

HEALTH AND ADULT SOCIAL CARE OVERVIEW AND SCRUTINY COMMITTEE

10 DECEMBER 2020

DRAFT CAPITAL AND REVENUE BUDGET 2021/22

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Summary

This report presents 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 2021.

The draft budget is based on the principles contained in the Medium Term Financial Strategy (MTFS) 2021-2023 considered by the Cabinet on 17 November.

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 18 February 2021. 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 2021.

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

- Business Support (this report) – 26 November 2020
- Children and Young People – 1 December 2020
- Regeneration, Culture and Environment – 3 December 2020
- Health and Adult Social Care – 10 December 2020
- Business Support – 28 January 2021 (where the Committee will feed back to Cabinet on 2 February any comments on the budget proposals on behalf of all the O&S Committees).
- Cabinet – 2 February 2021
- Council – 18 February 2021.

2.4 The record of the discussion on this report which took place at the meeting of the Business Support O&S Committee on 26 November is attached at Appendix 2.

3. Budget Monitoring 2021/22

3.1 At its meeting on 20 February 2020, the Council set a total budget requirement of £323.365million for 2020/21. Since the budget was approved, a total of £65.422million of additional Covid-19 related grant funding (including the second, third and fourth tranches of non-ringfenced grant worth £16.441million), have been added to the revenue budget, taking the Round 2 budget requirement to a total of £383.426million. The Round 2 Revenue Budget Monitoring Report, considered by Cabinet on 17 November, forecasts a net overspend on services of £2.486million after management action. More work will be needed by all directorates 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 The Council's budget setting process is designed to ensure that the available resources are directed most effectively towards the delivery of the objectives in the Council Strategy. The Strategy is 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 18 February 2021, following initial consideration by the Business Support Overview and Scrutiny Committee on 28 January 2021 and the Cabinet on 2 February 2021.

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 presented to Cabinet on 17 November presents a high level summary of the budget requirement for 2021 to 2023 and identifies a deficit of

£11.710million in 2021/22 and £20.403million in 2022/23, which will need to be addressed through the budget setting process. The MTFS assumptions insofar as they impact on the Children and Adults Directorate in 2021/22 are reflected in Appendix 1a. Appendix 1b provides further details to explain the pressures and savings reflected in the MTFS.

- 4.4 Officers will continue to work with Portfolio Holders to formulate savings proposals to address the projected revenue budget deficit, and will discuss options with the Leader and Cabinet Members through the normal budget setting process. Together with the diversity impact assessments, the agreed savings will be included within the budget recommendations to be considered by Cabinet on 2 February 2021. The broad strategic approach to closing the 2021/22 gap is outlined in this report.

5. Revenue Resource Assumptions 2021/22

- 5.1 As set out in the Medium Term Financial Strategy Report to Cabinet on 17 November, the Government has not yet issued any consultation or guidance around the Local Government Finance Settlement for 2021/22 but will be conducting a one-year Spending Review on 25 November.
- 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%) but does not assume that we will be able to 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 2021/22 of £131.237million.
- 5.3 Retained Business Rates – As per the MTFS, the Draft Budget assumes the Council will retain £47.436million of Business Rate income.
- 5.4 Baseline Need Funding – While there have been no formal announcements about the Settlement, it is expected to effectively hold-over that from 2020/21. We have reflected the funding assumptions made by the Council’s financial planning advisors and as such the Draft Budget assumes the Council will receive £12.862million through Revenue Support Grant, Section 31 Grant and Top Up funding in 2021/22.
- 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 being wound down. However in 2020/21 but the Government made a new round of allocations in addition to the legacy payments. We have reflected the funding assumptions made by the Council’s financial planning advisors and as such the Draft Budget assumes the Council will receive £2.247million in 2021/22.

- 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 £14.243million on the DSG High Needs reserve by 31 March 2021. The Spending Review 2019 announced that the schools budget would rise nationally by £2.6billion in 2020/21, £4.8billion in 2021/22 and £7.1billion in 2022/23, compared to 2019/20 funding levels, along with almost £1.5billion of funding to compensate schools for the increased cost of employer pensions contributions. The MTFS assumes that position is unchanged and the Draft Budget therefore projects that Educations Related Grants will total £103.863million in 2021/22.
- 5.7. Adult Social Care Related Grants – As per the MTFS, the Draft Budget assumes the Council will receive £12.584million of Adult Social Care related grants, the same level of funding as received in 2020/21.
- 5.8. Public Health Grant – As per the MTFS, the Draft Budget assumes the Council will receive £17.408million of Public Health Grant, the same level of funding as received in 2020/21.

6. Balancing the 2021/22 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 Council has implemented a new staffing structure and an improvement action plan to use resources more effectively in the delivery of Children's Services. to use resources more effectively. Our Sufficiency Strategy has identified a series of 'invest to save' opportunities within the service, requiring a further additional investment of almost £3million, bringing total additional investment in Children's Services through this MTFS to almost £9million. This programme of investment and activity is forecast to generate a return in 2021/22 of more than £4.5million in savings on the overall cost of the service.
- 6.3 Special Educational Needs and Disabilities (SEND) – As required, the Council submitted a Deficit Recovery Plan to the Department of Education at the end of June 2019, however this plan acknowledged that it would not be possible to bring the reserve to balance, without additional funding, in spite of proposing significant savings of circa £3.5million. The Government has confirmed that DSG deficits must not be covered from general funds, rather they must be recovered from DSG income over time. As such the pressure the General Fund arising from projected growth in SEND expenditure of £3.298million for 2021/22 does not feature in the Draft Budget.

- 6.4 Activity underway and planned as part of our new Adult Social Care Transformation Programme is forecast to deliver savings of more than £1million, reducing the pressures on the service forecast in the MTFS.
- 6.5 Business Change – In February 2020 the Council approved a Flexible Use of Capital Receipts Strategy, enabling us the freedom to invest capital receipts to support the transformation of services. In October 2020 the Council agreed the recommendation from Cabinet to invest £3.275million of the Council’s capital receipts on a new transformation programme that is designed to support the reshaping of the Council and its business processes to deliver high quality services in a sustainable funding envelope. The Member led Transformation Board continues to oversee this programme.
- 6.6 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 2021/22 as per the MTFS is £460,000.
- 6.7 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 2021/22

General Fund	2020/21 Adjusted Base Budget £000s	2021/22 Forecast Requirement £000s	2022/23 Forecast Requirement £000s
Children and Adult Services (inc. Public Health)	232,713	245,144	256,543
Regeneration, Community, Environment and Transformation	53,141	56,101	57,773
Business Support	23,141	23,555	23,737
Interest & Financing	13,431	13,431	14,931
Levies	1,518	1,577	1,577
NORSE Rebate	(385)	(460)	(507)
Budget Requirement	323,558	339,348	354,055
Council Tax	(131,010)	(131,237)	(135,063)
Retained Business Rates	(45,620)	(47,436)	(72,374)
Baseline Need Funding	(16,177)	(12,862)	(17,117)
New Homes Bonus	(1,221)	(2,247)	(2,701)
Education Related Grants	(99,537)	(103,863)	(106,447)
Adult Social Care Related Grants	(12,584)	(12,585)	0
Public Health Grant	(17,408)	(17,408)	0
Use of Reserves	0	0	0
Estimated Available Funding	(323,558)	(327,638)	(333,703)
Budget Gap - General Fund	0	11,710	20,353

7. The Capital Programme

- 7.1 On 17 November 2020 the Cabinet considered the draft Capital Strategy. This sought 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 overleaf summarises the current capital programme as reported in the Round 2 Capital Monitoring report (presented elsewhere on this agenda), which reflects planned capital expenditure over the medium term and incorporates everything we currently know about capital grant allocations for the period.

Table 2: Summary of Current Capital Programme

Directorate	Current Budget £000's	2020/21 Forecast £000's	2021/22 Forecast £000's	2022/23 Forecast £000's	2023/24 Forecast £000's	Forecast Under / (over) spend £000's
Children and Adults	29,463	8,312	11,048	9,250	775	(78)
Regeneration, Culture and Environment	238,993	33,800	64,579	89,679	50,935	0
Housing Revenue Account	25,057	12,290	12,306	461	0	0
Business Support Department	143,186	22,724	71,202	49,223	0	(37)
Members Priorities	363	0	363	0	0	0
Total	437,062	77,126	159,498	148,613	51,710	(115)

Table 3: Capital Funding Summary

Funding Source	Total £000's	C&A £000's	RCE £000's	HRA £000's	BSD £000's	Member Priorities £000's
Prudential Borrowing	103,553	24,077	35,463	14,000	30,013	0
Borrowing in lieu of Capital Receipts	113,855	0	3,510	0	110,345	0
Capital Receipts	6,650	830	2,770	0	2,687	363
Capital Grants	199,014	2,931	196,083	0	0	0
RTB Receipts	93	0	0	93	0	0
Developer Contributions	2,786	1,625	1,161	0	0	0
Revenue / Reserves	11,109	0	6	10,964	139	0
Total	437,060	29,463	238,993	25,057	143,184	363

8. Conclusions

- 8.1 This report sets out the outline proposals that will form the basis of the 2021/22 Capital and Revenue Budgets to be agreed by Council in February 2021. 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.
- 8.2 Officers and Members will continue to review opportunities to reduce costs and increase income in the period leading up to the Cabinet meeting on 2 February 2021. Overview and Scrutiny committees have a vital role assisting in this process, both to comment on the approaches outlined in this report and to propose new ones.

9. Risk Management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Funding assumptions underpinning the Draft Budget may be overstated	The government has not yet published a consultation or any guidance around the Local Government Finance Settlement. While our assumption is that the settlement will effectively hold-over that from 2020/21 with no significant change in our baseline need funding, the final settlement may be less generous.	Funding assumptions in the MTFS are in line with the assumptions prepared by the Council's advisors.	CII
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 2021 than anticipated in the MTFS, 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.	CII
Failure to deliver a balanced budget to Full Council in February 2021	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.	DII

10. Financial and Legal Implications

10.1 The financial implications are fully detailed in the report. There are no direct legal implications.

11. Recommendations

- 11.1 The Committee is recommended to note that Cabinet has instructed officers to continue to work with Portfolio Holders in formulating robust proposals to balance the budget for 2021/22 and beyond.
- 11.2 The Committee is 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, and feed this back to the Business Support Overview and Scrutiny Committee in January.
- 11.3 The timetable for consideration by overview and scrutiny is as follows:

Business Support	26 November 2020
Children and Young People	1 December 2020
Regeneration, Culture and Environment	3 December 2020
Health and Adult Social Care	10 December 2020
Business Support	28 January 2021
Cabinet	2 February 2021
Council	18 February 2021

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Appendices

Appendix 1A – C&A Draft Budget Summary
Appendix 1B – C&A Revenue Pressures and Savings 2021/22
Appendix 2 – Comments on draft budget made at meeting of Business Support O&S Committee

Background papers

Medium Term Financial Strategy 2020 – 2023 – Cabinet 17 November 2020
<https://democracy.medway.gov.uk/ieListDocuments.aspx?CId=115&MId=4749&Ver=4>

Capital Strategy – Cabinet 17 November 2020
<https://democracy.medway.gov.uk/ieListDocuments.aspx?CId=115&MId=4749&Ver=4>

Medway Council Strategy – Council 10 October 2019
<https://democracy.medway.gov.uk/ieListDocuments.aspx?CId=122&MId=4448&Ver=4>