

# **CHILDREN AND YOUNG PEOPLE OVERVIEW AND SCRUTINY COMMITTEE**

**8 DECEMBER 2015**

## **DRAFT CAPITAL AND REVENUE BUDGET 2016/17**

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### **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 children and adults 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
<b>Budget profile</b>							
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
<b>Total</b>	<b>35,214</b>	<b>62,934</b>	<b>20,589</b>	<b>2,892</b>	<b>402</b>	<b>296</b>	<b>122,327</b>
<b>Funding Source</b>							
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
<b>Total Funding</b>	<b>35,214</b>	<b>62,934</b>	<b>20,589</b>	<b>2,892</b>	<b>402</b>	<b>296</b>	<b>122,327</b>

## **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. The Schools and Academies Funding Formula**

- 8.1 Funding for Medway's schools and academies is provided by central government in the form of the Dedicated Schools Grant (DSG). The DSG is ring-fenced and is split into 3 notional blocks of funding; the Schools Block, High Needs Block and Early Years Block.
- 8.2 Each year the government issues guidance to ensure each local authority calculates its school funding using the same methodology - the schools and academies funding formula. Please see appendix 3 for Medway's funding formula. All mainstream schools and academies must be consulted about any changes to the funding formula prior to approval by the Schools Forum.
- 8.3 Cabinet approved a report on 27 October covering the provisional funding formula for mainstream schools and academies 2016/17. The Education Funding Agency have been informed of this decision.

## **9. Conclusions**

- 9.1. 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.
- 9.2. 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.

## **10. Risk Management**

- 10.1. 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.

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

## **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 2016/17, proposed by Cabinet on 24 November 2015, 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;
- Forward any comments to Business Support Overview and Scrutiny Committee for consideration at its meeting on 2 February 2015.

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### **Background papers:**

Medium Term Financial Plan 2016/20 – Cabinet 29 September 2015:

<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=28440>

Provisional Funding Formula for Mainstream Schools and Academies – Cabinet 27

October 2015: <http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=28736>

### **Appendices:**

Appendix 1 Summary of the MTFP Deficit for the Period 2016/17 to 2019/20

Appendix 2 Children and Adults Directorate 2016/17 Draft Budget Requirements

Appendix 3 The Schools and Academies Funding Formula 2016/17

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
<b>Budget Requirement</b>	<b>319,481</b>	<b>331,301</b>	<b>326,718</b>	<b>320,728</b>	<b>326,596</b>
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)
<b>Estimated Available Funding</b>	<b>(319,481)</b>	<b>(317,453)</b>	<b>(300,771)</b>	<b>(287,040)</b>	<b>(284,698)</b>
<b>Budget Gap - General Fund</b>	<b>0</b>	<b>13,848</b>	<b>25,947</b>	<b>33,688</b>	<b>41,899</b>

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## CHILDREN AND ADULTS DIRECTORATE

## Appendix 2

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
<b>Total For Children's Care</b>	<b>31,577</b>	<b>1,830</b>	<b>(800)</b>	<b>32,607</b>
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
<b>Total for Deputy Director</b>	<b>61,285</b>	<b>5,159</b>	<b>(1,600)</b>	<b>64,844</b>
Directorate Management Team	566	0	0	566
<b>Total for Directorate Management Team</b>	<b>566</b>	<b>0</b>	<b>0</b>	<b>566</b>
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
<b>Total for Partnership Commissioning</b>	<b>4,673</b>	<b>123</b>	<b>0</b>	<b>4,796</b>
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
<b>Total for Inclusion and School Improvement</b>	<b>55,838</b>	<b>1,060</b>	<b>(600)</b>	<b>56,298</b>
Finance Provisions	493	101	0	594
HR Provisions	311	310	0	621
School Grants	67,193	1,028	0	68,221
<b>Total for School Retained Funding and Grants</b>	<b>67,997</b>	<b>1,439</b>	<b>0</b>	<b>69,436</b>
<b>Total Education Related Budgets</b>	<b>129,074</b>	<b>2,622</b>	<b>(600)</b>	<b>131,096</b>
<b>Total C&amp;A Directorate</b>	<b>221,936</b>	<b>9,611</b>	<b>(3,000)</b>	<b>228,547</b>

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## The Schools and Academies Funding Formula.

1 Each year the government issues guidance to ensure each local authority calculates its school funding using the same methodology but it's a local decision on which of the available 13 funding factors a local authority chooses to introduce into its funding formula.

2 There are 11 funding factors included in Medway Schools and Academies Funding Formula and they are:

**a) Basic Entitlement**

A compulsory factor which assigns funding on a per pupil basis for each school or academy based on the October census multiplied by a unit funding rate. There are different funding rates for key stage 3 and 4 as well as primary age pupils.

**b) Deprivation**

A compulsory factor which assigns funding to pupils from deprived areas. LAs can either use the free schools meals indicator and/or the income deprivation affecting children Index (IDACI). Medway uses both and different funding rates are attached to each level of the IDACI system with different funding rates for primary and secondary.

**c) Prior Attainment**

This is an optional factor which acts as a proxy indicator for low level, high incidence special educational needs. Funding is applied for primary pupils not achieving the expected level of development within the early years foundation stage and for secondary pupils not reaching L4 at KS2 in either English or maths.

**d) Looked After Children**

This is an optional factor where a school or academy is paid a unit cost for any child who has been a looked after child for one day or more as recorded on the LA's SSDA903 return as at 31 March 2015. This data is mapped to the schools and academies using the January school census data.

**e) English as Another Language**

This is an optional factor where EAL pupils may attract funding for up to 3 years after they enter the school system based on census data.

**f) Pupil Mobility**

This is an optional factor which measures the pupils who entered a school during the last 3 years who did not start in August, September or January of a reception class. There is a 10% minimum threshold; therefore, if a school/academy has a 12% mobility factor, 2% (12% - 10%) of the school/academy pupils will attract mobility funding.

**g) Sparsity**

This is an optional factor. In order to qualify for this funding the school or academy must meet two criteria set by the government; first they are

located in an area where pupils would have to travel significant distance to the nearest school; and second, they are a small school.

Primary schools/academies must have a sparsity distance greater than 2 miles and an average year group of less than 21.4

Secondary school/academies must have a sparsity distance greater than 3 miles and an average year group of less than 120.

All through school/academies must have a sparsity distance greater than 2 miles and an average year group of less than 62.5.

The maximum funding is £100,000 tapered (pro-rata) to the class size and distance.

#### **h) Lump Sum**

This is an optional factor where each school will receive a maximum lump sum up to £175,000. The lump sum may be different for primary and secondary schools/academies but Medway has the same lump sum for both primary and secondary schools/academies.

#### **i) Split Sites**

This is an optional factor which is designed to help support schools which are located on separate sites. The school sites must be separated by a road. Schools sharing facilities, federated schools and schools with remote sixth forms are NOT eligible for split site funding.

#### **j) Rates**

This is an optional factor which funds a school or academy based on their estimated rates bills for the coming year. Medway also adjusts the rates funding to account for any over or under funding of rates from the previous financial year.

#### **k) Exceptional Premises Factors**

This is an optional factor where LAs can apply to the EFA to use exceptional factors relating to premises. These factors must be more than 1% of a schools budget and apply to fewer than 5% of Medway schools and academies. There are two EFA approved exceptional factors for Medway. Firstly a listed building factor and secondly an Amalgamated Schools/Academies factor.

- 3 As well as the 11 factors above the funding formula must also distribute at least 80% of the funding through pupil led factors – i.e. Sections A- F above.
- 4 The funding formula must also ensure the government's pre-16 minimum funding guarantee (MFG) promise, where no mainstream school or academy will lose more than 1.5% of their funding on a per pupil basis is kept. In order to fund this promise the Schools Forum has agreed to cap school gains on a per pupil basis at 1.5%. The Schools Forum reviewed this cap in October 2015 and agreed for the cap to remain in place for 2016-17.