

# **BUSINESS SUPPORT OVERVIEW & SCRUTINY COMMITTEE**

**2 FEBRUARY 2016**

## **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 following the draft budget settlement on 17 December 2015.

### **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, 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.

### **5. The Settlement received on 17 December 2015**

- 5.1 In headline terms the overall settlement figure, announced as the 'Settlement Funding Assessment' (SFA), is some £11.733 million less than the adjusted figure for 2015/16. This represents a cut of 14.0% compared to the national figure of 12.5%, reflecting Medway's higher than average council tax base relative to SFA. The SFA comprises the adjusted Revenue Support Grant, which again rolls in a number of previously separate grant streams, together with Government's assumptions regarding the local share of business rates.
- 5.2 The important component of the SFA is the Revenue Support Grant (RSG), which is provisionally set to decrease by £12.097 million to £28.031 million, a 30.1% cut. This is £1.241 million less than the estimate used within the MTFP reported to Cabinet in September and the draft budget reported in November.
- 5.3 The Spending Review 2015 announced that local authorities would retain 100% of business rates by the end of the current parliament, in exchange for the loss of Revenue Support Grant, and whilst at face value this could be viewed positively, offering the Council further opportunity to benefit directly from business growth, it would also increase risk. The baseline upon which top-ups and tariffs are calculated will almost certainly be reset and at this stage there is very little detail available regarding which other grants would cease and what additional responsibilities local authorities might be required to take on.

- 5.4 The following table demonstrates the impact of the settlement on the broad assumptions within the MTFP.

**Table 1: Potential Impact of Settlement**

	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000
<b>Medium Term Financial Plan Assumptions</b>				
Budget Requirement	331,301.5	326,717.7	320,728.0	326,596.4
Available Funding	(317,453.5)	(300,771.2)	(287,039.9)	(284,697.6)
Budget 'Gap'	13,848.0	25,946.5	33,688.1	41,898.8
<b>Potential Impact of Provisional Settlement</b>				
Council Tax: 'Social Care Precept'	(1,915.0)	(3,830.0)	(5,745.0)	(7,660.0)
Reduction in RSG	1,241.0	2,566.0	1,135.0	1,388.0
Loss of Care Act Implementation Grant	1,156.0	1,156.0	1,156.0	1,156.0
Reduction in New Homes Bonus	0.0	1,270.9	3,028.0	2,525.8
Reduction in ESG	221.0	221.0	221.0	221.0
Reductions in Public Health Grant	402.2	447.0	463.7	463.3
Apprenticeship Levy	0.0	300.0	300.0	300.0
<b>Revised Budget 'Gap'</b>	<b>14,953.2</b>	<b>28,077.4</b>	<b>34,246.8</b>	<b>40,292.8</b>

- 5.5 In setting the 2016/17 revenue budget consideration must be given to addressing this wider gap.

## 6. Balancing the 2016/17 budget

### 6.1. 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.

### 6.2. Council Tax

The Council Tax referendum limit applicable to local authorities and fire authorities remains at 2.0%, however, as a new measure, local authorities with social care responsibilities will be able to increase council tax by up to 4.0%, providing that the additional 2.0% is ring-fenced for social care.

- 6.2.1 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.

### 6.3. 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.

6.3.1 The income from business rates, and the subsequent Council share as forecast in the draft budget, will not be affected by the measures announced in the 2015 Autumn Statement as these are all compensated for by section 31 grant and are a continuation of current arrangements. These are:

- The current £1,500 discount for all retail, pubs, cafes (excluding banks and betting establishments) with rateable values below £50,000 will end on 31 March 2016; and
- The doubling of Small Business Rate Relief will continue for a further year.

### 6.4. 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.

### 6.5. 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.

### 6.6. 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.

### 6.7. 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.

### 6.8. 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.

#### 6.9. 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.

#### 6.10. 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.

6.11. 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'.

## 7. The Capital Programme

7.1. 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>

## **8. The Housing Revenue Account**

- 8.1. 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.

## **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. 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 have been outlined in this report. 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 as the RSG reduces and is eventually abolished.

## **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 significant given the 'gap' identified within the draft revenue budget. The uncertainty in relation to the outcome of the final 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:

- 1) 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;
- 2) Consider the opportunities and implications of any other efficiencies or revenue generating measures for this committee;
- 3) Incorporate any feedback to Cabinet

### Background papers:

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

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

Draft capital and revenue budget 2016/17 – Cabinet 24 November 2015

<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=28943>

Draft capital and revenue budget 2016/17 – Business Support Overview & Scrutiny Committee 3 December 2015

<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=29046>

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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