

CABINET

26 SEPTEMBER 2017

MEDIUM TERM FINANCIAL STRATEGY 2017-2022

Portfolio Holder: Councillor Alan Jarrett, Leader

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Summary

This report introduces the Council's Medium Term Financial Strategy, which makes forward projections concerning the Council's budget requirement for the next five years and the resources available to deliver its corporate priorities and objectives. Most importantly it articulates the Council's strategy for delivering a balanced budget, year on year, against a backdrop of reductions in support from Central Government. The Medium Term Financial Strategy provides a framework for the more detailed preparation of the 2018/19 revenue and capital budgets.

1. Budget and Policy Framework

- 1.1. The Council's annual budget and council tax setting establishes the Council's budget framework and sets out the funding of services. The Medium Term Financial Strategy (MTFS) identifies the key issues that need to be addressed as part of that budget preparation. The MTFS needs to be viewed in conjunction with the Council Plan for 2017-2022 to integrate budget setting with service planning and ensure that priorities and funding are matched.

2. Background

- 2.1. On 27 September 2016 Cabinet considered the Medium Term Financial Plan. This report presented the impact of anticipated reductions in Government funding over a three year period, as well as identifying a number of significant budget pressures facing the Council. The effect of all of this was to present the Council with a projected shortfall in 2017/18 of £11.7 million, increasing to £14.6 million by 2019/20. This pressure on the Council's finances was exacerbated by Government changes to schools related grant funding, which saw a further transfer of resources away from local authority managed services and directly into schools and academy trusts.
- 2.2. At its meeting on 23 February 2017 the Council agreed a balanced budget for 2017/18, underpinned by some significant savings proposals, including:
 - An adult social care improvement programme worth £2.2 million per annum;
 - A suite of measures in children's care to save over £2.0 million per annum;

- £1.5 million per annum from reconfigured youth services by January 2018;
 - £2.2 million per annum from a review of early years provision;
 - £7.0 million per annum by 2018/19 through digital transformation;
 - Review of parking fees and enforcement practice, generating additional income of around £2.4 million per annum.
- 2.3. 2016/17 saw the Council underspend against the agreed revenue budget, albeit by a modest £217,000. This was achieved in spite of forecasting a £1.8 million overspend at quarter 3. A moratorium on non-essential spend was imposed in August 2016, which contributed to delivering the final position. Having said that, the scale of the positive management action required to achieve this favourable outturn should not be understated and included careful management of vacant posts and some use of reserves.
- 2.4. The challenges facing the Council's finances are further emphasised by the forecast position reported for the first quarter of 2017/18, which reflects continued pressure across all Council services and in spite of significant management action represents a forecast overspend of around £1.9 million.
- 2.5. For many years we have prepared a medium term financial plan to inform our budget setting process for the coming year. In response to the continuing challenges of reductions in funding and increases in costs, we have prepared this Medium Term Financial Strategy, with its aim to enable the Council to deliver a balanced budget, year on year, against a backdrop of reductions in support from Central Government. A strategic approach to planning the Council's finances is vital to ensuring we continue to focus our resources on our key priorities and to enable us to plan to meet the challenges of the future with a sustainable and resilient Medway.

3. Advice and Analysis

- 3.1. The Council's net revenue budget is funded from three principal sources:
- Grant support from central government in the form of Revenue Support Grant and other specific grants, including Public Health Grant and the Dedicated Schools Grant;
 - The Council's share of local business rates (NDR); and
 - The amount raised locally by council tax.
- 3.2. The local government settlement is underpinned by the Core Spending Power calculation, which according to the DCLG measures the core revenue funding available for local authority services. It is not in itself a statement of the actual resources available to the Council over the medium term. It is primarily a mechanism used by Government to illustrate the potential level of resources available to local government, based upon assumptions around each local authority's tax base and its ability to raise funds through local taxation. It should be noted, however, that the assumptions within the Core Spending Power calculation are reflected in the Settlement Funding Assessment and ultimately impact on the Revenue Support Grant.
- 3.3. In December 2015 the Secretary of State, Greg Clarke MP, said: "*For the first time ever, I offer a guaranteed budget to every council which desires one and which can demonstrate efficiency savings, for next year and for every year of this*

Parliament. This represents a four year budget to give certainty and confidence.”
 As Medway Council is in the 97% of all local authorities that opted to accept the Government’s offer of a four year settlement, this headline level of grant funding is guaranteed and is reflected in the Core Spending Power calculations, which underpinned the 2016/17 settlement and which are summarised in Table 1.

- 3.4. It should however be reiterated that the other figures within the Core Spending Power calculation simply represent the Government’s assumptions regarding the Council’s ability to raise funds locally, through business rates and council tax. The assumptions underpinning the Council’s Medium Term Financial Strategy will not necessarily reconcile to those of Central Government.

Table 1: Core Spending Power calculation for the four year period to 2019/20

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant	28.031	18.504	12.306	6.053
NDR Baseline Funding Level	44.125	45.026	46.474	48.127
Settlement Funding Assessment	72.156	63.529	58.781	54.180
Council Tax excl. Parishes	98.845	102.925	107.174	111.597
Potential 'Social Care Precept'	1.938	4.076	6.429	9.014
Proposed Improved Better Care Fund	0.000	0.000	2.325	4.688
Illustrative New Homes Bonus	7.563	5.367	4.020	3.857
Transition Grant	0.343	0.344	0.000	0.000
Adult Social Care Support Grant	0.000	1.002	0.000	0.000
Core Spending Power	180.846	177.244	178.729	183.336

- 3.5. The document accompanying this covering report represents the result of a significant amount of work to understand the population of Medway and the demand for Council Services over the next five years.
- 3.6. The demographic forecasts for Medway inform projections around the need for housing, for commercial sites to provide good quality employment for the growing population, the need for school places, social care, health services, leisure facilities, the cultural offer and the transport infrastructure required to support people to live and work in Medway.
- 3.7. The Council Plan clearly lays out three corporate priorities:
- Medway: A Place to be Proud Of;
 - Maximising Regeneration and Economic Growth;
 - Supporting Medway’s People to Realise Their Potential.
- 3.8. This will be achieved through the adoption of three key ways of working:
- Giving value for money;
 - Digital services so good that everyone who can use them prefers to do so;
 - Working in partnership where this benefits our residents.
- 3.9. The Medium Term Financial Strategy should be viewed in conjunction with the Council Plan and is fundamental to its delivery.

- 3.10. The table at the end of the Medium Term Financial Strategy summarises the financial challenge facing the Council over the next four years, identifying a gap of **£4.1 million in 2018/19** increasing to £17.7 million by 2021/22. Even more importantly the MTFs addresses how the Council intends to balance expenditure plans with the available resources over the same period.

4. Timetable

- 4.1. The timetable for the Medium Term Financial Strategy and budget setting is as follows:

Report to Cabinet (this report)	26 September 2017
Portfolio/Directorate savings proposals	Sept to December
Initial budget proposals to Cabinet	21 November 2017
Reports to Overview and Scrutiny	December/January
Draft budget to Cabinet	6 February 2018
Budget proposals to Council	22 February 2018

- 4.2. Business and service planning will run in tandem with the budget setting process.

5. Risk management

- 5.1. The risks of failing to produce a balanced and sustainable budget, whilst at the same time achieving priorities and maintaining effective service delivery are significant, but the solution lies in exploiting the opportunities afforded through digitalisation, new operating models and over the longer term devolution of power to local authorities and local autonomy over taxation.

6. Conclusion

- 6.1. The Medium Term Financial Strategy identifies our spending needs for 2017/18 and beyond, in the context of a reducing resource base.
- 6.2. Whilst the Council has forecast a deficit in 2018/19 of around £4.1 million, increasing to £17.7 million by 2021/22, it will seek to address this through the accompanying Medium Term Financial Strategy. Notwithstanding the service pressures impacting on the Council's budget requirement and the significant financial constraints imposed through Government grant reductions, it must remain the Council's main strategic aim to achieve a sustainable budget without recourse to reserves. That aim will only be achieved through a combination of focussing resources on services that deliver the Council's corporate priorities, by delivering these services more efficiently through, among other things, digital transformation and by seeking to maximise all revenues, including local taxation and fees and charges.

7. Financial and Legal Implications

- 7.1. These are contained within the body of the report and accompanying Medium Term Financial Strategy.

8. Diversity Impact Assessment

- 8.1. 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. The Medium Term Financial Strategy identifies the resources available, which will influence 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 more detailed plans unfold.

9. Recommendations

Cabinet is asked to:

- 9.1. Agree the underlying aims of the Medium Term Financial Strategy;
- 9.2. Note the forecast level of overall funding over the medium term; and the projected budget deficit identified in the MTFS;
- 9.3. Bring forward proposals, through the financial planning process, to address this deficit.

10. Suggested Reason for Decision

- 10.1. The accompanying Medium Term Financial Strategy is important in providing the framework underpinning the budget setting process and in order to ensure that the Council meets the timetable set out within the Constitution.

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Appendices

Appendix 1: A Sustainable and Resilient Medway – Our Financial Strategy 2017-2022

Background papers

Medium Term Financial Plan 2016-2020 – Report to Cabinet 27 September 2016
<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=32868>

Capital and Revenue Budgets 2017/18 – Report to Council 23 February 2017
<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=35034>

A Sustainable and Resilient Medway

Our Financial Strategy 2017 - 2022



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Introduction



I am pleased to present the latest iteration of Medway Council's Medium Term Financial Strategy (MTFS), which is a key component of the Council's budget and policy framework. It should be viewed as part of a suite of documents, including the Council Plan, setting out the Council's priorities and objectives for the next five years.

Sound financial planning and management are fundamental to ensuring that the Council continues to provide top quality services to the people of Medway, now and in the future, against a backdrop of reductions in financial support from

Central Government. As the balance of funding has shifted and local government has been forced to place much greater reliance on local taxation and charging for discretionary services, the additional revenues generated in this way have in no way compensated for the overall loss in Government grant. Since 2012/13 and the introduction of the business rate retention scheme, aggregate external funding in the form of business rates, council tax and revenue support grant will have reduced by around £27.149million, 13% by 2021/22, even ignoring the effects of inflation.

I am proud of the way in which we have managed our finances and in spite of the reductions in grant, we continue to levy the lowest council tax in Kent and the eleventh lowest of all 56 unitary authorities. We also have an ambitious regeneration programme to meet the housing requirements for Medway people, to create commercial space for high end jobs, including the Innovation Park Medway on the Rochester Airport site, and to improve the transport infrastructure to support this growth. Medway has 84% of primary schools and 89% of registered nursery settings judged good or outstanding by OFSTED. Last year our children performed above the national average at Foundation Stage, Phonics, Key Stage 1 and GCSE. Medway has an effective Adult Social Care Service which is working with our health and voluntary sector partners to transform how we support our most vulnerable adults. We are committed to offering our service users choice and control over the support they receive and aim to enable people to live in their own homes independently.

The last six or seven years have seen the resources available to local government severely reduced, however we have continued to deliver first class services and in some cases protect services that other local authorities have been forced to stop providing, not least our libraries and the majority of our children's centres. Our highways continue to be the envy of our neighbours and our cultural offer, including our castles, our cathedral, the historic dockyard and over 30 days of free events and festivals every year, is second to none.

Unfortunately, our commitment to the front line services that the people of Medway value so highly has meant that we have invested less in ICT and other drivers for change than we might have preferred due to resource constraints. Medway Council and its partners, not least our neighbouring local authorities across North Kent, have been working closely on joint solutions. This Medium Term Financial Strategy, and the transformation programmes, investment plans and alternative service delivery models that sit at the heart of it will help to address these issues and form the basis for a resilient and sustainable Medway over the medium to longer term.

Councillor Alan Jarrett
Leader of the Council

About Medway

- Located in North Kent, South of the River Thames, covering an area of 74 square miles.
- The River Medway runs from the South West of the borough to its estuary on the East coast.
- Made up of five urban centres; Chatham, Gillingham, Rochester, Strood and Rainham yet 80% of the total land area of Medway is rural.
- Steeped in history, rich in military and maritime heritage including two castles, a cathedral, the historic dockyard and a multitude of historic houses and museums.
- Population of 276,000, is increasingly diverse and is estimated to increase by one fifth to around 330,000 by 2035.
- Relocating to Medway is popular with families, with around 1,000 children under five moving to Medway each year.
- Around 17,460 businesses in Medway, 86,000 jobs and an economy worth £4.7bn.
- The community is represented by 55 elected Members, working on behalf of the 22 wards throughout Medway including some of the most affluent and some of the most deprived wards in the country.

Medway is one of the south-east's most aspiring and developing destinations, marrying its celebrated heritage with a rapidly emerging cultural scene.

It is ideally located, close to London and within easy reach of the channel ports. Medway takes its name from the magnificent river that flows through it and comprises the five major towns of Rochester, Chatham, and Gillingham, Strood and Rainham.

Individually, the towns have their own place in history and unique identity – in particular Rochester with its iconic castle and cathedral and connections to Charles Dickens, and Chatham with its maritime and military heritage and defences. Together, they provide a diverse and exciting shared story visitor experience.

The area is the probably south-east's festival and events capital – hosting more than 30 days of free festivals and events each year. From bustling street festivals, open air concerts and theatre performances to major international sporting events at Medway Park.

Medway's extensive regeneration programme has changed the area dramatically over the years. This is most evident at Chatham Waterfront with regular leisure sailings, events and festivals taking place and Chatham Maritime with its attractive marina, shopping and leisure development.

Medway Council's Priorities

The Council Plan 2016/17 to 2020/21 is our business plan; it sets out how we will ensure we provide the best possible services for our residents. Our priorities, chosen by elected members, direct the services we provide. They are:

Medway: a place to be proud of

We want Medway to be a place that local residents and businesses are proud of. We will work to maintain a clean and green environment and to enable residents, visitors and businesses to move around Medway easily by tackling congestion hotspots and improving the public realm. By building on what makes Medway unique - such as our heritage and sporting legacy - Medway on the Map promotes Medway as a great place to live, work, learn and visit.

Maximising Regeneration and Economic Growth

We want to ensure that Medway's regeneration drives economic development to encourage new and existing businesses to grow in Medway, which will benefit local residents through the creation of the new jobs and homes they need. We will work to promote jobs, skills and employability. We will work to deliver new homes to meet the needs of Medway residents, and prevent homelessness through a council-wide approach.

Supporting Medway's People to Realise Their Potential

We want to support all of our residents and especially young people to realise their potential through the provision of services and initiatives that will help Medway become an even healthier and safer place to live. We will work to further improve everyone's health and reduce inequalities, support families to give their children the best start in life and help all children to achieve their potential in school. Working with partners we will continue to improve support for vulnerable adults, maintaining and prolonging independence.

We will achieve our priorities through the following ways of working:

Giving value for money

We are committed to continuing to deliver efficient and effective services for Medway residents, businesses and visitors.

Finding the best digital innovation and using it to meet residents' needs

We want to make it even quicker and easier for customers to access our services online, to suit their lifestyles and expectations, while delivering value for money. We will continue to provide support, including education and access to technology, for those who can't go online at the moment.

Working in partnership where this benefits our residents

We cannot achieve our vision for Medway on our own. We will continue to work with partners to deliver the services that matter most to the community.

Medway Council has always refreshed its Medium Term Financial Plan every year to inform the budget setting process. This new style Medium Term Financial Strategy aims to build on that work by placing greater emphasis on a strategy for responding to the financial challenge, rather than simply articulating the problem.

Maximising Resources

The Council's net revenue budget is met from three principal sources:

- Grant support from central government in the form of Revenue Support Grant and other specific grants, including Public Health Grant and the Dedicated Schools Grant;
- The Council's share of local business rates (NDR); and
- The amount raised locally by council tax.

Business Rates and the Settlement Funding Assessment

Local authorities currently continue to retain 50% of all business rates collected, however following the General Election in June there is now considerable uncertainty around proposals for 100% business rate retention. What is certain is that a 100% business rate retention scheme will not be fully implemented by 2019/20 and it would be sensible to assume that the current system will remain in place for the period of this Medium Term Financial Strategy. This would also mean that the current system of top-ups and tariffs should also remain and following the 2017 revaluation, Medway will continue to receive a top-up grant of £4.5million in 2017/18, expected to increase to £4.8million by 2021/22.

The business rates projections reflected in the Council's Medium Term Financial Strategy do not reconcile to the Government assumptions underpinning the Core Spending Power and Settlement Funding Assessment. Work has been undertaken with colleagues within the Regeneration division to try to predict where business growth is likely to take place over the longer term, however given that there is little certainty over growth during the next few years and there are a significant number of outstanding appeals that could impact on rateable values, it would be premature to reflect any growth in our MTFs predictions. What we have assumed is a 3.6% increase in the multiplier for 2018/19 and 3.0% per annum thereafter. These inflationary assumptions and the impact on the Council's 50% share of business rates under the current scheme are reflected in the projections in Table 1.

Table 1: Projected business rates yield for the period to 2021/22

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Projected Rateable Value	225.860	225.860	225.860	225.860	225.860
Medway Council's 50% share of rates	38.765	40.378	42.416	43.731	45.092
Section 31 Grant	2.234	2.284	2.351	2.423	2.494
Top-up Grant	4.541	4.704	4.677	4.845	4.817
Projected Business Rates Yield	45.540	47.367	49.444	50.999	52.403

The Settlement Funding Assessment (SFA) for each year comprises the Revenue Support Grant allocation, together with Government's assumptions regarding the Council's share of business rates. Following a reduction of £11.7million in 2016/17 Medway's SFA reduces by a further £18.0million by 2019/20. Work undertaken by our advisors to evaluate the impact of the Government's departmental expenditure projections, indicates that the Revenue Support Grant is likely to continue to reduce beyond this period and projections for the period up to 2021/22 are summarised in Table 2.

Table 2: Projected Revenue Support Grant for the period to 2021/22

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Projected Revenue Support Grant	18.504	12.306	6.053	4.850	3.616
Transition Grant	0.344	0.000	0.000	0.000	0.000

The Impact of Housing Growth on Council Tax and Other Funding

Medway's council tax for 2017/18 remains one of the lowest in our peer group of mainland unitary councils and the lowest in Kent, despite increasing council tax by the maximum permitted without a referendum. The MTFs assumes that the Council will continue to increase council tax by 1.994% for the next four years, with an additional 3.0% in the form of the 'social care precept' in 2018/19.

On 30 January 2017 the Chief Finance Officer, in consultation with the Leader agreed the council tax base for 2017/18 at 81,869 band D equivalents. The tax base is calculated by converting the total number of dwellings across the eight council tax bands into a band D equivalent value, taking into account the impact of the council tax reduction scheme and any other discounts and exemptions. This is further adjusted to take into account the predicted collection rate, currently estimated at 97.6%.

By working with colleagues across the Planning and Strategic Housing divisions, the increase in the number of dwellings falling within each council tax band has been projected forward and the impact of this on the council tax yield over the next four years calculated. These projections are summarised in Table 3.

Table 3: Projected council tax yield for the period to 2021/22

	2017/18	2018/19	2019/20	2020/21	2021/22
Projected growth in housing nos.					
- Band A (no. of dwellings)	N/A	46	33	39	10
- Band B (no. of dwellings)	N/A	149	159	434	49
- Band C (no. of dwellings)	N/A	188	292	195	115
- Band D (no. of dwellings)	N/A	91	235	448	689
- Band E (no. of dwellings)	N/A	67	44	0	0
- Band F (no. of dwellings)	N/A	9	14	0	0
- Band G (no. of dwellings)	N/A	1	0	0	0
- Band H (no. of dwellings)	N/A	0	0	0	0
Projected tax base after adjusting projected growth for CTRS, SPD and anticipated collection rate	81,869.00	82,643.22	83,176.73	83,762.54	84,336.78
Projected Council Tax Yield (£m)	106.148	112.503	115.487	118.619	121.814

The growth in housing also affects other sources of funding, including the availability of developer contributions towards the cost of investment in infrastructure, addressed elsewhere in the MTFs, and the New Homes Bonus. Consultation on the future of the New Homes Bonus resulted in the scheme being diluted, such that the number of years for which housing growth would be rewarded reduces from six years in 2016/17, to five years in 2017/18 and four years from 2018/19 onwards. Furthermore, the scheme would also only reward growth in homes above 0.4% per annum. This has significantly impacted on the grant anticipated over the medium term and the latest projections are illustrated in Table 4.

Table 4: Projected New Homes Bonus for the period to 2021/22

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Projected New Homes Bonus	5.366	2.268	1.761	0.676	0.366

Schools and Education Related Spend

Funding for Schools

There are currently 126 schools in Medway; 62 academy and free schools, 52 maintained by the Local Authority, seven independent schools and five special schools.

In 2012 the government reformed the way funding was provided for schools, aiming to make the school funding system fairer, more consistent and transparent, so that funding intended for education reaches schools and the pupils that need it most. The funding is received in three non ring-fenced blocks; schools, high needs and early years.

Schools related expenditure is generally funded through the schools block of the Dedicated Schools Grant (DSG); however the local authority continues to be impacted by academy conversions. Whilst this reduction in funding theoretically accompanies the transfer of responsibilities away from the Council, it does have an impact on the funds available for core functions in support of maintained schools, such as admissions and school improvement activity. Based on the planned trajectory of academy conversions, schools related grant is forecast to reduce dramatically over the next four years, as illustrated in Table 5.

Pupil Premium Grant (PPG) is paid to schools separately as a grant to improve the attainment of pupils from deprived backgrounds, based on pupils eligible for a free school meal, 'looked after children' (LAC), and children with a parent in the armed forces. This grant is essentially passed straight to schools.

There are only two local authority maintained schools with sixth forms in Medway – one secondary and a special school – and the Sixth Form Grant is passed straight to these schools.

The non ring-fenced Education Services Grant (ESG) was introduced in 2013/14 to fund statutory and other services outside of the DSG. It notionally funds services related to education, such as admissions, school improvement and education welfare, but also a share of the Council's support services, however from 2018/19 this funding will be rolled into the DSG and the activity it funds will be subject to the cap on centrally retained expenditure.

Table 5: Projected schools related grants for the period to 2021/22

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
DSG (Retained Schools Block)	0.690	0.690	0.690	0.690	0.690
DSG (Schools Block)	48.048	45.764	32.804	19.826	13.337
DSG (High Needs Block)	26.062	22.907	20.925	20.425	19.925
DSG (Early Years Block)	16.167	16.463	16.463	16.463	16.463
Pupil Premium Grant	4.071	3.921	2.996	2.071	1.608
Sixth Form Grant	0.716	0.716	0.716	0.716	0.716
Education Services Grant	1.370	0.000	0.000	0.000	0.000
Total Grant	97.124	90.460	74.594	60.190	52.738

School Places

Whilst the revenue funding within the schools block is allocated to schools and academies through a formula, based primarily on pupil numbers, the statutory duty to ensure that there are sufficient school places for children in Medway rests with the local authority and the growth in the population has meant that there is a significant pressure on the capital programme to create more classrooms. Overall pupil numbers in primary schools have increased to 23,966, up by 946 children compared to last year and the highest level since 2002, and are predicted to continue to rise for at least the next five years to 25,212. The

increasing number of primary pupils will start to impact upon secondary numbers over the next few years with overall numbers expected to rise from 18,661 in 2015-16 to 21,635 in 2023-24.

Recognised formulae, based upon research by MORI, which inform the Council's Developer Contributions Guide, indicate that for every 775 two+ bedroom houses built, there is a requirement for an additional primary provision equivalent to 1 Form of Entry (210 children).

The Council has provided an additional 3,075 primary school places between 2013 and up to 2018, however there is now pressure on secondary places in both selective and non-selective schools. Through the free school programme, the Department for Education meets the capital and revenue set up costs, with the local authority required to provide a site where possible and contribute appropriate developer contributions from local housing schemes. Four bids in Medway have been successful:

- The Maritime Academy: a mainstream all-through (ages 3 to 19) school with places for 1,940 pupils (including 250 sixth form pupils) in the Strood area. This will be operated by The Thinking Schools Academy Trust (TSAT). A site is currently being sourced for this school.
- Medway Academy: a mainstream secondary school with places for 1,150 pupils (age 11 to 19 including 250 sixth form pupils) in Rainham. This school will be operated by The Leigh Academies Trust. A site is currently being sourced for this school.
- Rochester Riverside Church of England Primary School: a mainstream Christian faith primary school with places for 420 pupils. There was strong competition for this school and the successful bidder is the Pilgrim Academy Trust. This school is expected to open in September 2021 when the development reaches a certain trigger of completed dwellings. The site for the school is agreed and the design is underway.
- The Beeches: an alternative provision primary school with places for 35 pupils with behavioural issues and excluded children. This will be managed by the Rowans Academy Trust and will be located adjacent to the current Rowans site in Walderslade.

The government will not fund additional selective places through the free school programme and therefore the Council is liaising with existing grammar schools in the area. All are willing to assist the Council in addressing this issue to varying degrees and as funding becomes available, potential projects will be assessed for their viability, value for money and cost per pupil. This, and the requirement for primary school places will be met from within the existing programme as summarised below.

Table 6: Schools Capital Programme for the period to 2023/24

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total
Basic need for School Places	8.987	5.448	4.700	4.506	4.500	0.000	0.000	28.141
Condition Programme	3.018	1.000	0.600	0.250	0.0	0.000	0.000	4.868
Devolved School Capital	0.250	0.200	0.150	0.100	0.0	0.000	0.000	0.700
Total Expenditure	12.255	6.648	5.450	4.856	4.500	0.000	0.000	33.709
Capital Grants - Basic Need	3.643	3.111	4.911	*4.500	*4.500	0.000	0.000	20.664
Capital Grants - Condition	1.467	*1.000	*0.600	*0.250	0.000	0.000	0.000	3.317
Capital Grants - Schools DFC	0.250	*0.200	*0.150	*0.100	0.000	0.000	0.000	0.700
S106 Contributions	3.658	*1.000	*1.000	*1.000	*1.000	*1.000	*0.370	9.028
Total Income	9.018	5.311	6.661	5.850	5.500	1.000	0.370	33.709
Cash Flow shortfall	(3.237)	(1.337)	1.211	0.994	1.000	1.000	0.370	0.000

N.B. Amounts with an asterisk are estimates based upon past allocations.

High Needs Provision

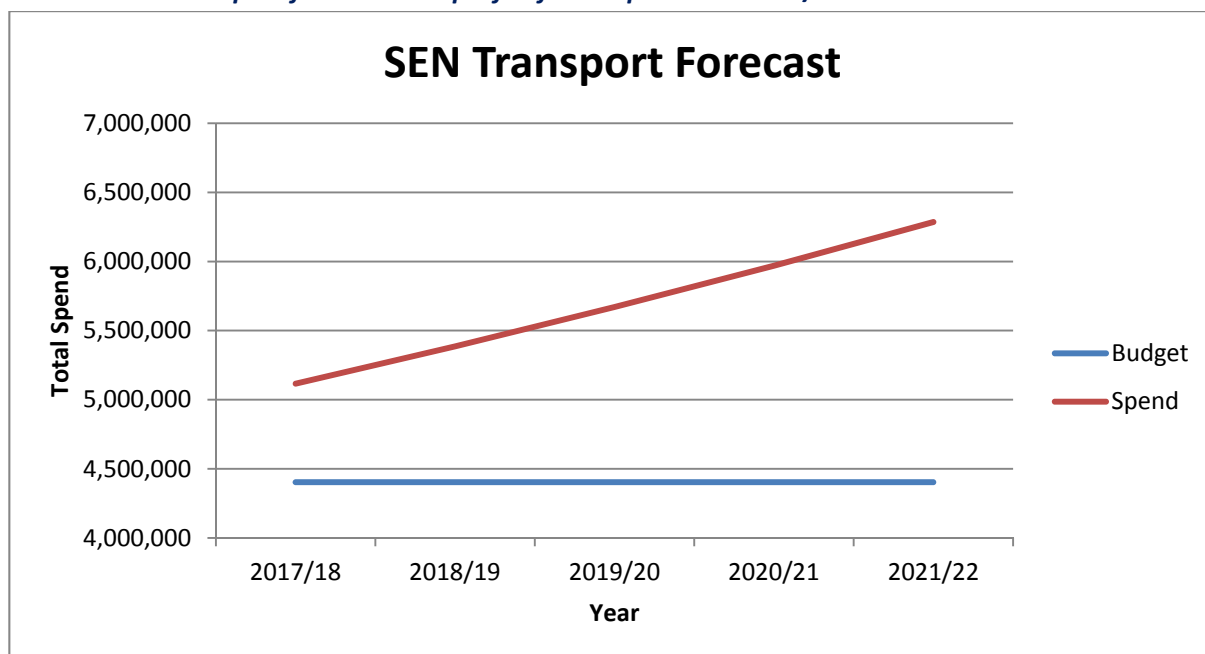
Medway Council currently maintains approximately 2,095 Statements of Special Educational Needs (SEN) or Education, Health and Care Plans (EHCP) and the number of requests for new assessments have increased by 40% since 2014. High Needs funding provides support for children and young people with SEND in both maintained and special schools as well as alternative education provision. Medway commissions 1,100 pre 16 places, 291 post 16 places and provides top up support for 1,846 pupils.

In previous years the high needs dedicated schools grant (HN DSG) funding has been based on historic funding but from April 18 the funding provided through this grant will be based on pupil characteristics known as the HN national funding formula and for Medway will not increase Medway's HN DSG funding.

Medway currently has approximately 1,391 places in special schools, high needs units and Pupil Referral Units, of which 885 places are in special schools. This is a higher percentage than average and partly explains why there are a lower number of children and young people with SEND in mainstream schools.

Because of our responsibilities for children with special needs now extend to 25 years old, over the next few years, the overall numbers entitled to SEN transport will increase, and this has impacted on the projected costs over the medium term as shown below. However, a Portfolio Holder led task group has been established and meets regularly to discuss measures and policy changes with a view to managing demand and reducing unit costs to mitigate this pressure.

Table 7: SEN Transport forecast cost profile for the period to 2021/22



Medway has reviewed the top up funding arrangements for mainstream schools and is currently consulting on a review of top up funding for special schools, PRU's and the outreach programs. If, as planned, this encourages more children and young people to attend mainstream schools in the future, it should be possible to use the places freed up in special schools to accommodate children who would otherwise be placed out of area. Experience suggests that children currently placed out of area are unlikely to return, but that younger children coming through the system can be accommodated locally, rather than placed elsewhere

Taken together, these issues place a significant financial burden on the HN DSG and on the SEN transport budget, which is funded by the Council general fund.

The special education needs and inclusion strategy adopted in September 2016 outlines Medway's proposals to combat these pressures with the aim to encourage greater inclusion for Medway children and

young people with SEND within their local schools and communities, enabling them to have independent living and work skills by the time they reach adulthood.

The service has reported a forecast overspend for 2017/18 based on the cost of the current service, with further pressure over the medium term, with projected increases in the number of SEN children.

Looking at other Local Authority spend per pupil, Medway compares very favourably at £4,661 per pupil, with Essex: £5,320, Southwark: £6,942 and Westminster: £7,961. In respect of the continued, albeit reduced budget pressure, we have seen a significant growth (40% in 5 years) of children with an EHCP and expect to see a continued growth which will result in more children being eligible for transport. In addition to an increase in the number of children eligible, we are also seeing an increase in the levels of complexity.

Whilst the increase in demand is clear, a number of measures will be put in place to manage and drive down cost. These include:

- The establishment of a panel to manage referrals,
- Driving down provider costs by better micro commissioning,
- Rigorous adherence to mileage criteria,
- The adoption of suitable pick up points in place of home collection and drop offs,
- Better use of personal budgets with the aim that most will receive a personal budget.

Early Years

The Council has a duty to improve the well-being of young children in their area, reduce inequalities between them and to ensure that there are sufficient Children's Centres and nursery places as far as possible to meet local need. Funding of nursery places is provided through the Early Years Dedicated Schools Grant (EY DSG), whilst the funding of Children's Centres is supplemented from the Council's general funds and Public Health Grant.

In April 2017 the EY DSG funding regulations changed and Medway is now required to pass a minimum of 93% of EY DSG funding directly to nursery and childcare providers, and may only retain a smaller percentage (up to 7%) to support the Council to run other early years services. From April 2018 the minimum pass through rate will increase to 95% and the retained percentage will reduce to 5%, at the same time as the government's extended childcare offer for working families is in place for the full year. These changes have forced the Council to refocus its resources, review its early years family support offer and to target those children and families in greater need; as well as taking the opportunity to better integrate the range of services on offer to families with children of all ages.

Medway currently has 19 Children's Centres mainly based in primary schools and has recently finished a six-week public consultation about the number, nature and the opportunities for Children's Centres to work collaboratively with Early Help services and alongside schools and early years providers in the community.

On 8 August 2017 Cabinet approved the establishment of 4 new integrated Children and Family Hubs which will be supported by 9 children and family wellbeing centres. The service transformation and staff reorganisation will aim to deliver the £1.6million budget saving required by the change in funding arrangements. Cabinet also agreed a one off revenue contribution to capital of £614,000 to complete the required building alterations, ICT infrastructure upgrades and office refurbishment of the 4 children and family hubs.

On average Medway now pay £4.13 per nursery hour to schools and childcare providers for all 3 and 4 year-olds; £4.86 for eligible two year-olds; supplemented by additional funding for disability, inclusion, and pupil premium.

Social Care

Pressures Impacting on Social Care

There are significant and increasing pressures on the Adult Social Care system: adults with long-term and multiple health conditions and disabilities are living longer; demand for services is rising while public spending falls; and there is unmet need for care. By 2018 the number of people in England with three or more long-term conditions is predicted to grow from 1.9 million in 2008 to 2.9 million. It is estimated that by 2022, the number of people in England aged 65 and over with some disability will increase by 40% to 3.3 million. The number of people in England and Wales aged 65 and over with dementia (moderate or severe cognitive impairment) will increase by over 80% between 2010 and 2030, to 1.96 million.

A considerable proportion of the health and social care challenge relates to long term conditions or situations; increasing numbers of older people means that there will be greater numbers of people developing long term conditions who will need more complex, and therefore costly, support. The number of people aged 65 and over predicted to have a long standing health condition caused by a stroke will rise from 889 in 2012 to 1,657 in 2037, and in the same age range, those predicted to have diabetes will rise from 4,870 to 8,687 in the same timeframe. The number of adults with a learning disability in the younger age group (18-24) is predicted to fall by 2030; however as the life expectancy of people with learning disabilities continuing to improve, a growth of nearly 400 older people with learning disabilities in Medway is projected between 2015 and 2030.

Social care providers in the market are experiencing significant cost pressures including planned increases in the National Living Wage and rising inflationary costs; creating pressures for local authorities to help fund this to support the sustainability of the market and prevent exit and failure of providers.

Nationwide there are issues with the recruitment and retention of social care staff with the resultant staff shortages making reliance on expensive agency staff a further pressure within the service. Medway has responded to this challenge with the innovative social care academy, providing skills training, qualifications and progression opportunities to help us grow and retain excellent social care staff.

Funding for Social Care

In the 2010 Spending Review the then coalition government made an additional £7.2 billion available for adult social care through a combination of general grant and the NHS transfer (which subsequently formed part of the Better Care Fund). It argued that this money was sufficient to prevent a social care funding gap when combined with efficiency savings.

In recognition of demographic changes which are leading to growing demand for adult social care and increased pressure on council budgets, from the 2016/17 financial year the Government allowed local authorities to increase the council tax yield through the 'social care precept'. The MTFs assumes that the Council will avail itself of the maximum flexibility allowed, i.e. an additional 2% in 2016/17 and 3% in each of the financial years 2017/18 and 2018/19. This flexibility equates to an additional £11.5million increase in the base budget. However the Council's aggregate external funding has reduced by over £30.0million since 2012/13, just before the introduction of the business rate retention scheme, whilst demographic pressures have increased the number of people requiring social care by around 3% per annum according to the Association of Directors of Adult Social Care. Even taking into account the recently announced Improved Better Care Fund, worth an additional £3.9million to Medway in 2017/18, the additional funds available for social care have not addressed the twin impact of demographic growth and an overall reduction in funding for local government.

Our Adult Social Care Improvement Programme

In response to these pressures, the Adult Social Care Improvement Programme was initiated to drive the transformation of Adult Social Care and to deliver significant efficiency savings.

Key achievements of the programme to date have been to:

- Establish an innovation team to test a new model of practice called “Three Conversations”, whilst also testing a new multi-disciplinary team structure prior to a full restructure of Adult Social Care. Evaluation of the work of the innovation team has shown that it has reduced the proportion of people contacting us, who then go on to require long term care and support;
- Develop a brokerage function that now manages all placement activity for Adult Social Care. This allows Social Care staff to focus on service delivery and ensures that the Council is achieving best value for money when procuring individual packages of care.

Future phases of the programme will deliver:

- The roll out of the ‘Three Conversations’ model across the whole of Adult Social Care as part of the establishment of a new structure in September 2017;
- Recommissioning of homecare arrangements, with a greater focus on supporting people to achieve better outcomes;
- A long term care and accommodation strategy, which will ensure that we develop the right type of provision to meet people’s needs in the future, with a particular focus on options that seek to promote independence.

Children’s Social Care

Children’s Social Care has been engaged in a long term drive to reduce the rate of social care cases, as measured per 10,000 population. In March 2016, this stood at 414 and was considerably higher than the national rate and our statistical neighbours. Our current rate is 297, which is much more in line with the national and regional benchmark predictions for last year. To achieve this both the number of contacts that go on to become referrals has been reduced and the robustness of the case closure routines has been improved.

Our rate of Child Protection cases per 10,000 population has also reduced from 85 in March 2016 to 49 in March 2017. The number of looked after children has reduced by 9% in the same period.

There has also been an improvement in the stability of placements and Medway now has better performance than the latest National and Statistical Neighbour benchmarks.

The current overnight short break service is based at the Aut Even centre and to ensure the service continues to develop and improve, a public consultation is expected to start in September 2017, with the aim to determine if the overnight short break service should be moved to the Parklands Resource Centre. Capital funding of £398,000 has been identified pending the outcome of the review.

Front Line Services

The continued delivery of high quality front line services is at the centre of Medway’s Council Plan; despite funding reductions imposed by government, we aim to always provide high quality services that are appreciated and valued by our residents. Our transformation programme is key to enabling us to pump funds saved back into the services that matter the most to our residents, including front line services such as roads and waste. In addition to this work each individual service is carrying out to generate efficiencies

and make savings, the service as a whole will be restructured to ensure it can deliver on the Council's strategic aims.

Transport and Highways

Transport is a key issue in Medway, affecting the economic success of the area and the social fabric of the environment. Our key priorities for improving transport are tackling congestion, improving public transport services and improving journeys to school and work. Medway's Local Transport Plan has been adopted by the council from 1 April, 2011. This will run from 2011 to 2026.

During early 2014 Medway put together a package of schemes as part of the Local Enterprise Partnerships (LEP) bid for the governments Local Growth Fund (LGF). A total of £68.1million was granted to the Kent and Medway federated area for projects that commenced in 2015/16, with £28.6million allocated for five successful Medway schemes. The four successful transport schemes and the LGF allocations are as follows:

- A289 Four Elms Roundabout to Medway Tunnel Journey Time and Network Improvements,
- Medway City Estate Connectivity Improvement Measures,
- Strood Town Centre Journey Time and Accessibility Enhancements,
- Medway Cycling Action Plan.

Table 8: Highways and Transport related scheme profile for the period to 2019/20

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Local Growth Fund (LGF) Schemes	8.502	9.950	3.947	*22.399
Other projects	0.846	0.332	0.077	1.254
Highways Maintenance (including LTP)	5.274	0.763	0.000	6.037
Integrated Transport (LTP)	1.752	0.000	0.000	1.752
Total Expenditure	16.374	11.045	4.024	31.442
Capital Receipts	1.649	0.000	0.000	1.649
Prudential Borrowing	0.014	0.000	0.000	0.014
Government Grant	5.685	0.763	0.000	6.448
Local Growth Fund (LGF) Grant	8.202	9.950	3.947	22.099
Developer Contributions	0.823	0.332	0.077	1.232
Total Income	16.374	11.045	4.024	31.442

N.B. The LGF schemes amount to £28.6million of which £6.2million was spent prior to 2017/18.

Our Highways service supports a network of 840km of highways including bridges, footbridges, subways and tunnels through programmes of planned and responsive maintenance, and through capital investment in the design and implementation of major improvements to the network. The work spans remedying defects in the highways, surface water drainage gulleys, street lighting and winter highway maintenance. We recognise the reliance placed by many residents on our highways network and are proud that we have continued to invest in maintaining our network. The key financial risks each year in this area are the impact of the winter weather on the level of winter gritting required, and on the inflationary contractual uplifts. These pressures are forecast in 2017/18 along with a pressure on tunnel maintenance and into the medium term.

Parking Services

Our Parking Services Team are responsible for enforcing parking restrictions across Medway through the issue of Penalty Charge Notices, maintaining our car parks and parking meters, managing the permit parking schemes across Medway, and ensuring the adoptions of newly constructed developments into the highways network.

A full review of Parking Charges was carried out in 2016 with Cabinet approving significant amendments to the model previously in place. The Parking Enforcement service operating times were expanded to reduce dysfunctional parking and help keep the highways flowing. Digital solutions have been implemented to enable cashless parking in our car parks and on street bays, and electronic permitting has been introduced for controlled parking zones. Charges for permits and the car park tariffs have all also been increased.

There are pressures manifesting in the 2017/18 Parking Services budget relating to the implementation of the 2016/17 changes, though these pressures are not anticipated to stretch into the medium term.

Waste Services

Medway Council is unique in Kent, as no other single local authority has responsibility for both waste collection and waste disposal. Medway Council's waste services are delivered through a series of contracts; Veolia Environmental Services provide waste and recycling collection, waste disposal and street cleansing services while FCC (formerly Waste Recycling Group) provide the management of the three household waste recycling centres. Medway is among few remaining authorities in England to provide weekly waste and recycling collections for residents.

Household recycling rates are climbing slowly, by around 1% per annum, with currently 46% of all waste collected being recycled. However each year the amount of household waste we collect is increasing by about 3%. While our contracts deliver excellent value compared to the cost of us delivering these functions in-house, Medway faces financial pressures including inflationary contractual uplifts, and on the cost of disposal of materials based on the tonnages collected. These are combining to manifest in the 2017/18 year and are forecast to do so through the period of this MTFS with the impact of £1.0million pressure each year.

Greenspaces

The accessible countryside and open space in Medway is large, totalling some 1,900 hectares, and consists of 48 countryside sites, 2 country parks, 1 farm reserve, 33 allotments, 125 play areas and 25 parks, collectively achieving seven Green Flags. The Council's Greenspaces Service has transferred to Medway Norse during 2017/18 with Norse now providing the grounds maintenance at a multitude of local amenity, recreational, sports and urban grounds sites, and Bereavement Services grounds around Medway.

Leisure, Culture and Sport

Medway residents benefit from over 30 days of free festivals and over 600 events every year for all ages. The 10 day Battle of Medway events culminating in the Medway in Flames show in 2017 attracted thousands of residents and visitors.

The Council operates six sports centres; Medway Park, Strood Sports Centre, Hoo Sports Centre, Splashes, The Strand. Between them these centres provide modern gym facilities, over 150 fitness classes each week and both fitness and fun pools. A review of Leisure Services is underway with the target of making the service cost-neutral to the Council by 2019/20, with savings of £350,000 expected in 2018/19.

Both the Central and Brook Theatres in Chatham provide a diverse range of professional theatre, community productions, live music and comedy. The Brook also boasts a thriving arts centre providing theatre, dance classes, gallery exhibitions and arts workshops.

Libraries and Community Hubs

Medway now operates nine Libraries, six Community Hubs and two Mobile Libraries. In addition to books, our libraries offer events, access to computers and online resources and specialist library services for carers and people with health conditions. The Libraries Service is working on a range of initiatives to generate savings, including realignment of operating hours, seeking to encourage volunteers to assist in the operation of the libraries, and a range of general administrative efficiencies.

Housing

Medway's Homelessness Strategy sets out that the number of households approaching the Council for assistance has continued to rise, with the number of homelessness applications increasing by 30% between 2013/14 and 2015/16, with national patterns similar. We have had some successes through joint working with our statutory, private and voluntary sector partners, however the increase in numbers combined with increasing statutory duties to assist before people become homeless, are manifesting in pressures in the 2017/18 budgets and on into the medium term.

Regenerating Medway

In 2035, Medway will be a vibrant, smart waterfront university city, with a population of 330,000. Chatham centre and waterfront will be at its heart, with Strood, Rochester, Gillingham and Rainham will be well connected bustling centres. There will be a diverse mix of high quality housing and employment space offering high value jobs, with vast and efficient transport and broadband, set in a world class landscape, rich in heritage and ecology. It will be at the forefront of innovation, learning and creativity; a smart sustainable city, where people want to live, work, learn and visit.

Medway is the biggest regeneration zone in the Thames Gateway and its programme represents an unparalleled regeneration opportunity. It will generate:

- A major transport infrastructure,
- Up to 30,000 new homes,
- More than 17,000 new jobs,
- High quality spaces and places.

The Council's ambitious Regeneration Programme is currently centred on four key sites; Rochester Riverside, Chatham Waterfront, Strood Riverside and the Innovation Park Medway.

Table 9: Regeneration delivery profile for the period to 2021/22

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m	Outcomes
Strood Riverside	7.429	0.000	0.000	0.000	7.429	6,271 jobs, 3,682 homes
Chatham and Chatham Waterfront	0.440	0.000	0.000	0.000	0.439	
Rochester Riverside	0.238	0.111	0.136	1.013	1.498	37 jobs*
Innovation Park Medway	5.100	2.821	0.000	0.000	7.921	
Command of the Heights	0.266	1.933	0.112	1.687	3.998	
Total Funding	13.473	4.865	0.248	2.700	21.286	
Capital Receipts	0.739	0.000	0.000	0.000	0.739	
Prudential Borrowing	3.240	0.111	0.136	1.013	4.500	
Growing Places Fund	0.251	0.000	0.000	0.000	0.251	
Growing Places Fund	1.400	2.821	0.000	0.000	4.221	
Local Growth Fund	7.480	0.000	0.000	0.000	7.480	
Developer Contributions	0.097	0.046	0.000	0.000	0.143	
RCCO	0	0.200	0.000	0.000	0.200	
Lottery Funding	0.266	1.687	0.112	1.687	3.752	
Total Income	13.473	4.865	0.248	2.700	21.286	

* Innovation Park Medway – LGF funding approved funding only for infrastructure improvements.

Anticipated approval of further LGF funding early next year, which it is expected will provide 1,544 jobs.

The Regeneration Division also manages £700,000 of capital spending on Greenspaces and over £600,000 improving the heritage offer. In addition to the existing Regeneration Programme, the council are considering additional opportunities, which could accelerate development. These include:

Innovation Park Medway

An Expression of Interest has been made to SELEP for the Growing Places Fund which, if successful, will fund the access road and service strip with ducting, for later installation of utilities as businesses arrive on site at the southern end of the site. We will continue to take a holistic approach to the whole site.

Development of the northern site within the North Kent Enterprise Zone (currently occupied by runway 16/34, planned for closure in 2018) including access roads and pedestrian access infrastructure, drainage and water mains, electrical infrastructure, gas supplies, off-site highways improvements and trenching/ducting for broadband fibre continues. SELEP have awarded Medway Council £3.7million of Local Growth Fund Round 3 funding to bring forward the northern site, subject to approval of the final business case. There is an aspiration to bring forward an additional high quality public realm gateway and encourage a number of businesses to locate on the site at an early stage in order to demonstrate the ambition for high quality development and encourage high quality businesses into the Enterprise Zone. The LGF3 funding will not cover all of the required works; further funding is required, subject to approval of the show-home corner approach. Borrowing against business rates is a potential funding source, as Enterprise Zone business rates must be reinvested into the area. The potential for borrowing will be progressed once marketing has begun and interest in the site begins to be shown, to provide more certainty. Enabling works including early gateways and signage, branding and site preparation works are also a key element of the project and are key to bringing forward a high quality innovation park.

Accelerated Construction

Medway Council recently bid for £6.58million funding from the Homes and Communities Agency (HCA) and successfully secured £1.25million across three sites, one of which includes undertaking supporting due diligence, to enable an additional area to be included at the Civic Centre site (Strood Riverside), with £500,000 being awarded to bring forward enhanced development for this site.

Housing Infrastructure Fund (HIF)

Medway Council is currently working up a HIF bid, following the Government's recent Housing White Paper. If successful, this £250million bid via DCLG/HCA will provide the necessary infrastructure support to enable the delivery of our Local Plan/regeneration priorities within the Hoo Peninsular and adjoining areas.

Delivery vehicles

Regeneration, Housing and Property Services are working collaboratively in bringing forward new mechanisms including the formation of a Housing Company and joint ventures to accelerate our development priorities and provide additional housing.

Improving Public Health

In April 2013 the responsibility to commission and provide a range of public health services, along with new duties to oversee improved health and wellbeing for the population, was transferred from the NHS to upper tier local authorities in England. The council must also ensure appropriate systems and processes are in place to protect the population from risks posed by communicable diseases or major emergencies. The council receives a public health ring-fenced grant from the Department of Health to discharge these new responsibilities. The amount received is based on a number of factors. These include the size of the population and the severity of the problems that impact on the health and wellbeing of local people. The council uses its public health grant to commission a range of services. These include children's health services, sexual health, substance misuse and alcohol services. Significant resources are also invested in the prevention of illness and disease. For example helping people to stop smoking, manage their weight and become more physically active.

Taking action to protect and improve the health of local people has been made more challenging in recent years. In 2016 the Chancellor of the Exchequer announced there would be a 3.9% real term reduction in the

public health grant awarded to local authorities through to 2020. This announcement followed a 6.2% in year cut of local authority public health funding in 2015. The level of funding to local authorities in future years (post 2017/18) has not been confirmed, but it is forecast to reduce over the medium term. Indicative amounts and the effect of the ongoing reduction in grant award on Medway Council are set out in table 10.

To mitigate against the reduction in resource allocation, Medway council has taken a number of innovative steps to safeguard public health services. These include restructuring the council’s public health function and reviewing a number of major public health contracts. These new contracts have new service specifications which deliver efficiencies whilst maintaining high quality outcomes for local people. The council has also adopted an inclusive holistic approach to delivering its public health function. It has embedded public health outcomes and delivery of services through all council divisions. This way of working promotes better sustainability of services and offers greater efficiencies.

In the coming years, the completion of the Kent and Medway Sustainability and Transformation process, will reshape the health and care landscape across Kent and Medway. These changes will have significant implications for our public health function and offer an opportunity to access additional resources to support the delivery of public health services.

Table 10: Analysis of Public Health Grant for the period to 2021/22

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Public Health Directorate	14.390	13.922	13.466	13.466	13.466
Children and Adults	1.856	1.856	1.856	1.856	1.856
Regeneration, Culture, Environment and Transformation	0.941	0.941	0.941	0.941	0.941
Business Support	0.484	0.484	0.484	0.484	0.484
Total Grant	17.671	17.203	16.747	16.747	16.747

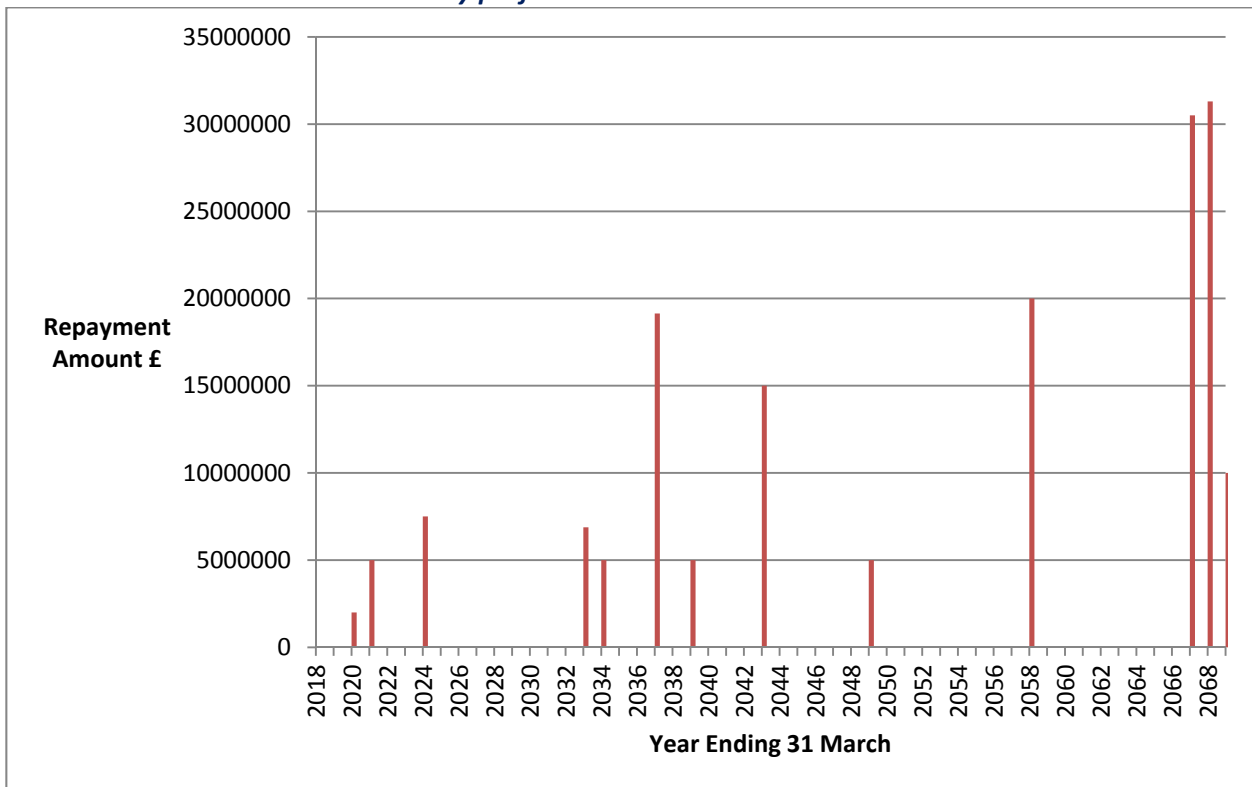
Achieving Financial Sustainability

Interest and Financing

With gross revenue expenditure of over £500million per annum and a current capital programme worth around £86million, it’s vital that the Council exercises sound financial stewardship over public funds. This includes the way in which long term borrowing, working capital and surplus cash is managed by the Finance division.

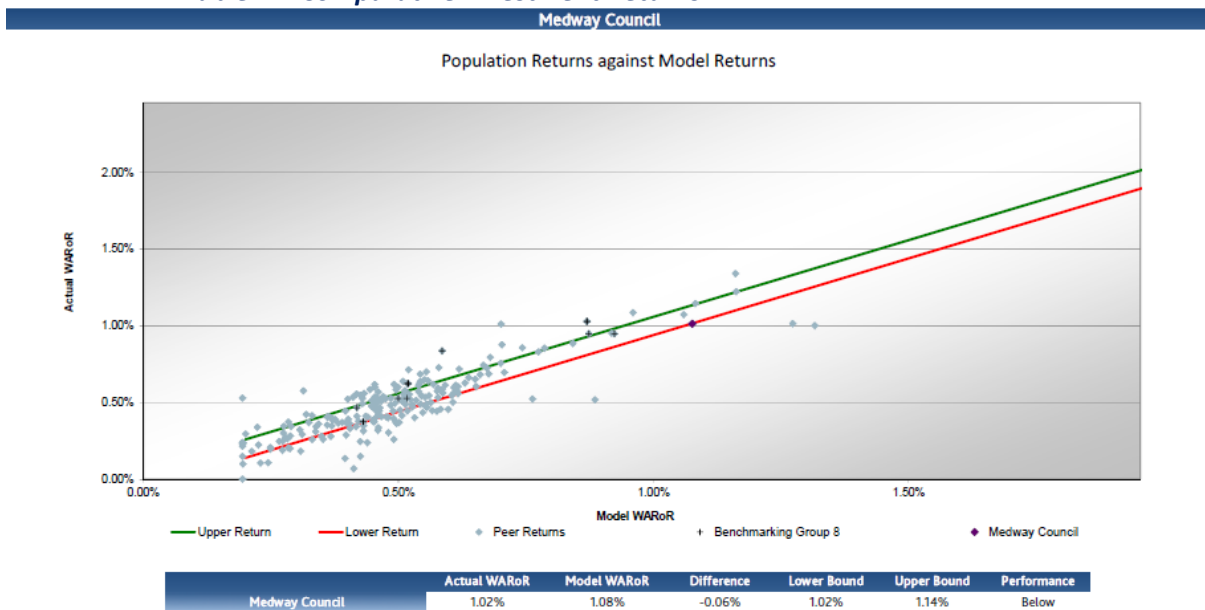
The Council currently has around £160million of long term borrowing on its balance sheet and servicing the debt costs around £6.856million per annum. Most of this debt was taken some years ago under Local Government Reorganisation, with the majority not maturing for thirty or forty years.

Table 11: Debt maturity profile



In the meantime, as annual provision is made for the repayment of this debt and through the creation of other cash backed reserves, the Council builds up surplus cash. As Medway Council is a local authority, the principles of security and liquidity must take primacy in the exercise of our treasury management function and so opportunities to maximise investment returns are limited, however lending to other local authorities and now more recently investing in property funds has allowed the Council to generate better returns than our peers. We will continue to explore investment opportunities as they arise, and will be proactive in seeking such opportunities. Table 12 below illustrates the extent to which Medway outperforms its peers, excluding the returns from property funds, which have averaged 4.5% to date.

Table 12: Comparative Investment Returns



The decision to invest in property funds has generated significant returns (£500,000) in the current financial year and in 2018/19 the full year effect is expected to yield a further £300,000 per annum going forward.

Our Housing Company

The Council has a challenging target of enabling the delivery of 29,000 new homes in the area by 2035. In June 2017, there was planning permission in place for 7,500 units across the area on sites owned by third parties but these developments were not being brought forward, and the Council has very little influence in ensuring these new homes are built. On 11 July 2017, Cabinet approved in principle the creation of a Housing Company to carry out development and invest in property to help meet this target. The establishment of a Housing Company will facilitate the Council in bringing forward its own sites for development to make a contribution to alleviating the pressure in the system between the demand for housing and the supply, to lead by example and to take a commercial opportunity to provide a revenue income to the Council through the creation of a profitable trading company.

The proposed model is one in which the Council will fund the company through a combination of equity (in the form of land) and through additional borrowing taken out to fund the works. The Council will lend these funds onto the Housing Company, who will pay interest on the repayments, generating an income stream for the Council in addition to any dividends that may be paid on the Council's shareholding. The cost of borrowing remains at historically low levels and offers the Council an effective means to fund the company, and a direct income from the interest charged to the company for these loans. The Business Case indicates a total programme of circa £120million and suggests that this on-lending would achieve 2.75%, equating to around £3.3million by the end of the programme. Once formed, the company will develop a detailed business plan and building programme, and it is anticipated that the company will be beginning to secure and develop sites during 2018/19. Until a detailed business plan and programme of work has been agreed, it is not possible to accurately model the impact of the Housing Company within the MTFS.

Our Transformation Programme

We have set ourselves an ambitious target to save £8million from the cost of delivering Council services through a transformation programme, whilst maintaining the integrity of service deliver. The Council Plan aim sets out: 'Finding the best digital innovation and using it to meet residents' needs'. A Member lead Transformation Board oversees this programme, and to date has seen the introduction of a dedicated team of specialists in business process re-engineering, delivery management and web content design, and has successfully delivered target savings for years 1 and 2 (to date) of the programme. The programme is on track to deliver the overall savings target with a further £5million expected to be delivered in 2018/19.

As the transformation programme progresses, people will notice a dramatic reduction in the time it takes to contact or report something to the council, no longer needing to fill out a form by hand, make a phone call or even make a journey to visit us. It will also save the council money in the long term allowing us to reinvest funds back into the services that matter the most to our residents, such as education, social care and front line services including roads and waste.

Table 13: Transformation programme profile to 2019/20

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Business Support	(0.129)	(0.267)	(0.376)	(0.075)
Children and Adults	(0.068)	(0.291)	(2.470)	(0.494)
Public Health	0.000	0.000	(0.224)	(0.045)
Regeneration, Culture, Environment and Transformation	(0.233)	(1.012)	(1.930)	(0.386)
Business as usual	0.000	0.000	0.000	1.000
Total	(0.430)	(1.570)	(5.000)	0.000

N.B. the total saved in 2017/18 shown in this table is not the same as the figure shown in the Q2 2017/18 budgets on which the MTFS summary is based; this is because the Q2 budget reflects the transformation savings already delivered, and removed from budgets, reducing that figure.

Alternative Delivery Models

Shared Services

Local government is leading the public sector in implementing shared services with at least 98% of councils across the country are currently sharing services with other councils, saving a total of £644million for the public purse to date across a total of 486 shared services. Based on national averages, sharing a service typically results in cost reductions of around 15% compared to the cost of individual authorities delivering the services alone.

At the forefront of this alternative service delivery model, Medway Council launched its first shared service, delivering a Building Control Service for the areas of Medway, Gravesham and Swale in 2007, while nationally before 2007 there were just 47 such arrangements in place.

Since then the number of services delivered through shared arrangements has grown significantly; with Medway hosting shared service arrangements with Gravesham Borough Council to provide Audit and Counter Fraud Services, Legal Services, Payroll and HR services.

We are exploring more opportunities for sharing back office functions with neighbouring authorities, but have not built any such savings into the MTFs.

Medway Norse

In March 2013 Cabinet agreed for the joint venture company, Medway Norse, to be established for the provision of facilities management (FM) services from 1 June 2013. In 2014 the joint venture also took on responsibility for the grounds maintenance contract and for an initial phase of school transport for children with special educational needs attending three schools. Medway Norse is now responsible for activity amounting to just under £16.5million per annum.

The Joint Venture Company was established to:

- Provide services to the Council more efficiently to give better value for money;
- Grow the business through taking on external contracts;
- Increase employment opportunities for local people including through apprenticeships.

Medway Norse has continued to progress development of the business. Operational Directors and managers are currently focussing to develop markets where demand and margins improve the profitability of the business overall. The joint venture is actively competing for external work for catering, cleaning and grounds maintenance work. However, the trading environment is challenging; an experience mirrored by other Norse JVs.

The Council and Medway Norse are discussing the strategy for the future growth of the joint venture to inform its current business plan. This will seek to deliver the right balance between taking on additional council services to deliver them more efficiently, and growth through external business. Medway Norse has recently been awarded a schools cleaning framework contract and is currently mobilising this, the value of which is approximately £312,000 per annum

Under the agreement with Medway Norse, the Council receives 50% of any surplus from the 2015/16 financial year onwards. The Council set a rebate income target of £263,000 in 2017/18. Until Norse are clearer about new business opportunities, the rebate from Norse reflected in this MTFs is static, despite the impact of National Living Wage and other inflationary pressures over the medium term; however the Council and Medway Norse will work together to consider any further options to deliver services through the Joint Venture as appropriate.

Medway Commercial Group Ltd (MCG)

In November 2015, Cabinet agreed to commence and establish the Alternative Delivery Model for the Medway Council Control Centre (MCCC), being a Local Authority Trading Company (LATCo), with Medway Council being the Majority Shareholder and to commence trading from 1 April 2016.

MCG Ltd is now responsible for delivering CCTV, Telecare, Out-of-Hours, Lone Worker solutions and other Personal Alarm services. MCG's Strategy is to:

- Provide seamless and remote protection for individuals, local communities and businesses
- Enable individuals to live independently with the aid of assistive technology
- Become the ambassadors in providing shared public services

MCG Ltd is forecast to contribute by way of cost subsidy reduction a total of £179,500 in 2018/19 and £108,200 in 2019/20 with the CCTV service expected to become cost-neutral to the Council at this point. Further contributions to our finances are anticipated through the SLA's in place for the Council to provide back office services to MCG.

There are significant plans for further services to transfer to MCG Ltd in the current financial year; in response to the schools Academisation programme, we are delivering traded services to schools through MCG Ltd on a commercial basis, reducing the cost of these services to the Council. In October 2017, the new staffing agency, Ocelot People Services will begin trading through MCG Ltd; it is anticipated that this arrangement will reduce the cost of agency staff to the Council and generate additional revenues through trading more widely.

Based on the success of the arrangements in place, it is anticipated that MCG Ltd will be the vehicle for our traded services moving forward, and we will be exploring opportunities to transfer more services as they arise. These traded services are expected to generate profits that will be returned in the form of dividends to Medway Council as the only shareholder.

Category Management Approach

Category management in its purest form aggregates related types of spend together with a view to more efficient procurement. At Medway, we operate an approach to category management that includes taking a broader view of procurement so that it does not always go to the market for a cost-effective solution it may work with a department to do the following:

- Manage demand to reduce the need for, or amount of, expenditure being contracted,
- Use existing contracts to aggregate spend and achieve economies of scale,
- Look for other options such as joint ventures.

This approach has saved the Council in the region of £50million over the life of these contracts, and the team is currently working on a review of what is known as "tail spend". This is characterised by high volumes of low value transactions across multiple suppliers, not typically procured through contracts or frameworks.

Our Reserve Strategy

Long term financial sustainability must be underpinned by medium term financial plans and annual budgets, which balance expenditure requirements with the available resources without recourse to reserves. Unfortunately, the steep decline in Government grant over a sustained period has meant that the Council has been compelled to draw on scarce reserves in the short term, in order to protect services. The MTFS seeks to address this through a reserve strategy with the objective of rebuilding both general and

specific earmarked reserves where possible over the medium term to ensure the Council's financial sustainability in the future.

The Council's balance sheet includes both usable and unusable reserves. Unusable reserves include the pensions fund reserve and the revaluations reserve, which are accounting entries to reflect the value of these assets in the Council's financial statements. Usable reserves represent cash backed reserves, which can be used to fund specific activity and to act as a contingency against unforeseen financial pressures. The table below summarises the anticipated usable reserve balances at the end of the current financial year, based upon the anticipated transfers in and out of the reserves according to the latest budget monitoring forecasts.

Table 14: Summary of Usable Reserve Balances

Type of Usable Reserve	Balance as at 31/03/17 £m	Forecast Movement in Reserves		
		Transfers In (Q1 Forecast) £m	Transfers Out (Q1 Forecast) £m	Balance as at 31/03/18 £m
General Fund Reserve (minimum balance)	(5.000)	0.000	0.000	(5.000)
Schools Related Reserves	(3.341)	(3.267)	0.442	(6.166)
Insurance Fund Reserve	(2.747)	0.000	0.000	(2.747)
Revenue Contributions to Capital	(1.205)	0.000	0.000	(1.205)
Collection Fund Reserve	(1.741)	0.000	0.000	(1.741)
Other Earmarked Reserves	(7.905)	(0.285)	1.544	(6.646)
Total Usable Reserves	(21.939)	(3.552)	1.986	(23.505)

The General Fund Reserve represents the minimum reserve balance that the Council is currently prepared to operate with and would probably be considered at the lower end of the scale, representing around 2% of net revenue spend. Schools related reserves comprises individual schools rolled forward balances and underspends against the high needs and early years blocks of the Dedicated Schools Grant. These funds are ring-fenced for education related expenditure.

The Council is essentially self-insured for property and liability claims and carries significant excesses both for individual events and in terms of the annual aggregate limit. Commercial property claims carry an excess of £1.0million per claim, whilst general property carries a £1.25million aggregate limit. Liability claims carry an excess of £500,000 with an aggregate limit of £3.0million per annum. Services make an annual budgeted contribution to the reserve, in order to maintain it at a level sufficient to smooth out annual variations in total claims liability, as well as ensuring that the Council can meet any exceptional liabilities over the medium term.

Revenue contributions to capital are one of a number of sources of funding underpinning the capital programme and relate to specific schemes. They have generally been made from specific grants. The Collection Fund Reserve is used to smooth differences between the actual NDR and Council Tax collected and the assumptions made in annual budgets.

There are numerous other earmarked reserves, which are created over several years to fund future activity. They include funding for the four year cycle of local elections, development of the Local Plan and the carry forward of a variety of specific ring-fenced grants. Funding is also earmarked in the form of the Severance Reserve to encourage services to bring forward restructure proposals, knowing that the cost of redundancies will be met centrally.

The MTFs makes provision for the introduction of other reserves to help create more resilient and sustainable financial plans, including provision for the repair and maintenance of our property estate and an ICT infrastructure plan.

Our People Strategy

The Council is transforming at pace in terms of how services are delivered and accessed by our residents. The changing shape of the workforce will enable the council to realise the opportunities that transformational change brings.

- We will need to realign our services, reviewing how they are delivered and structured to capture the efficiencies gained through digitalisation, resulting in a smaller establishment. Our current projections are that through the work of the transformation programme, as services are reviewed the establishment could be reduced by as much as 10% over three years, though much of this reduction will be through natural wastage.
- We will need to train and develop staff within Medway to enable them to adapt and successfully deliver services in the new design and structure. We are committed to succession planning and investing in learning and development of the workforce.

These changes will impact on our Property Strategy, as with increasing levels of remote and home working possible as digital solutions progress, there will be less demand on central office space.

There are significant pressures on staffing costs anticipated; for the purposes of this MTFS we have assumed a pay award resulting in an annual uplift of 1% for staff, however pay awards are agreed following due process and local negotiations with Trades Unions. In addition the MTFS assumes the impact of the National Living Wage rates, which are projected to rise from the current £7.50 per hour for over 25s to £9.00 per hour by 2021/22. Other pay elements are projected to remain within budgets however, as our pensions actuaries have concluded their revaluation and this has not resulted in a pressure, projections for National Insurance contributions suggest that these costs will remain static over the medium term.

Table 15: Impact of pay award and National Living Wage increases

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Business Support (including Public Health)– 1% uplift	0.119	0.120	0.121	0.123
Children and Adults – 1% uplift	0.355	0.358	0.362	0.366
Regeneration, Culture, Environment and Transformation – 1% uplift	0.291	0.293	0.296	0.299
Forecast impact of National Living Wage rate increases	0.065	0.070	0.075	0.080
Total	0.829	0.842	0.855	0.867

Our Property Strategy

Medway Council maintains and operates a wide range of assets, including 157 operational buildings, 682 operational sites (including 71 car parks and 506 parks and greenspaces), 40 shops and business centres, three major regeneration sites, three civic amenity Sites, 13 cemeteries and a crematorium.

The Corporate Property Strategy 2017-2022 was agreed by Cabinet on 8 August 2017 and clearly articulates the Council's strategic aims for the management of its property portfolio. These strategic aims include:

- Maximising the opportunities for regeneration and economic growth in Medway, through innovative use of our property portfolio;
- Disposing of those properties which are either not required for the delivery of services or do not provide a financial or economic benefit to the Council;
- Continuing to achieve average revenue returns on non-operational property of over 7% per annum;

- Creating a flexible working environment that enhances professional practice and can be adapted to changes in staffing levels and service delivery models, including the shift to more digital channels;
- Implementing more sustainable energy solutions to save money and benefit the environment.

Over the period of the previous property strategy, through the review and disposal of operational property, the council has reduced the required maintenance on its buildings from £16.2million to £10.5million. These disposals have averaged net capital receipts of around £3.6million per annum over the last ten years and we have reduced annual revenue costs from around £28.0million to £17.7million per annum. The MTFs assumes a level of funding for building repairs and maintenance to allow investment in those key strategic buildings which are crucial to the delivery of the Council’s future ambitions.

A complete condition survey was recently commissioned, which identified required maintenance of around £10.5million for the next five years. This would require investment of around £2.0million per annum, however before simply accepting the costs identified in the surveys, the next step is to consider the overall cost versus benefits of each property comprising the Council’s portfolio. There would be no justification for investing significant sums in individual properties if they have no long term future as a Council asset, unless that investment would be recouped from an increase in the eventual capital receipt on disposal or generation of an additional income stream. There are a number of factors to consider in determining the Council’s future property and asset strategy, including the following:

- The future size of the Council’s workforce, whether as a result of becoming more a commissioner than provider of services, the transformation of services to embrace digitalisation and self-service models or simply the inevitable impact of budget reductions;
- The implementation of more community based models of service provision and alternative operating models, utilising mobile technology;
- Greater co-location of public services, and cooperation around local public sector estate use and planning. This is exemplified by the Government’s ‘one public estate’ programme which has seen the Council receive £300,000 of feasibility funding to pursue a range of projects with other public sector partners.

Our ICT Strategy

It is imperative that Medway Council has an approved investment plan for corporate ICT, as a key enabler for the planned transformational change. Over recent years, investment in the software associated with major ICT projects such as Citrix thin client, the telephony system and Office 365 has been procured on a subscription basis, but funded through the capital programme. This has meant that, after the initial licence period, there has been no provision within the revenue budget for the continued subscriptions.

The MTFs seeks to address the way in which continued investment in ICT is reflected in revenue budgets and the table below outlines the additional annual investment required in hardware and software, in order to put the ICT budget on to a sustainable footing.

Table 16: ICT Pressures

Unfunded Hardware and Software	Pressures
	£m
Network Architecture	0.150
Telephony	0.120
Data Storage	0.050
Servers – application and Database	0.080
Data Back up and recovery	0.050
User Devices (PC’s, laptops, etc.)	0.200
Licences (Thin Client etc.)	0.350
Total Additional Requirement	1.000

Largely the £1.0million pressure has already manifested in the current financial year, with an underlying overspend of over £600,000 reported in 2017/18. This has been mitigated by underspending against the staffing budget, through management of vacant posts, circa £200,000, and £270,000 of ICT staff seconded to the Transformation programme. The question is how much of this mitigation will be recurrent, as the post-transformation ‘business as usual’ model emerges. It is also planned to centralise all ICT spend, much of which is still contained within directorate budgets, with a view to generate further efficiencies estimated at around £200,000 per annum. Ultimately though, it is anticipated that the ICT budget will need to increase by a net £400,000 in 2018/19, with increases in future years to reflect inflationary pressures and the ‘business as usual model’ post-transformation.

Analysis of budget requirement

Table 17: Analysis of Budget Requirement for the period to 2021/22.

Directorate	2018/19 Forecast Requirement £m	2019/20 Forecast Requirement £m	2020/21 Forecast Requirement £m	2021/22 Forecast Requirement £m
Base Budget Requirement	296.474	291.409	280.344	271.798
Full Year Effect of Past Decisions	(5.258)	(0.602)	0.000	(0.120)
Pay Award (incl. National Living Wage)	0.829	0.842	0.855	0.867
Inflationary Pressures	2.458	2.720	2.782	2.877
Demographic Pressures	2.443	1.735	1.718	1.788
Impact of Grant Reductions	(6.616)	(16.068)	(14.201)	(7.350)
Movement in Treasury Forecasts	0.211	0.307	0.300	0.197
Other Pressures	0.868	0.000	0.000	0.000
Budget Requirement	291.409	280.344	271.798	270.057

Medium Term Financial Projections

This Strategy has identified and quantified the service pressures and financial constraints facing the Council over the next four years and the scale of this challenge is summarised in Table 18.

Table 18: Summary of the Budget Gap for the period to 2021/22

Directorate	2017/18 Quarter 2 Budget £m	2018/19 Forecast Requirement £m	2019/20 Forecast Requirement £m	2020/21 Forecast Requirement £m	2021/22 Forecast Requirement £m
Children and Adult Services	205.065	200.745	187.505	176.725	172.959
Regeneration, Culture, Environment and Transformation	52.871	55.734	57.686	59.417	61.160
Business Support (including Public Health)	29.649	30.749	30.585	30.706	30.708
Transformation Programme	(1.087)	(6.087)	(6.087)	(6.087)	(6.087)
Interest & Financing	9.127	9.338	9.645	9.945	10.142
Levies	1.113	1.193	1.274	1.356	1.438
Medway NORSE	(0.263)	(0.263)	(0.263)	(0.263)	(0.263)
Budget Requirement	296.474	291.409	280.344	271.798	270.057
Council Tax	(106.148)	(112.503)	(115.487)	(118.620)	(121.814)
Revenue Support Grant	(18.848)	(12.306)	(6.053)	(4.850)	(3.616)
Business Rate Retention	(46.302)	(47.366)	(49.444)	(50.998)	(52.402)
New Homes Bonus	(5.367)	(2.268)	(1.761)	(0.676)	(0.336)
Education Related Grants	(97.124)	(90.460)	(74.594)	(60.190)	(52.738)
Adult Social Related Grants	(4.965)	(5.152)	(6.095)	(4.688)	(4.688)
Public Health Grant	(17.671)	(17.203)	(16.747)	(16.747)	(16.747)
Use of Reserves	(0.050)	(0.050)	0.000	0.000	0.000
Estimated Available Funding	(296.474)	(287.308)	(270.180)	(256.767)	(252.342)
Budget Gap - General Fund	0.000	4.101	10.164	15.031	17.715

However throughout its content the document has also sought to present a range of proposals and plans to manage expenditure, identify efficiencies and generate additional revenues and it is these which represent the main thrust of the Medium Term Financial Strategy. During the months leading up to the Council meeting on 23 February 2018, these plans will be formulated and consulted upon and the figures refined in order to produce a balanced budget and capital programme for 2018/19 and beyond.