(50)	(49)
Estimated Available Funding	(319,481)	(317,453)	(300,771)	(287,040)	(284,698)
Budget Gap - General Fund	0	13,848	25,947	33,688	41,899

CHILDREN AND ADULTS DIRECTORATE

Appendix 2a

Service Headings	2016/17 Draft Budget Requirement			
	Adjusted Base £'000	MTFP Pressures £'000	MTFP Savings £'000	Draft Budget Requirement £'000
Looked After Children & Proceedings	23,481	1,830	(800)	24,511
Children's Advice & Duty Service	2,444	0	0	2,444
Child in Need & Child Protection	3,388	0	0	3,388
Children's Care Management	1,278	0	0	1,278
Early Help	986	0	0	986
Total For Children's Care	31,577	1,830	(800)	32,607
Deputy Director	(2,757)	430	0	(2,327)
Head of Adult Social Care & Social Work	19,972	(427)	0	19,545
Social Care Business Manager	3,123	0	0	3,123
Disability Services	36,461	4,620	(1,500)	39,581
Mental Health	4,486	536	(100)	4,922
Total for Deputy Director	61,285	5,159	(1,600)	64,844
Directorate Management Team	566	0	0	566
Total for Directorate Management Team	566	0	0	566
Commissioning Management Team	221	4	0	225
Business Support and Commissioning	2,566	23	0	2,589
School Organisation and Student Services	1,648	93	0	1,741
School Services, Quality and Commissioning	237	3	0	240
Total for Partnership Commissioning	4,673	123	0	4,796
Early Years	19,642	17	(250)	19,409
Youth Service	2,466	22	(350)	2,137
Inclusion Management Team	416	5	0	421
School Challenge and Improvement	955	10	0	965
Health and Inclusion	576	6	0	583
Psychology & SEN	31,782	1,000	0	32,782
Total for Inclusion and School Improvement	55,838	1,060	(600)	56,298
Finance Provisions	493	101	0	594
HR Provisions	311	310	0	621
School Grants	67,193	1,028	0	68,221
Total for School Retained Funding and Grants	67,997	1,439	0	69,436
Total Education Related Budgets	129,074	2,622	(600)	131,096
Total C&A Directorate	221,936	9,611	(3,000)	228,547

REGENERATION, COMMUNITY AND CULTURE DIRECTORATE

Appendix 2b

General Fund Activities	2016/17 Draft Budget Requirement			
	Adjusted Base £'000	MTFP Pressures £'000	MTFP Savings £'000	Draft Budget Requirement £'000
Front Line Support	158	0	0	158
Highways	5,818	158	(500)	5,476
Parking Services	(3,302)	0	0	(3,302)
Waste Services	18,065	2,136	0	20,201
Safer Communities	2,876	0	0	2,876
Integrated Transport	7,039	0	0	7,039
CCTV/Lifeline	(1)	0	0	(1)
Performance & Intelligence Hub	99	0	0	99
	0	0	0	
Total for Front Line Services	30,752	2,294	(500)	32,546
Housing & Regeneration Support	(40)	0	0	(40)
Economic Development	301	0	0	301
Planning Policy & Design	520	0	0	520
Development Management	30	0	0	30
Social Regeneration & Europe	314	0	0	314
Building Control	152	0	0	152
Housing	4,586	244	0	4,830
Physical Regeneration	104	0	0	104
		0	0	
Total for Development and Transport	5,967	244	0	6,211
L&C Management Group	(33)	0	0	(33)
Leisure & Sports	981	140	0	1,121
Tourism	507	0	0	507
Arts, Theatres & Events	1,096	0	(145)	951
Heritage	765	0	0	765
Greenspaces and Country Parks	4,034	0	(200)	3,834
Libraries	3,038	0	(200)	2,838
		0	0	
Total for Leisure and Culture	10,388	140	(545)	9,983
Regeneration, Community & Culture Directorate Support	517	0	0	517
Abolition of Contracted Out NIC	0	328	0	328
Total RCC Directorate	47,624	3,006	(1,045)	49,585

	2016/17 Draft Budget Requirement			
	Adjusted Base £'000	MTFP Pressures £000s	MTFP Savings £000s	Draft Budget Requirement £000s
CENTRAL FINANCE				
Internal Audit and Counter Fraud	496		(155)	341
Rural Liaison Grants	75			75
Corporate Management	3,472			3,472
Finance Strategy	826			826
Revenues and Benefits	512	315		827
Finance Operations	987			987
Vacancy savings	(110)			(110)
Central Finance Total	6,259	315	(155)	6,419
COMMUNICATIONS & IMPROVEMENT				
Communications	509			509
Performance and Intelligence	407			407
Business and Admin Support	1,940			1,940
Vacancy Savings	(102)			(102)
Communications and Improvement Total	2,756	0	0	2,756
DEMOCRACY & GOVERNANCE				
Democratic Services Manager	589			589
Head of Customer Services	4,196			4,196
Members and Elections	1,366		(55)	1,311
Registration and Bereavement	(543)			(543)
Vacancy Savings	(154)			(154)
Democracy and Governance Total	5,453	0	(55)	5,398
LEGAL CONTRACTS & PROPERTY				
Category Management	615			615
Legal Services	1,175			1,175
Medway NORSE	5,614	519		6,133
Property and Capital Projects	452			452
Vacancy savings	(91)			(91)
Legal Contracts and Property Total	7,765	519	0	8,284
ORGANISATIONAL SERVICES				
Adult Education	(818)			(818)
ICT Manager	3,093	255	(40)	3,308
Personnel Services	708			708
Vacancy Savings	(111)			(111)
Organisational Services Total	2,871	255	(40)	3,086
UNDISTRIBUTED BUDGET				
Interest and Financing	13,244			13,244
Levies	1,039			1,039
Medway NORSE	(263)			(263)
BFL Savings	(450)			(450)
Category Management Savings	(1,800)			(1,800)
Pay and grade		800		800
Cross directorate - Abolition of Contracted Out NIC	0			0
Undistributed Budgets Total	11,770	800	0	12,570
Total BSD Directorate	36,873	1,889	(250)	38,512

	2016/17 Draft Budget Requirement			
	Adjusted Base £'000	MTFP Pressures £'000	MTFP Savings £'000	Draft Budget Requirement £'000
PH Management	1,257			1,257
PH Commissioning	6,306			6,306
Business Development	576			576
DAAT	2,575			2,575
Health Improvement Programmes	865			865
Chlamydia Screening	0			0
Stop Smoking Services	576			576
Supporting Healthy Weight	1,179			1,179
Health Visitors (0-5 years)	0	2,522		2,522
Abolition of contracted out NIC		50		50
Reduction of Grant	0	0	(1,248)	(1,248)
Total Public Health Directorate	13,334	2,572	(1,248)	14,658