

CABINET

20 NOVEMBER 2018

DRAFT CAPITAL AND REVENUE BUDGET 2019/20

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Summary

This report provides an update on progress towards setting the Council's draft capital and revenue budgets for 2019/20. 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 2019.

The draft budget is based on the principles contained in the Medium Term Financial Strategy (MTFS) 2018-2023 approved by Cabinet in September and reflects the latest formula grant assumptions.

1. Budget and Policy Framework

- 1.1. It is the responsibility of Cabinet, supported by the management team, to develop a draft revenue budget.

2. Constitutional Rules

- 2.1. The budget and policy framework rules contained in the constitution specify that Cabinet should produce the initial budget proposals. These should be produced and submitted to overview and scrutiny committee three months before the Council meeting that is scheduled to determine the budget and council tax. The overview and scrutiny committees have a period of six weeks to consider these initial proposals. Any proposals for change will be referred back to Cabinet for consideration.
- 2.2. Under the Constitution Cabinet has complete discretion to either accept or reject the proposals emanating from the overview and scrutiny committees. Ultimately it is Cabinet's responsibility to present a budget to Council, with a special Council meeting arranged for 21 February 2019. 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 2019/20 is 11 March 2019.

3. Budget Monitoring 2018/19

- 3.1. The quarter 2 revenue monitoring report, considered elsewhere on this agenda, forecasts a net overspending on services of some £3.856million 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 (MTFS)

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. The MTFS aims 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 25 September 2018 presented a high level summary of the budget requirement for the period 2018-2023 and identified a £3.189million deficit in 2019/20, increasing to £16.331million by 2022/23, which will need to be addressed through the budget setting process. The MTFS assumptions insofar as they impact on 2019/20 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 little 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 5 February 2019. The broad strategic approach to closing the 2019/20 gap is outlined in this report.

5. Revenue Resource Assumptions 2019/20

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 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 £6.053million in 2019/20.

5.2. Business Rates – As per the MTFS, the projected Business Rates yield for 2019/20 is £51.657million. For the 2018/19 financial year, Medway is participating in a pilot 100% Business Rate Retention scheme with Kent County Council and the twelve districts in Kent in advance of a new national scheme due to be introduced in 2020/21. The Kent and Medway local authorities have submitted a bid to participate in another pilot for 2019/20 of a 75% Business Rate Retention Scheme, with the successful bids due to be announced before or alongside the publication of the provisional Local Government

Finance Settlement in mid-December. As such, and since the value of rate growth anticipated across Kent is not known with certainty, the potential impact of the pilots has not been considered in the development of this budget. In the 2018 Budget presented to Parliament on 29 October 2018, the Chancellor of the Exchequer announced a series of measures reducing business rates payable but confirmed that local authorities would be compensated for the loss of income resulting from these measures.

5.3. The Chancellor's 2018 Budget also announced an additional £650million of grant funding for local authorities in 2019/20 for social care, and made a commitment that the issue would be considered again in next year's spending review. Significant demographic pressures across social care are manifesting in the Quarter 2 Revenue Budget Monitoring Report elsewhere on this agenda. The allocations to individual authorities have not been published and it is possible there may be conditions or additional costs associated with this funding; as such the additional grant has not yet been reflected in the draft budget figures.

5.4. Council Tax – As per the MTFs, the draft budget assumes that the Council will continue to increase council tax by the maximum allowable under current referendum rules: 2.994% in 2019/20 and then by 1.994% in subsequent years. 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 2019/20 of £119.034million.

5.5. Schools Related Grants – The draft budget projects that schools related grants will total £90.788million in 2019/20. 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.

6. Balancing the 2019/20 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. 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 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, and is on track to deliver the 2018/19 target of £5million. Arrangements for the continuation of the Transformation Programme into

the medium term were agreed during 2018 with a target to save a further £2million from the cost of delivering Council services whilst maintaining the integrity of service delivery.

- 6.4. 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.
- 6.5. 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. A new shared service for Licensing was agreed with Gravesham during 2018/19 and the Council will continue to explore opportunities to share further services where this benefits the Medway Council and its residents.
- 6.6. Medway Norse – The Medway Norse Joint Venture is now responsible for activity amounting to just over £15million 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 achieved. The Council rebate income target for 2019/20 as per the MTFS is £263,000.
- 6.7. 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.

Table 1: Summary of Draft Budget Requirement and 'Gap' for 2019/20

Directorate	2018/19 Adjusted Base £000's	2019/20 MTFS Assumptions £000's	Adjustments £000's	Draft 2019/20 Budget £000's
Children and Adult Services	197,036	198,180	1,842	200,022
Public Health	13,286	12,839	0	12,839
Regeneration, Culture, Environment and Transformation	54,931	57,071	0	57,071
Business Support	15,606	16,028	(457)	15,571
Interest & Financing	9,243	9,968	255	10,224
Levies	1,260	1,455	0	1,455
Medway NORSE	(263)	(263)	0	(263)
Budget Requirement	291,100	295,279	1,641	296,920
Council Tax	(114,663)	(119,034)	0	(119,034)
Revenue Support Grant	0	(6,053)	0	(6,053)
Business Rate Retention	(60,094)	(51,657)	0	(51,657)
New Homes Bonus	(2,512)	(2,117)	0	(2,117)
Education Related Grants	(90,788)	(90,788)	0	(90,788)
Adult Social Related Grants	(5,775)	(6,095)	0	(6,095)
Public Health Grant	(17,217)	(16,769)	0	(16,769)
Use of Reserves	(50)	0	0	0
Estimated Available Funding	(291,099)	(292,512)	0	(292,512)
Budget Gap - General Fund	0	2,767	1,641	4,408

7. The Capital Programme

- 7.1. Elsewhere on the agenda for this meeting of the Cabinet, Members are presented with a draft Capital Strategy; this seeks to detail the framework in which decisions are made on capital expenditure and funding, and the principles to which the Council adheres, in the formulation of the capital programme. The document presents the opportunities for future funding and the arrangements in place for preparing the capital programme for future years.
- 7.2. The table below summarises the current capital programme as reported in the Quarter 2 Capital Monitoring report (presented elsewhere on this agenda), which reflects planned capital expenditure over the medium term (2019/20 to 2021/22) and incorporates everything we currently know about capital grant allocations for the period. However, the Q2 Capital Monitoring also asks that Cabinet make a series of recommendations to Council for additions to the current capital programme; those additions are not reflected in this table as they have not yet been formally added to the programme (these will be reported to Council on 24 January 2019 for approval).

Table 2: Summary of Current Capital Programme

Expenditure/Funding	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	Total £000s
Children and Adult Services	11,468	2,200	1,247	1,000	15,915
Regeneration, Culture, Environment and Transformation	38,881	16,545	5,715	0,754	61,895
Housing Revenue Account	6,592	0,453	0,000	0,000	7,045
Business Support	17,448	39,470	30,242	55,562	142,722
Member Priorities	0,194	0,000	0,000	0,000	0,194
Total Expenditure	74,583	58,668	37,204	57,316	227,771

8. Housing Revenue Account

- 8.1. From April 2019 the Council will be reducing its Social Housing rent for the fourth and final year of a four year period as required by the Government. The loss of income to the HRA amounts to £5.7million over the four year period and approximately £26million over the 30 year business plan period. From 2020/21 the Council will be able to raise rents again for the following years by CPI plus 1% for the following five years.
- 8.2. In October 2018 the Government announced that the borrowing cap for council house building will be lifted with immediate effect. The Council is exploring opportunities to use this new flexibility to build additional housing where rental income would be sufficient to service the debt and has engaged a consultant to assist with this work.
- 8.3. As Members were informed last year, the Government had introduced legislation for stock retained Councils to be required to sell off higher values assets as they became vacant, or alternatively be required to pay an equivalent sum via a subsidy payment from its HRA. During 2018 the Government announced this scheme would no longer be implemented.
- 8.4. The Council's contract with Mears Group Plc for the repair and maintenance of the HRA properties has been extended for a further 5 years. 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 2019/20 Capital and Revenue Budgets to be agreed by Council in February 2019. 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 5 February 2019. 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. Cabinet is recommended to instruct officers to continue to work with Portfolio Holders in formulating robust proposals to balance the budget for 2019/20 and beyond.
- 12.2. Cabinet is requested to refer the draft capital and revenue budgets to overview and scrutiny committees as work in progress, inviting them to offer comments on the proposals outlined.

13. Suggested reasons for decision

- 13.1. It is the responsibility of Cabinet to develop draft budget proposals for consideration by overview and scrutiny committees. These draft proposals are the first stage of the budget consultation process leading to further consideration by Cabinet on 5 February 2019 and formal council tax setting by Council on 21 February 2019.
- 13.2. The timetable for consideration by overview and scrutiny is as follows:

Business Support	29 November 2018
Children and Young People	4 December 2018
Regeneration, Culture and Environment	6 December 2018
Health and Adult Social Care	13 December 2018
Business Support	31 January 2019
Cabinet	5 February 2019
Council	21 February 2019

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Appendices

Appendix 1 – Children and Adults Services

Appendix 2 – Public Health

Appendix 3 – Regeneration, Culture, Environment and Transformation

Appendix 4 – Business Support

Background papers:

Medium Term Financial Strategy 2018-2023 – Cabinet 25 September 2018

<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=43679>