

BUSINESS SUPPORT OVERVIEW AND SCRUTINY COMMITTEE

30 JANUARY 2020

DRAFT CAPITAL AND REVENUE BUDGET 2020/21

Report from: Phil Watts, Chief Finance Officer

Author: Katey Durkin, Head of Finance Strategy

Summary

This report provides an update on progress towards setting the Council's draft capital and revenue budgets for 2020/21. 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 2020.

The draft budget is based on the principles contained in the Medium Term Financial Strategy (MTFS) 2019-2024 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 the overview and scrutiny committees 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 20 February 2020. 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 2020/21 is 11 March 2020.

2.3. Overview and scrutiny committees have considered the Draft Budget at the following meetings:

Business Support O&S Committee - 28 November 2019
Children and Young People O&S Committee - 3 December 2019
Regeneration, Culture and Environment O&S Committee - 6 December 2019
Health and Adult Social Care O&S Committee - 16 January 2020
Business Support O&S Committee - 30 January 2020 (this report) – where the Committee will feed back to Cabinet on 4 February any comments on the budget proposals on behalf of all the O&S Committees.

3. Budget Monitoring 2019/20

- 3.1. The Round 2 revenue monitoring report forecasted a net overspend on services of £6.795 million 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. Since Round 2, Portfolio Holders have worked with senior officers to identify a range of measures to reduce expenditure within their portfolio areas, to reduce the forecast overspend and the consequent call on the Council's limited reserves.

4. Council Strategy and Medium Term Financial Strategy (MTFS)

- 4.1. On 10 October 2019 the Council agreed a new overarching Council Strategy for inclusion in the Council's Policy Framework. The Strategy sets the Council's vision and priorities, and is a more outcomes focused document than the current Council Plan, without all of the detailed performance measures and delivery plans explaining how the strategic objectives are to be met. The Council's priorities are:
- People – Supporting residents to realise their potential;
 - Place – Medway: A place to be proud of;
 - Growth – Maximising regeneration and economic growth – growth for all.
- 4.2. The Council's budget setting process is designed to ensure that the available resources are directed most effectively towards the delivery of these objectives. In addition, the Strategy will continue to be underpinned by the Council Plan which sets out the detailed performance measures and delivery plans in place to ensure the Council's resources are focussed on delivering its strategic objectives. The Council Plan will be developed and considered alongside the draft budget proposals. It will be presented for approval at Full Council on 20 February 2019, following initial consideration by the Business Support Overview and Scrutiny Committee elsewhere on this agenda, and by the Cabinet on 4 February 2020.
- 4.3. 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.
- 4.4. The MTFS considered and agreed by Cabinet on 24 September 2019 presented a high level summary of the budget requirement for the period 2019-2024 and identified a £5.956 million deficit in 2020/21, increasing to £17.327 million by 2023/24, which will need to be addressed through the budget setting process. The MTFS assumptions insofar as they impact on 2020/21 are reflected in Appendices 1a–3a. Appendices 1b–3b provide further details to explain the pressures and savings reflected in the MTFS and those agreed since through the ongoing budget setting process.

- 4.5. 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 4 February 2020. The broad strategic approach to closing the 2020/21 gap is outlined in this report.

5. Revenue Resource Assumptions 2020/21

- 5.1. In September 2019 the Chancellor delivered a one year Spending Round, setting departmental spending plans for the 2020/21 financial year. This settlement would represent the biggest real terms increase in annual spending power for local government in a decade, incorporating both increased grant allocations and flexibility to generate additional income through local taxation. Following the Spending Review, the government published the Technical Consultation on the Local Government Finance Settlement for 2020/21, providing further details on the proposals and how the national funding would be allocated. Where this differs from the assumptions made in the MTFs, the draft budget reflects the revised amounts as set out below.
- 5.2. 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 limit (1.994%) and will also apply the 2% ‘adult social care precept’. 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 2020/21 of £126.770 million.
- 5.3. Retained Business Rates – As per the MTFs, the Draft Budget assumes the Council will retain £46.091 million of Business Rate income.
- 5.4. Baseline Need Funding – Following the Technical Consultation, the Council’s advisors projected a small reduction of £12,000 to the level of Revenue Support Grant estimated for Medway. This is reflected in the Draft Budget, which now assumes the Council will receive £15.541 million through Revenue Support Grant, Section 31 Grant and Top Up funding in 2020/21.
- 5.5. New Homes Bonus – Introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas, the New Homes Bonus scheme was diluted in 2018/19 significantly impacting on the grant anticipated. The Technical Consultation stated that the government is minded to make a new round of allocations in addition to the legacy payments, and as such the Council’s advisors have increased the level of grant Medway could expect by £173,000; as such the Draft Budget assumes the Council will receive £888,000 in 2020/21.
- 5.6. Education Related Grants – Schools related expenditure is generally funded through the schools block of the Dedicated Schools Grant (DSG). However, Medway continues to experience significant pressure on services for children with Special Educational Needs and Disabilities (SEND), and the second round of the Revenue Budget Monitoring (considered elsewhere on this agenda) projects that this will result in a cumulative deficit of £10.3 million on the DSG High Needs reserve by 31 March 2020. The Spending Review 2019 announced that the schools budget would rise nationally

by £2.6 billion in 2020/21, £4.8 billion in 2021/22 and £7.1 billion in 2022/23, compared to 2019/20 funding levels, along with almost £1.5 billion of funding to compensate schools for the increased cost of employer pensions contributions. A revision to the methodology for calculating the allocation of this funding to local authorities from that assumed in the MTFS reduces the projected grant funding by £1.063 million, so the Draft Budget therefore projects that Educations Related Grants will total £99.537 million in 2020/21.

- 5.7. Adult Social Care Related Grants – In addition to the 2% ‘social care precept’ on Council Tax, the Spending Review 2019 announced a further £1.0 billion of national grant funding In recognition of demographic changes which are leading to growing demand for adult social care and increased pressure on council budgets. Since the Technical Consultation the Council’s advisors have revised their estimate of what this means for Medway, reducing the grant allocation by £493,000. The Draft Budget now assumes the Council will receive £12.584 million of Adult Social Care Related grants in 2020/21.
- 5.8. Public Health Grant – The Spending Review 2019 announced that “local authorities will receive additional resources through a real terms increase in the Public Health Grant...which will increase by 3.4% in real terms, in line with the overall NHS long-term settlement.” However, since the publication of the Technical Consultation the Council’s advisors have revised their estimate of what this increase means for Medway, reducing the grant allocation by £369,000 from that assumed in the MTFS. The Draft Budget now assumes that the Public Health Grant will be £17.231 million for 2020/21.

6. Balancing the 2020/21 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. Children’s Services – Following the inadequate Ofsted rating in August, the Department for Education appointed a Commissioner to identify improvements and the Council invited a team from the Local Government Association to conduct a Children’s Services Peer Challenge. Based on the reports and conclusions from these reviews, the Council will fundamentally review the structure and delivery of Children’s Services to use resources more effectively. To ensure this is successful a new improvement action plan has been developed and will be overseen by an independently chaired Improvement Board with representation from a number of our partner agencies.
- 6.3. Special Educational Needs and Disabilities (SEND) – As set out at paragraph 5.6 of this report, the latest Revenue Budget Monitoring projects a cumulative deficit of £10.3 million on the DSG High Needs reserve by the 31 March 2020. As required, the Council submitted a Deficit Recovery Plan to the Department of Education at the end of June 2019, however, this did not address the deficit in full. A further plan is now in development, focussing on:
 - supporting Medway’s schools to be more inclusive,
 - working with the Clinical Commissioning Group to ensure NHS funding is provided in all appropriate cases,
 - reviewing high cost placements to ensure the best packages are provided in the most economical way,

- the creation of additional SEND provision locally, and
- continuing to lobby the Government for additional funding.

- 6.4. In October 2019 the government published a consultation on 'Revised arrangements for the Dedicated Schools Grant' that stated "at the end of 2018-19, about half of all authorities experienced an overspend, amounting to over £250m in all". The consultation states that "The Government's intention is that DSG deficits should not be covered from general funds but that over time they should be recovered from DSG income". As such, the pressure on the General Fund arising from projected growth in SEND expenditure that was reflected in the MTFS of £1.180 million does not feature in the Draft Budget.
- 6.5. Our Adult Social Care Improvement Programme was initiated to drive the transformation of Adult Social Care; this has successfully delivered over £5.5 million savings during the life of the programme and this work continues into the 2020/21 financial year. Through the budget process the service has reduced the pressure reflected in the MTFS, through continuation of the Improvement Programme work and by revising down assumptions around demographic growth and provider uplifts.
- 6.6. Business Change – Our three year Transformation Programme has now been embedded into the council's business as usual as the Business Change Team. The team will continue to support the Council on its journey to transforming the way we provide services, the way we operate and the way we interact with residents. In preparation for the UK City of Culture 2025 bid, the Business Change Team will be working collaboratively across the Council, Government organisations, local businesses and engaging with the private sector, to commence work on a robust and forward-thinking 'Smart City' strategy for Medway. By implementing smart solutions, Medway Council can lay the foundations to provide effective, data-driven, decision making, enhanced engagement with government and our residents, safer communities, improved traffic management and a reduced environmental footprint to support our Climate Change ambitions. The Member led Transformation Board continues to oversee this programme.
- 6.7. Shared Services – The Council operates a number of shared service arrangements including a Building Control Service with Canterbury, Gravesham and Swale, and a range of functions shared with Gravesham including Audit and Counter Fraud Services, Legal Services, Payroll, HR services and Licensing. In 2019 the two Councils entered into a shared management arrangement for Revenues and Benefits Services and we are hoping that sharing best practice will lead to greater efficiencies. The Council will continue to explore opportunities to share further services where this benefits Medway Council and its residents.
- 6.8. Medway Norse – Since taking over the Council's waste collection and street cleansing activities, the Joint Venture's turnover is now just over £25 million per annum. The Council and Medway Norse are working closely together to identify opportunities for efficiencies that could be delivered by combining this service with other existing elements of the business. Under the agreement with Medway Norse, the Council receives 50% of any surplus achieved, and the Council rebate income target for 2020/21 as per the MTFS is £289,000.
- 6.9. Medway Development Company (MDC) – In September 2019 the Cabinet approved the creation of a fully commercial subsidiary of MDC to allow the construction and rental of private rented or shared ownership properties. In addition to providing much needed affordable homes in Medway, this could generate revenue for the Council both

in terms of on-lending benefit as the Council is the primary source of fund for MDC, but also through dividend payments in future years.

Table 1: Summary of Draft Budget Requirement and 'Gap' for 2020/21

Directorate	2019/20 Adjusted Base £m	2020/21 MTFS Assumptions £m	Changes £m	Draft 2020/21 Budget £m
Children and Adult Services (including Public Health): General Fund	124.444	135.025	(1.650)	133.375
Children and Adult Services: Dedicated Schools Grant	89.689	100.681	(2.243)	98.438
Regeneration, Culture, Environment and Transformation	57.452	63.461	0.216	63.677
Business Support	11.462	12.211	0.797	13.008
Interest and Financing	13.756	13.756	0.000	13.756
Levies	1.455	1.518	0.000	1.518
Medway NORSE	(0.263)	(0.289)	0.000	(0.289)
Budget Requirement	297.995	326.364	(2.881)	323.483
Council Tax	(119.651)	(126.770)	0.000	(126.770)
Retained Business Rates	(47.352)	(46.091)	0.000	(46.091)
Baseline Need Funding	(12.667)	(15.553)	0.012	(15.541)
New Homes Bonus	(1.978)	(0.715)	(0.173)	(0.888)
Education Related Grants	(90.788)	(100.600)	1.063	(99.537)
Adult Social Related Grants	(8.797)	(13.077)	0.493	(12.584)
Public Health Grant	(16.762)	(17.600)	0.369	(17.231)
Use of Reserves	0.000	0.000	0.000	0.000
Estimated Available Funding	(297.995)	(320.407)	1.764	(318.643)
Budget Gap - General Fund	0.000	5.956	(1.117)	4.840

7. The Capital Programme

- 7.1. On 24 September 2019, the Cabinet agreed the draft Capital Strategy which 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 Round 2 Capital Monitoring report, which reflects planned capital expenditure over the medium term and incorporates everything we currently know about capital grant allocations for the period. However, Cabinet, at its 19 November meeting agreed a series of recommendations to Council for amendment to the current capital

programme; those changes are not reflected in this table as they had not yet been formally approved when this report was produced; approval is sought from Full Council on 23 January 2020.

Table 2: Summary of Current Capital Programme

Expenditure	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s	Total £000s
Children and Adult Services	33,101	6,725	26,379	0	0
Regeneration, Culture, Environment and Transformation	71,052	40,086	24,736	6,595	859
Housing Revenue Account	11,270	6,764	4,506	0	0
Business Support	180,079	18,071	99,176	42,396	17,301
Member Priorities	366	366	0	0	0
Total Expenditure	295,867	72,012	154,797	48,991	18,160

- 7.3. On Friday, 1 November 2019, the Ministry of Housing, Communities and Local Government announced that Medway Council had been successful in its bid to secure £170million for major infrastructure developments on the Hoo Peninsula. The Housing Infrastructure Fund (HIF) schemes will be added to the Council's Capital Programme under the Chief Finance Officer's delegated authority, as set out in the Constitution, Chapter 4: Part 6, Paragraph 3.7.

8. Housing Revenue Account

- 8.1. In October 2017, in the Housing White Paper 'Fixing our Broken Housing Market', the Government announced that social housing landlords are permitted to increase social and affordable rent by Consumer Price Index (CPI) plus 1% each year from April 2020 for a period of 5 years. This makes a return to the rent setting approach which was to apply for 10 year from 2015 before being replaced with rent reduction from April 2016 for 4 years in 'Welfare Reform and Work Act 2016'.
- 8.2. In terms of the current HRA Debt cap, the Chancellor announced in his 2018 Autumn Budget Statement that the HRA borrowing cap would be scrapped from 30 October 2018, which means that stock retained local authorities can now borrow without a debt limit as long as the authority is able to service the debt. Work is now underway to analyse and understand the sustainability and level of borrowing the Council can afford to undertake more extensive new house building programme in the future.
- 8.3. 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 2020/21 Capital and Revenue Budgets to be agreed by Council in February 2020. 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 MTFFS.

- 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 4 February 2020. 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

Risk	Description	Action to avoid or mitigate risk	Risk rating
Funding assumptions underpinning the Draft Budget may be overstated	The Spending Review 2019 and Settlement Consultation have been delivered by the current government, in advance of a General Election in December. The Budget has been postponed meaning there will be no surety as to the level of government funding until the new Government delivers its Budget.	Funding assumptions in the MTFFS have been revised in light of the Consultation document, and in line with the assumptions prepared by the Council's advisors.	Medium
Assumptions around the cost of service delivery underpinning the Draft Budget may be understated	The growth in the cost of delivering the Council's services may be higher in 2020 than anticipated in the MTFFS, or income may be lower than anticipated.	The pressures reflected in the Medium Term Financial Planning Process were developed in consultation with management across the organisation. Members and officers are working closely together to review the pressures reflected and identify opportunities to reduce them.	Medium
Failure to deliver a balanced budget to Full Council in February 2020	The Council has a statutory duty to deliver a balanced budget in advance of the financial year.	Members and officers are working closely to develop proposals to reduce the cost of service delivery or maximise income streams to ensure a balanced budget can be achieved.	Medium

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. Members are asked to note that Cabinet has instructed officers to continue to work with Portfolio Holders in formulating robust proposals to balance the budget for 2020/21 and beyond.

12.2 Members are asked to comment on the proposals outlined in the draft capital and revenue budgets in so far as they relate to the services within the remit of this committee, contributing to the overall comments that the Business Support Overview and Scrutiny committee will feed back to Cabinet on behalf of the other O&S committees.

Lead officer contact

Phil Watts, Chief Finance Officer

T: 01634 332220

E: phil.watts@medway.gov.uk

Appendices

Appendix 1A – C&A Draft Budget Summary

Appendix 1B – C&A Revenue Pressures and Savings 2020/21

Appendix 2A – RCET Draft Budget Summary

Appendix 2B – RCET Revenue Pressures and Savings 2020/21

Appendix 3A – BSD and Centralised Budgets Draft Budget Summary

Appendix 3B – BSD and Centralised Budgets Revenue Pressures and Savings 2020/21

Background papers:

Medium Term Financial Strategy 2019-2024 – Cabinet 24 September 2019

<https://democracy.medway.gov.uk/ieListDocuments.aspx?CId=115&MId=4379&Ver=4>

Capital Strategy – Cabinet 24 September 2019

<https://democracy.medway.gov.uk/ieListDocuments.aspx?CId=115&MId=4379&Ver=4>

Medway Council Strategy – Council 10 October 2019

<https://democracy.medway.gov.uk/ieListDocuments.aspx?CId=122&MId=4448&Ver=4>