

CABINET

22 NOVEMBER 2016

DRAFT CAPITAL AND REVENUE BUDGET 2017/2018

Portfolio Holder: Councillor Alan Jarrett, Leader

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 2017/18. 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 2017.

The draft budget is based on the principles contained in the Medium Term Financial Plan (MTFP) 2016/2020 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.
- 1.2. The Cabinet is asked to accept this as urgent to ensure that the initial budget proposals can be referred to Overview and Scrutiny in accordance with the process for developing the budget, as set out in the Budget and Policy Framework Rules in the Constitution.

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 23 February 2017. The adoption of the budget and the

setting of council tax are matters reserved for Council. The statutory deadline for agreeing the council tax for 2017/18 is 11 March 2017.

3. Budget Monitoring 2016/17

- 3.1 The quarter 2 revenue monitoring report, considered elsewhere on this agenda, forecasts a net overspending on services of some £1.4 million after management action. This is primarily a consequence of the significant pressures facing Children's and Adult Social Services and these have largely been reflected in the Medium Term Financial Plan 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. More work will be needed 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 the Council's key priorities.
- 4.2 The MTFP considered by Cabinet on 27 September 2016 presented a high level summary of the budget requirement for the next three years and identified a £11.7 million deficit in 2016/17, increasing to £14.6 million by 2019/20, which will need to be addressed through the budget setting process. The MTFP assumptions insofar as they impact on 2017/18 are reflected in Appendices 1-4.
- 4.3 The timing of this draft revenue budget coming to Cabinet is unfortunate, as once again the meeting falls just before the Chancellor announces his Autumn Statement on 23 November 2016. The Council has requested a four year settlement, however at the time of writing the DCLG have not confirmed the offer. At this stage of the budget process the funding assumptions for 2017/18 remain as outlined in the MTFP.
- 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 and some of the early work is reflected in Appendices 1-4. This work is of course on going and the full impact of these and other proposals, together with the diversity impact assessments, will be included with the budget recommendations to be considered by Cabinet on 7 February 2017. The broad measures being considered to close the remaining gap are outlined in this report.

5. Resource Assumptions 2017/18

- 5.1. Revenue Support Grant (RSG)
The MTFP reflected the indicative reductions in RSG announced as part of the 2016/17 settlement, suggesting that the grant would have reduced from an

adjusted 2013/14 baseline of £63.3 million to around £6.1 million by 2019/20 (over 90%). This draft budget assumes an RSG of £18.8 million in 2017/18.

5.2. Business Rates

Local government will continue to retain 50% of all business rates collected, until the new 100% business rates retention scheme is introduced by the end of this Parliament, however the Government is still consulting on how the new business rates system will operate from 2020. The uncertainty has been exacerbated by the 2017 rates revaluation and whilst we know what this means for Medway in terms of total rateable value, this draft budget assumes that the baseline will be reset and the top-up grant adjusted to ensure that the Council is neither favourably or adversely affected.

5.3. Council Tax

The draft budget assumes a 1.994% increase in 2017/18 plus a further 2.0% in respect of the social care precept. 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. In spite of the changes to CTRS agreed last year, the overall collection rate has broadly been maintained and based upon the projected number of completions provided by the Planning division, the budget assumes a 0.7% increase in the tax base.

5.4. Education Related Grant

The MTFP reported the Education Funding Agency's intention to roll Education Services Grant, which notionally funds a whole range of schools related activity, into the Dedicated Schools Grant. This in itself would not represent a new pressure, as the ESG and DSG are both linked to pupil numbers and would be similarly impacted by academy conversions, however in consulting on proposals for the early years block of the DSG, the Government has indicated that it will require 93% of this funding to be passed to providers, thus limiting the centrally retained element to 7% of the grant. If the same principle were to be applied to both the early years and high needs block it would have significant implications on the Council's budget.

5.5. The Government has subsequently announced that the transfer of ESG into the DSG will be phased over two years, however the impact of all this on the Council's 2017/18 revenue budget is still significant. A summary of the potential impact is provided in Table 1.

Table 1: Summary of the shortfall in funding for centrally retained spend

	Education Services Grant Budget £m	Dedicated Schools Grant			Total School Funding £m
		School's Block Budget £m	High Needs Budget £m	Early Years Budget £m	
2016/17 Centrally Retained Budget	2.124	0.482	3.055	2.414	8.075
Maximum (7%) central spend against the DSG	0.000	0.482	1.784	1.071	3.337
ESG Grant allocation for 2017-18	1.370	0.000	0.000	0.000	1.370
2017/18 Available Centrally Retained Funding	1.370	0.482	1.784	1.071	4.707
2017/18 Shortfall	(0.754)	0.000	(1.271)	(1.343)	(3.368)
2018-19 Maximum (5%) central spend against the DSG	0.000	0.482	1.274	0.765	2.521
ESG Grant allocation for 2018-19	0.000	0.000	0.000	0.000	0.000
2018/19 Available Centrally Retained Funding	0.000	0.482	1.274	0.765	2.521
Total 2017-18 and 2018-19 Shortfall	(2.124)	0.000	(1.781)	(1.649)	(5.554)

6. Balancing the 2017/18 Revenue Budget

- 6.1. Work with Cabinet Members as part of the budget setting process has already resulted in a series of proposals being taken forward and these are reflected in the directorate summaries at Appendices 1-4 and Table 2 below.
- 6.2. Children and Adult Services
The draft budget requirement at Appendix 1 reflects the likely impact of the Government's plans to cap centrally retained expenditure within the DSG to 7%. This in itself does not reduce the overall funding available, but would result in £2.6 million of centrally retained expenditure becoming a call on the general fund, if not addressed through the budget process.
- 6.3. Since the MTFP was reported to Cabinet, the Children and Adult Services directorate management team has brought forward around £4.5 million of savings proposals. These have been discussed with portfolio holders, and represent a combination of the full year effects of management action taken during this year and new proposals, including those emanating from the diagnostic work commissioned during the last financial year. They are included in the directorate summary at Appendix 1.
- 6.4. Business Support Department
The summary at Appendix 3 reflects the initial proposals arising from work with Portfolio Holders and includes the impact of minor restructuring across a number of teams, opportunities to make more effective use of operational property and further sharing of services with other local authority partners.

Table 2: Summary of Draft Budget Requirement and 'Gap' for 2017/18

Directorate	2016/17 Adjusted Base	2017/18 MTFP Assumptions	Further Proposals to date	Draft 2017/18 Budget
	£000's	£000's	£000's	£000's
Children and Adult Services	216,254.5	175,022.7	(1,858.8)	173,164.0
Regeneration, Culture, Environment and Transformation (RCET)	55,225.4	56,169.5	0.0	56,169.5
Business Support (BSD):	15,974.7	16,028.7	(391.0)	15,637.7
Public Health	14,763.4	14,316.6	(290.0)	14,026.6
Interest & Financing	9,617.7	9,817.7	0.0	9,817.7
Levies	1,038.5	1,038.5	0.0	1,038.5
Transformation Savings	(388.0)	(1,435.0)	0.0	(1,435.0)
NORSE Rebate	(263.0)	(263.0)	0.0	(263.0)
Pay Award / Apprenticeship Levy	0.0	726.0	0.0	726.0
Budget Requirement	312,223.2	271,421.8	(2,539.8)	268,882.0
Council Tax	(102,798.6)	(105,542.6)	0.0	(105,542.6)
Revenue Support Grant	(28,373.8)	(18,847.8)	0.0	(18,847.8)
Business Rate Retention	(43,035.0)	(44,595.3)	0.0	(44,595.3)
New Homes Bonus	(7,530.5)	(7,507.5)	0.0	(7,507.5)
DSG	(101,413.2)	(63,484.0)	0.0	(63,484.0)
Other School Specific Grants	(5,629.8)	(2,035.0)	0.0	(2,035.0)
Education Services Grant	(2,123.7)	0.0	(1,370.0)	(1,370.0)
Other Specific Grants	(186.0)	0.0	0.0	0.0
Public Health Grant	(18,118.0)	(17,671.0)	0.0	(17,671.0)
Use of Reserves	(3,014.5)	(50.0)	0.0	(50.0)
Estimated Available Funding	(312,223.2)	(259,733.2)	(1,370.0)	(261,103.2)
Budget Gap - General Fund	0.0	11,688.6	(3,909.8)	7,778.8

6.5. Other proposals and business cases, across all four directorates, are still being worked up and refined, however the broad areas being considered are outlined below:

6.6. Interest and Financing

The Cabinet have instructed officers to consider alternative investment opportunities and the potential to use headroom within the capital financing requirement to invest in housing and infrastructure, whilst yielding revenue returns to the Council.

6.7. Transformation Programme

The Council's transformation programme is already reflected within the MTFP assumptions with total savings of £2.0 million planned by the end of 2017/18. Good progress is being made in terms of online payments and end to end processes are being looked at across a number of services, with a view to greater automation and digitalisation. However, the programme is focused as much on cultural change as technological innovation.

6.8. Alternative Delivery Models

The administration is seeking to build on the success of existing delivery models, such as the Norse joint venture, the Medway Commercial Group and the Council's various shared service arrangements. A number of business cases are being prepared in relation to other service areas being delivered through these arrangements.

6.9. Property Rationalisation

Rationalisation of the Council's operational property portfolio remains a key strand of the Council's efficiency strategy and further opportunities are under consideration.

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 (2016/17 to 2019/20) and incorporates everything we currently know about capital grant allocations for the next three years. The following table summarises the current programme as reported in the Capital Monitoring report for quarter 2.

Table 3: Summary of Current Capital Programme

Funding Source	C&A £000s	RCET £000s	HRA £000s	BSD £000s	PH £000s	Member Priorities £000s	Total Programme £000s
Borrowing	0	12,237	1,323	298	0	0	13,858
Capital Grants	18,892	41,126	36	903	0	0	60,957
Capital Receipts	0	2,589	1,002	0	301	0	3,892
RTB Receipts	0	378	0	0	0	0	378
S106 Contributions	11,220	2,546	0	0	0	0	13,766
Revenue / Reserves	2,815	461	836	13,508	0	0	17,620
TOTAL	32,927	59,338	3,197	14,709	301	0	110,471

8. Housing Revenue Account

8.1. Whilst this report focuses on the draft general fund budget, it should be noted that the HRA is currently facing a number of unprecedented financial challenges and uncertainty. Members will be aware that stock retained Councils are required to reduce their rent by 1% for the next four years. The loss of income to the HRA amounts to £5.4 million over four years and approximately £26.0 million over the 30 year business plan period.

8.2. Additionally the Government has considered proposals to introduce a higher rent charging formula for tenants (pay to stay) and also for stock retained Councils to be required to sell off higher values assets as they become vacant, the alternatively being that the Council pay an equivalent sum via a subsidy payment from its HRA. Officers have recently been advised that both of these new initiatives are to be delayed by the Government until April 2018. Until confirmation is received from DCLG, the HRA budget and business plan will be based on the previous assumptions.

9. Conclusions

- 9.1. These outline budget proposals represent a 'work in progress' towards developing the 2017/18 revenue budget. The budget to be agreed by Council for 2017/18 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 going to require a radical rethink of the way in which services are delivered 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 7 February 2017. 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 23 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. This is reflected as the principal risk in our Corporate Risk Register.

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. It is recommended that Cabinet instruct officers to continue to work with Portfolio Holders in formulating robust proposals to balance the budget for 2017/18 and beyond.
- 12.2. Cabinet are requested to refer the draft capital and revenue budgets 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 7 February 2017 and formal council tax setting by Council on 23 February 2017.

13.2. The timetable for consideration by overview and scrutiny is as follows:

Business Support	1 December 2016
Children and Young People	6 December 2016
Regeneration, Community and Culture	8 December 2016
Health and Adult Social Care	15 December 2016
Business Support	31 January 2017
Cabinet	7 February 2017
Council	23 February 2017

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Appendices

Appendix 1 – Children and Adults Services

Appendix 2 – Regeneration, Culture, Environment and Transformation

Appendix 3 – Business Support

Appendix 4 – Public Health

Background papers:

Medium Term Financial Plan 2016/20 – Cabinet 27 September 2016

<https://democracy.medway.gov.uk/mqconvert2pdf.aspx?id=32868>

CHILDREN AND ADULTS - BASE BUDGET BUILD 2017-2018

General Fund Activities	2016-17 Adjusted Base £'000	Medium Term Financial Plan			2017-18 MTFP Assumptions £'000	2017-18 Further Proposals £'000	2017-18 Draft Budget (Nov 2016) £'000
		Inflation £'000	Other Pressures £'000	Savings £'000			
Looked After Children & Proceedings	25,156	0	1,917	(1,768)	25,304	(518)	24,786
Children in Need and Child Protection	2,394	0	0	0	2,394	0	2,394
Childrens Advice and Duty Service	2,527	0	0	0	2,527	(259)	2,268
Childrens Care Management	1,458	0	0	0	1,458	0	1,458
Early Help	1,088	0	0	0	1,088	(82)	1,006
CAMHS	524	0	0	0	524	0	524
Total Childrens Care	33,147	0	1,917	(1,768)	33,295	(859)	32,436
Deputy Director	(2,332)	0	495	0	(1,837)	(545)	(2,382)
Disability Services	37,128	0	3,931	(2,071)	38,989	(968)	38,021
Head of Adult Social Care & Social Work	18,819	350	(574)	(450)	18,145	(763)	17,382
Mental Health	4,974	0	357	(150)	5,181	(53)	5,128
Social Care Business Manager	3,116	0	(55)	0	3,061	(150)	2,911
Total Deputy Director	61,706	350	4,155	(2,671)	63,539	(2,479)	61,061
Directorate Management Team	564	0	0	0	564	(95)	469
Early Years	17,998	0	0	(1,350)	16,648	0	16,648
Youth Service	1,960	0	0	(1,040)	920	0	920
Inclusion Management Team	315	0	0	0	315	(80)	235
School Challenge and Improvement	900	0	0	0	900	(150)	750
Health and Inclusions	563	0	0	0	563	0	563
Sen and Psychology	28,161	0	700	0	28,861	(665)	28,196
Total School Effectiveness and Inclusion	49,897	0	700	(2,390)	48,207	(895)	47,312
Commissioning Management Team	225	0	0	0	225	0	225
Business Support & Commissioning	2,514	0	0	0	2,514	(145)	2,369
School Organisation & Student Services	1,744	0	0	0	1,744	0	1,744
School Services, Quality and Commissioning	228	0	0	0	228	0	228
Total Partnership Commissioning	4,711	0	0	0	4,711	(145)	4,566
Finance Provisions	1,689	0	0	0	1,689	0	1,689
HR Provisions	618	0	0	0	618	0	618
School Grants	63,922	0	0	(41,524)	22,398	2,614	25,012
Total School Retained Funding and Grants	66,229	0	0	(41,524)	24,705	2,614	27,319
Total for Children and Adults	216,255	350	6,772	(48,353)	175,023	(1,859)	173,164

REGENERATION, CULTURE, ENVIRONMENT & TRANSFORMATION - BASE BUDGET BUILD 2017-2018

General Fund Activities	2016-17 Adjusted Base £'000	Medium Term Financial Plan			2017-18 MTFP Assumptions £'000	2017-18 Further Proposals £'000	2017-18 Draft Budget (Nov 2016) £'000
		Inflation £'000	Other Pressures £'000	Savings £'000			
Front Line Services Support	229	0	0	0	229	0	229
Highways	5,376	0	0	(500)	4,876	0	4,876
Parking Services	(3,604)	0	0	0	(3,604)	0	(3,604)
Waste Services	19,999	0	2,019	0	22,018	0	22,018
Safer Communities	2,760	0	0	0	2,760	0	2,760
Integrated Transport	6,633	0	106	0	6,739	0	6,739
CCTV/Lifeline	190	0	0	(197)	(7)	0	(7)
Registration & Bereavement	(715)	0	0	(24)	(739)	0	(739)
Greenspaces	3,471	140	0	0	3,611	0	3,611
Total for Front Line Services	34,339	140	2,125	(721)	35,883	0	35,883
Leisure & Culture Management	3	0	0	0	3	0	3
Sports, Leisure, Tourism, Heritage	1,879	0	0	(295)	1,584	0	1,584
Festivals, Arts, Theatres & Events	1,100	0	0	(255)	845	0	845
Physical & Cultural Regeneration Support	57	0	0	0	57	0	57
Planning	623	0	0	(15)	608	0	608
Regeneration Delivery	804	0	0	(35)	769	0	769
South Thames Gateway Partnership	145	0	0	0	145	0	145
Strategic Housing	4,722	0	0	0	4,722	0	4,722
Physical Regeneration	(142)	0	0	0	(142)	0	(142)
Total for Physical & Cultural Regeneration	9,191	0	0	(600)	8,591	0	8,591
Communications	435	0	0	0	435	0	435
Head of Transformation	135	0	0	0	135	0	135
ICT Development	3,507	0	0	0	3,507	0	3,507
RCC Performance & Intelligence	100	0	0	0	100	0	100
Corporate Performance & Intelligence	399	0	0	0	399	0	399
Customer Contact, Comm Hubs, Libraries & Adult Education	5,191	0	0	0	5,191	0	5,191
Business Administration	1,540	0	0	0	1,540	0	1,540
Total for Transformation	11,307	0	0	0	11,307	0	11,307
Directorate Support	387	0	0	0	387	0	387
Total for Regeneration, Culture, Environment & Transform	55,224	140	2,125	(1,321)	56,168	0	56,168

BUSINESS SUPPORT - BASE BUDGET BUILD 2017-2018

General Fund Activities	2016-17 Adjusted Base £'000	Medium Term Financial Plan			2017-18 MTFP Assumptions £'000	2017-18 Further Proposals £'000	2017-18 Draft Budget (Nov 2016) £'000
		Inflation £'000	Other Pressures £'000	Savings £'000			
Internal Audit and Counter Fraud	347	0	0	0	347	0	347
Rural Liaison Grants	75	0	0	0	75	0	75
Corporate Management	2,204	0	0	0	2,204	(18)	2,186
Finance Strategy	892	0	0	0	892	(70)	822
Revenues and Benefits	1,823	0	70	(16)	1,877	0	1,877
Finance Operations	887	0	0	0	887	(53)	834
Total for Central Finance	6,228	0	70	(16)	6,282	(141)	6,141
Democratic Services Manager	581	0	0	0	581	0	581
Members & Elections	1,356	0	0	0	1,356	0	1,356
Total Democracy & Governance	1,938	0	0	0	1,938	0	1,938
HR & Organisational Service	729	0	0	(140)	589	0	589
Total for Organisational Services	729	0	0	(140)	589	0	589
Category Management	49	0	0	0	49	0	49
Legal Services	1,253	0	0	0	1,253	(50)	1,203
Medway Norse	5,921	140	0	0	6,061	0	6,061
Property & Capital Projects	(144)	0	0	0	(144)	(200)	(344)
Total Legal, Contracts & Property	7,080	140	0	0	7,220	(250)	6,970
Total for Business Support	15,975	140	70	(156)	16,029	(391)	15,638

PUBLIC HEALTH DIRECTORATE

APPENDIX 4

	Adjusted Base £'000	Medium Term Financial Plan			2017-18 MTFP Assumptions £'000	2017-18 Further Proposals £'000	2017-18 Draft Budget (Nov 2016) £'000
		Inflation £'000	Other Pressures £'000	Savings £'000			
PH Management	1,100				1,100		1,100
PH Commissioning	8,633				8,633		8,633
Business Development	460				460		460
DAAT	2,319				2,319		2,319
Health Improvement Programmes	790				790		790
Chlamydia Screening	0				0		0
Stop Smoking Services	459				459		459
Supporting Healthy Weight	1,004				1,004		1,004
Hypothecated savings	0			(447)	(447)	(290)	(737)
Total Public Health Directorate	14,764	0	0	(447)	14,317	(290)	14,027