

BUSINESS SUPPORT OVERVIEW & SCRUTINY COMMITTEE

30 NOVEMBER 2017

DRAFT CAPITAL AND REVENUE BUDGET 2018/19

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Summary

This report provides an update on progress towards setting the Council's draft capital and revenue budgets for 2018/19. 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 2018.

The draft budget is based on the principles contained in the Medium Term Financial Strategy (MTFS) 2017/2022 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 Council's Overview and Scrutiny Committees have responsibility for scrutinising draft budget proposals

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 22 February 2018. 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 2018/19 is 11 March 2018.

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

Business Support	30 November 2017
Children and Young People	5 December 2017
Regeneration, Culture and Environment	7 December 2017
Health and Adult Social Care	14 December 2017
Business Support	30 January 2018
Cabinet	6 February 2018
Council	22 February 2018

3. Budget Monitoring 2017/18

3.1 The quarter 2 revenue monitoring report, considered elsewhere on this agenda, forecasts a net overspending on services of some £1.507million after management action. 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 Strategy

4.1 The Council Plan 2016/17 to 2020/21 is the council's Business Plan, setting out how we ensure we provide the best possible services for our residents. The plan sets out the three corporate priorities which direct the services we provide:

- Medway: a place to be proud of,
- Maximising regeneration and economic growth,
- Supporting Medway's people to realise their potential.

The Council's budget setting process is designed to ensure that the available resources are directed most effectively towards the delivery of these objectives.

4.2 For many years the Council has prepared a medium term financial plan to inform the budget setting process for the coming year. In response to the continuing challenges of reductions in funding and increases in costs, instead we have prepared a 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.

4.3 The MTFs considered by Cabinet on 26 September 2017 presented a high level summary of the budget requirement for the period 2017-2022 and identified a £4.101 million deficit in 2018/19, increasing to £17.715 million by 2021/22, which will need to be addressed through the budget setting process. The MTFs assumptions insofar as they impact on 2018/19 are reflected in Appendices 1-4.

4.4 Since production of the MTFs, officers have been working with portfolio holders to formulate savings proposals to address the projected revenue budget deficit, however at this stage none of this work has progressed sufficiently to be reflected in the Draft Budget proposals. The next stage will be to discuss options

with the Leader and other Cabinet Members through the normal budget setting process and, together with the diversity impact assessments, the agreed savings will be included within the budget recommendations to be considered by Cabinet on 6 February 2018. The broad strategic approach to closing the 2018/19 gap is outlined in this report.

5. Revenue Resource Assumptions 2018/19

- 5.1. Revenue Support Grant – The Council opted to accept the Government’s offer of a four year settlement in October 2016 and as such the amounts in the MTFs for the period 2017/18 to 2019/20 are fixed. Work undertaken by the Council’s advisors to evaluate the impact of the Government’s departmental expenditure projections indicates that the level of this grant is likely to continue to reduce beyond this period, with their projections built into our MTFs. This draft budget assumes an RSG of £12.306million in 2018/19.
- 5.2. Business Rates – As per the MTFs, the projected Business Rates yield for 2018/19 is £47.366million. The impact of the 2017 revaluation on rateable values in Medway, whilst generally good news for small businesses, has had a detrimental effect on the business rate yield, however under the current 50% business rates retention scheme this has been compensated by an increased top-up grant. Medway Council has worked with Kent County Council and the twelve districts in Kent to submit a bid to the Government to participate in a pilot 100% Business Rate Retention scheme during 2018/19; the successful bids will be announced in December 2017. As such, and since the value of rate growth anticipated across Kent is not known with certainty, the potential impact of this pilot has not been considered in the development of this budget.
- 5.3. Council Tax – As per the MTFs, the draft budget 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. 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. Collectively these increases result in a projected Council Tax yield for 2018/19 of £112.503million.
- 5.4. Schools Related Grants – The draft budget projects that schools related grants will total £90.270million in 2018/19. 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 and this translates to projected decreases in this funding over the medium term. From 2018/19 the non ring-fenced Education Services Grant (ESG) (that notionally funds services related to education, such as admissions, school improvement and education welfare, but also a share of the Council’s support services) will be rolled into the DSG and the activity it funds will be subject to the cap on centrally retained expenditure.

6. Balancing the 2018/19 Revenue Budget

- 6.1. The usual budget setting process is ongoing with senior officers and Members working to identify actions to reduce the budget gap identified in the MTFs. For the first time, the MTFs articulates the Council’s strategy for closing this gap and achieving financial sustainability, with the core strands to this work as follows:

- 6.2. Proactive Investment Strategy – As a local authority, the principles of security and liquidity must take primacy in the exercise of our treasury management function, limiting opportunities to maximise investment returns. 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 and we will continue to explore investment opportunities as they arise, and will be proactive in seeking such opportunities.
- 6.3. Our housing company, Medway Development Company Ltd – On 11 July 2017, Cabinet approved the creation of a Housing Company to carry out development and invest in property to help meet our target of enabling the delivery of 29,000 new homes in the area by 2035. 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 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.
- 6.4. Our Transformation Programme – A Member led 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. In addition to the Transformation savings targets, the Council's MTFs includes an approved investment plan for corporate ICT, as a key enabler for the planned transformational change. To date the Transformation Programme has realised target savings for years one and two. In 2018/19 the programme has a target to save a further £5million from the cost of delivering Council services whilst maintaining the integrity of service delivery.
- 6.5. Our Adult Social Care Improvement Programme and Children's Care Delivery Programme – these were initiated to drive the transformation of Adult Social Care, Children's Care and Education and to deliver significant efficiency savings across the Directorate.
- 6.6. Shared Services – The Council operates a number of shared service arrangements including a Building Control Service with Gravesham and Swale, and a range of functions shared with Gravesham including Audit and Counter Fraud Services, Legal Services, Payroll and HR services. During 2018/19 the Council will continue to explore opportunities to share further services where this benefits the Medway Council and its residents.
- 6.7. Medway Norse – The Medway Norse Joint Venture is now responsible for activity amounting to just under £16.5million per annum and 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. Under the agreement with Medway Norse, the Council receives 50% of any surplus from the 2015/16 financial year onwards. The Council rebate income target for 2018/19 as per the MTFs is £263,000.

- 6.8. Medway Commercial Group – responsible for delivering CCTV, Telecare, Out-of-Hours, Lone Worker solutions and other Personal Alarm services for the Council, 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. In October 2017, the new staffing agency, Ocelot People Services began 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.
- 6.9. Category Management Approach – At Medway, we operate an approach to category management that includes taking a broader view of procurement to achieve cost effective solutions. The Category Management team will work with service departments to manage demand to reduce the need for, or amount of, expenditure being contracted, use existing contracts to aggregate spend and achieve economies of scale and 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.
- 6.10. Our Reserves Strategy – 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.
- 6.11. The directorate allocations shown in the 2017/18 Adjusted Base (in the table below and in the appendices) differ from those shown in the MTFS. This is due to the transfer of HR from Business Support into Regeneration, Culture, Environment and Transformation as per the Council decision on 12 October 2017.

Table 1: Summary of Draft Budget Requirement and 'Gap' for 2018/19

Directorate	2017/18 Adjusted Base £000's	2018/19 MTFS Assumptions £000's	Adjustments £000's	Draft 2018/19 Budget £000's
Children and Adult Services	205,065	200,745	(450)	200,295
Regeneration, Culture, Environment and Transformation	53,352	56,241	(764)	55,477
Business Support	15,111	16,654	(80)	16,573
Public Health	13,987	13,518	0	13,518
Transformation Programme	(1,087)	(6,087)	1,104	(4,984)
Interest & Financing	9,197	9,408	0	9,408
Levies	1,113	1,193	0	1,193
Medway NORSE	(263)	(263)	0	(263)
Budget Requirement	296,473	291,408	(190)	291,218
Council Tax	(106,148)	(112,503)		(112,503)
Revenue Support Grant	(18,848)	(12,306)		(12,306)
Business Rate Retention	(46,302)	(47,366)		(47,366)
New Homes Bonus	(5,367)	(2,268)		(2,268)
Education Related Grants	(97,123)	(90,460)	191	(90,270)
Adult Social Related Grants	(4,965)	(5,152)		(5,152)
Public Health Grant	(17,671)	(17,203)		(17,203)
Use of Reserves	(50)	(50)		(50)
Estimated Available Funding	(296,474)	(287,308)	191	(287,117)
Budget Gap - General Fund	0	4,101	0	4,101

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 (2017/18 to 2020/21) and incorporates everything we currently know about capital grant allocations for the period. Through the budget setting process for 2018/19 we are working on a corporate Capital Investment Strategy that will inform future MTFS documents. The following table summarises the current programme as reported in the Capital Monitoring report for quarter 2.

Table 2: Summary of Current Capital Programme

Funding Source	C&A £000s	RCET £000s	HRA £000s	BSD £000s	Digital Trans- formation £000s	Member Priorities £000s	Total £000s
Borrowing	0	5,952	0	0	5,187	0	11,139
Capital Grants	14,946	44,495	0	31	0	0	59,472
Capital Receipts	0	2,254	0	532	0	253	3,039
S106 Contributions	8,213	2,028	0	0	0	0	10,241
Revenue / Reserves	300	1,507	6,080	224	0	0	8,111
	23,459	56,236	6,080	787	5,187	253	92,002

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. From April 2018 the Council will be reducing its Social Housing rent for the third year of a four year period as required by the Government. The loss of income to the HRA amounts to £5.4million over the four year period and approximately £26million over the 30 year business plan period. Members should note that the Government has recently announced that from 2020/21 the Council will be able to raise rents again for the next five years by CPI plus 1%.
- 8.2. As Members were informed last year the Government has introduced legislation for stock retained Councils to be required to sell off higher values assets as they become vacant, or alternatively be required to pay an equivalent sum via a subsidy payment from its HRA. To date this legislation has not yet been forthcoming and nor has the regulations. There is much speculation following the events of the Grenfell Fire that this will not be expected to be forthcoming during 2018/19. The Chartered Institute of Housing recently reported that approximately 50% of Local Authority Stock retained authorities have removed assumptions for a subsidy payment from their business plans. Until confirmation is received from DCLG, the Council's HRA budget and business plan will be based on the previous assumptions without a subsidy. In the event a subsidy payment is required a full review of services and the HRA delivery model may be required.
- 8.3. Officers continue to review all HRA services to ensure they deliver value for money and are exploring options for transformation and use of digital technology as well as development of partnerships to deliver services.

9. Conclusions

- 9.1. This report sets out the outline proposals that will form the basis of the 2018/19 Capital and Revenue Budgets to be agreed by Council in February 2018. There is a statutory requirement for the Council to present a budget that balances to available resources. As this report sets out, there is still work required to identify further opportunities to close the gap presented in the MTFS.
- 9.2. Officers and Members will continue to review opportunities to reduce costs and increase income in the period leading up to the Cabinet meeting on 6 February

2018. Work to maximise the council tax base and support business rate growth, alongside the success of the Council's corporate Transformation Programme, the Adult Social Care Transformation Programme and the Children's Care Delivery Programme are vital to the ability of the organisation to deliver a balanced budget. 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.

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 should not be under-stated. 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. The Committee is asked to:

12.2. Note that Cabinet has instructed officers to continue to work with Portfolio Holders in formulating robust proposals to balance the budget for 2018/19 and beyond.

12.3. Comment on the proposals outlined in the draft capital and revenue budgets and forward the proposals to the individual overview and scrutiny committees

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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 Strategy 2017-2022 – Cabinet 26 September 2017

<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=38043>