

HEALTH AND ADULT SOCIAL CARE OVERVIEW & SCRUTINY COMMITTEE

18 JANUARY 2022

DRAFT CAPITAL AND REVENUE BUDGET 2022/23

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Summary

This report presents the Council's draft capital and revenue budgets for 2022/23. 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 2022.

The draft budget is based on the principles set out in the Financial Outlook 2022/23 reported to Cabinet on 28 September 2021.

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 24 February 2022. 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 2022/23 is 11 March 2022.

- 2.3 The timetable for consideration by overview and scrutiny is as follows:
- | | |
|---------------------------------------|------------------|
| Business Support | 25 November 2021 |
| Children and Young People | 1 December 2021 |
| Regeneration, Culture and Environment | 2 December 2021 |
| Health and Adult Social Care | 18 January 2022 |
| Business Support | 25 January 2022 |
| Cabinet | 8 February 2022 |
| Council | 24 February 2022 |

3. Budget Monitoring 2022/23

- 3.1 At its meeting on 18 February 2021, the Council set a total budget requirement of £351.862million for 2021/22. Since the budget was approved, additional grant funding related to the ongoing Covid-19 pandemic has been received, primarily to deliver the Restart Grants scheme to support Medway's businesses. These additions take the Round 2 budget requirement to a total of £364.497million. The Round 2 Revenue Budget Monitoring Report, considered by the Cabinet on 16 November, forecasts a net overspend on services of £8.495million. More work will be needed by all directorates to reduce the forecast overspend and the consequent call on the Council's limited reserves.

4. Budget Setting Process

- 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 24 February 2022, following initial consideration by the Business Support Overview and Scrutiny Committee on 27 January 2022 and the Cabinet on 8 February 2022.
- 4.2 In previous years a Medium Term Financial Strategy (MTFS) has been prepared for the Cabinet in Autumn. 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. However, the ongoing effects of the pandemic continue to impact on both expenditure and income and as the government did not announce its Spending Review until 27 October 2021, it was not possible to produce meaningful projections across the medium term at that stage. Instead, from February 2022 our medium term projections will be reported to the Cabinet alongside the final budget presented to its meeting in February of each year.

- 4.3 The MTFS 2020-2023 was considered by Cabinet on 17 November 2020 and identified a potential revenue shortfall of £11.710million in 2021/22 rising to £20.353million in 2022/23. During the following months, a range of savings proposals were identified to close the majority of that gap, however the final 2021/22 budget includes £7.025million of one-off funding, including £4.005million of funding from reserves. Furthermore, the first round of the Council's revenue budget monitoring for 2021/22 forecasts a pressure of £8.457million, indicating a significant inherent pressure in the base budget for 2022/23, almost entirely attributable to pressure on placement costs within Children's Services.
- 4.4 Our initial projections for the cost of services in 2022/23 were set out in the Financial Outlook 2022/23 reported to Cabinet on 28 September 2021. Those projections amounted to an increase to the budget requirement of £33.718million, while the removal of one-off elements of the 2021/22 budget added a pressure of £7.025million. Our initial projections for income mitigated this, representing growth of £7.734million. Those initial projections arrived at a potential budget gap for the Council of £33.010million.
- 4.3 The assumptions set out in this report collectively reduce that gap to £18.176million. 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 8 February 2022. The broad strategic approach to closing the 2022/23 gap is outlined in this report.

5. Resource Projections

- 5.1 The Chancellor presented his Autumn Budget and Spending Review 2021 (SR21) to parliament on Wednesday 27 October 2021, setting out departmental budgets up to 2024-25.
- 5.2 The allocation of the national quantum of funding to individual local authorities is calculated through a mechanism intended to distribute available funding on the basis of need and resources. In February 2016 the government announced the Fair Funding Review, which was intended to set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best available evidence. The Fair Funding Review was originally intended to take effect from 2020 onwards, would use three main 'cost drivers': population, deprivation and sparsity, together with additional cost drivers related to specific local authority services. In 2019 the government announced the deferral of the Fair Funding Review due to Brexit, and again announced a deferral in 2020 due to the Covid-19 pandemic. The Chancellor did not make any announcements about the future of the fair funding review in SR21 and as it is anticipated that any change to the distribution of national allocations will take place over the SR21 period and will not impact on the 2022/23 budget.

5.3 Though the SR21 documents refer to funding allocations in each of the next three years, there was no comment on whether we can expect a three-year local government finance settlement.

5.4 Income from Local Taxation – the Collection Fund

5.4.1 Income from Council Tax and Business Rates is held in a ringfenced collection fund account, from which authorities draw the budgeted level of income in each year irrespective of actual income collected. Any shortfall on income collected compared to that budgeted level results in a collection fund deficit which is recovered by reducing the amount of income the Council can budget for in the following year. Given the scale of deficits expected owing to the pandemic, the Chancellor announced that repayments to meet collection fund deficits accrued in 2020-21 can instead be phased over a three-year period (2021-22 to 2023-24) to ease immediate pressures on budgets. During 2021/22 the government has provided two other funding streams to support collection funds for 2021/22 budgets which added a total of £3.633million to Medway's 2021/22 budget. SR21 did not include any such support for 2022/23 and therefore as per the Financial Outlook, no additional support is included in the Draft Budget.

5.5 Business Rates

5.5.1 Under the current system most local authorities retain 50% of rates collected (at Medway Council this is 49% with 1% paid to Kent Fire Authority) with the balance paid to the Government. The government has set a baseline funding level for each authority and for each year calculates a business rates baseline based on the average of business rates collected in the previous two years. Where an authority's business rates baseline exceeds its funding baseline, they pay the difference to central government as a tariff, which is used to pay for a top-up for authorities whose funding baseline is less than its business rates baseline. These tariffs and top-ups are uprated each year by the business rates multiplier, now CPI.

5.5.2 To coincide with the Fair Funding Review, the proportion of local business rate retention was intended to rise from 50% to 75% with several grants (most notably Public Health Grant and Revenue Support Grant) being ended at that point, to prevent this change causing a 'windfall' for local government. Instead, the review would be used to change business rate baselines with a new baseline applied in the first year, but not reviewed annually; this would mean that in the years after implementation, individual councils' incomes would diverge from the baseline, as their business rate revenues grow by different amounts. This was to be a deliberate outcome of rate retention, intended to encourage councils to try to increase their rate revenues instead of being dependent on the government for funds. A Business Rates Revaluation was also planned for 2020/21, in which the valuation of each property as calculated by the Valuation Office Agency would be updated. This was also postponed to provide businesses with more certainty on their liabilities in the wake of Covid-19. The SR21 made no announcements

regarding these changes and as such it is anticipated they will take place over the SR21 period, not impacting on the 2022/23 budget.

- 5.5.3 In SR21 the Chancellor did make several announcements to reduce the business rates burden on businesses, including:
- Freezing the business rates multiplier until 31 March 2023,
 - Introducing a new temporary 50% business rates relief for eligible retail, hospitality and leisure properties for 2022/23,
 - Introducing a 100% business rates improvement relief from April 2023 providing 12 months relief from higher bills where eligible improvements to a property increase the rateable value,
 - Introducing business rates exemptions for renewable energy generation and storage,
 - Increasing the frequency of business rates revaluations to every three years, from every 5 years from 2023, and
 - Extending transitional relief for small and medium-sized businesses and the supporting small business scheme for one year.

The SR21 documents confirm that local authorities will be fully compensated for the loss of income as a result of these changes, and as such the Draft Budget assumptions are unchanged from the Financial Outlook report in respect of business rates, reflecting growth of £4million in Business Rates and Section 31 grants received in government compensation for reliefs awarded.

5.6 Council Tax

- 5.6.1 The Council Taxbase refers to the number of Band D equivalent dwellings in a local authority area and is used to determine the level of council tax an authority charges each dwelling. To calculate the tax base for an area, the number of dwellings in each council tax band is adjusted to take account of any discounts, premiums or exemptions. The resulting figure for each band is then multiplied by its proportion relative to Band D (from 6/9 for Band A to 18/9 for Band H) and the total across all eight bands is calculated. The calculations which underpin the local government finance settlement 2020/21 assumed that the national taxbase would grow, with the national assumption being growth of 1.7% over 2020/21 and 2021/22. Despite the continued regeneration of Medway, the impact of the Covid-19 pandemic has meant that the Council's Taxbase has reduced, after many years of successive growth. Increases in the number of claims for Local Support for Council Tax and higher than anticipated levels of Single Person Discount are the primary drivers of this reduction at Medway.

- 5.6.2 SR21 states that the referendum threshold for increases in council tax is expected to remain at 2% per year, however in addition "local authorities with social care responsibilities are expected to be able to increase the adult social care precept by up to 1% per year". The draft budget therefore assumes that the Council will continue to increase council tax by the maximum allowable under current referendum limit (1.994% as per the Financial Outlook projections) and in addition that we will be able to apply a 1% adult social care precept, generating a further £1.378million income compared to that projected in the Financial Outlook report. 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 2022/23 of £139.144million.

- 5.6.3 Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018 provided for the billing authority to have discretion to charge an additional premium where a property has remained empty and unfurnished for a period in excess of two years. This means that where a property has been empty and unfurnished for two years or more and if the additional premium is say 100% then it will attract an extra 100% council tax on top of the full amount for the property (a 200% council tax charge). Consequently, the council agreed in February 2020 to the following premiums from 2020-2021
- A 100% premium for properties that have been empty and unfurnished for a period of 2-5 years, and
 - A 200% premium for properties in excess of 5 years.

The Act also provided for a 300% premium to be charged for properties empty in excess of 10 years from 2021-2022 although due to the Covid pandemic this was not adopted by the council. Should this now be adopted from 2022-2023 it is estimated that this would potentially affect 44 properties raising an additional £59,945, not yet reflected in the Draft Budget. On 16 November 2021, the Cabinet agreed to recommend to Council that this premium be introduced for 2022/23 onwards.

- 5.7 Baseline Need Funding – The SR21 documents state that the government is providing councils with £4.8billion of new grant funding over the SR21 period for social care and other services, comprising annual national allocations of £1.6billion for three years. The SR21 documents state that this funding includes £200million to increase Supporting Families Funding, alongside £37.8million for cyber security and £34.5million to improve local delivery and transparency, however until the Local Government Finance Settlement is published in December, it is not clear whether any new burdens may be tied to the funding. The Draft Budget reflects our estimate of Medway's allocation (using the existing relative needs and resources distribution mechanism) of £6.4million for 2022/23 however further details are expected in the Local Government Finance Settlement due in December. As this funding is referred to as 'new' we have assumed it does not replace existing funding streams and therefore will be in addition to the £12.862million through Revenue Support Grant, Section 31 Grant and Top Up reflected in the Financial Outlook report.

5.8 Adult Social Care Related Grants

- 5.8.1 At the launch of SR21 the government announced its reforms for health and social care, including;
- The introduction of a cap on personal care costs of £86,000 from October 2023,
 - Increasing the upper capital limit (the threshold above which somebody is not eligible for local authority support towards their social care costs) from £23,250 to £100,000 from October 2023,

- Increasing the lower capital limit (the threshold below which somebody does not have to make a contribution towards their care costs from their capital) from £14,250 to £20,000, and
- If somebody has capital between £20,000 and £100,000 the local authority may fund some of their care, but they may have to contribute up to 20% of their chargeable assets per year (in addition to their income).

The reforms are to be funded through the introduction of a new 1.25% Health and Social Care Levy from April 2022; initially through the National Insurance scheme, and from April 2023 as a legally separate tax for all workers including those above the State Pension Age. In addition, dividend tax rates will be increased by 1.25% to contribute to the Health and Social Care Levy.

Receipts raised through the new levy will be ringfenced to the NHS for the first three years, and from 2025/26 allocation will be a matter for the Chancellor of the Exchequer through the Budget. For the first three years the government has confirmed it will invest £5.4billion into adult social care and that it intends to compensate departments and other public sector employers for the additional cost of Employers NI contributions to the Levy.

5.8.2 In the SR21 documents, the government confirmed that of this £5.4billion, “£3.6billion will go directly to local government over the SR21 period to implement the cap on personal care costs and changes to the means test. This funding will also help local authorities better sustain their local care markets by moving towards a fairer cost of care”. The SR21 documents set out that this funding will not be provided equally over the period, presumably reflecting the implementation from October 2023 with £0.2billion 2022/23, £1.4billion 2023/24 and £2.0billion 2024/25. The Draft Budget reflects our estimate of Medway’s allocation (using the existing relative needs and resources distribution mechanism) of £800,000 for 2022/23. However as per the Financial Outlook, our Draft Budget projections assume that the funding will only mitigate the impact of the reforms and will not reduce existing pressures on Adult Social Care. In addition it is anticipated that the compensation for the Employers NI contributions to the Levy will be a call on the £6.4million new grant funding set out at paragraph 5.7 above, with this cost estimated at a total of £1million to the Council.

5.9 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 the Government made a new round of allocations in addition to the legacy payments. As the SR21 did not refer to New Homes Bonus, the Draft Budget reflects our assumption from the Financial Outlook report that the government’s trajectory to remove the New Homes Bonus regime will continue with the Council’s forecast income through that grant projected to reduce from £986,000 in 2021/22 down to £88,000 in 2022/23.

5.10 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 by the Cabinet on 16

November 2021) projects that this will result in a cumulative deficit of £18.373million on the DSG High Needs reserve by 31 March 2022. The SR21 sets out £2.6billion over the three-year period for new school places for children with SEND, alongside “£104 million by 2024-25 for reforms to unregulated children’s social care, and £7 million by 2024-25 to improve access to services and support for adopted children and their families[...]and maintains and increases capacity in secure and open residential children’s homes by making available £259 million over the SR period so more children and young people can receive the care they need”. While we welcome this funding and anticipate it will help accelerate our DSG deficit recovery plan, it will not be clear how this funding will be allocated until the publication of the Local Government Finance Settlement and as such the Draft Budget does not include any assumptions in this area. The Draft Budget therefore projects that Education Related grants will total £101.879million as per the Financial Outlook report.

5.11 Public Health Grant – The SR21 confirms that the Public Health Grant will be maintained “in real terms over the SR21 period”. As per the Financial Outlook report, the Draft Budget assumes the Council will receive £17.581million of Public Health Grant, the same level of funding as received in 2021/22.

5.12 Rough sleeping Grant – The SR21 sets out that the government will provide “£639 million resource funding by 2024-25, a cash increase of 85% compared to 2019-20” however until the Local Government Finance Settlement is published in December it is not clear how this will be allocated. As such the Draft Budget makes no assumption about this funding.

5.13 Removal of one-off budgets

5.13.1 The Financial Outlook 2022/23 reflected the removal of £31.284million of one-off Covid-19 related grant and £4.005million funding from reserves. In addition, the Draft Budget reflects the removal of two further one-off budgets; the Modern Medway Fund of £400,000 and the £450,000 additional pay award for 2021/22.

6. Balancing the 2022/23 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 Financial Outlook Report. The core strands to this work are as follows:

6.2 Children’s Services – Working with colleagues in Adult Social Care, the projections for growth in the cost of placements have been reviewed to identify those young people who will transition from Children’s Services into Adult Social Care in 2022/23. This work has resulted in £2.902million of pressure being moved from Children’s Services into Adult Social Care and has enabled us to review our initial projections for growth in Adult Social Care. As the majority of growth in Learning Disability placements has historically come through transitions from Children’s Services, and this work has enabled a refinement of those projections, resulting in a net reduction in the overall

Council budget gap of £1.795million. A review of the current staffing budgets across Children's Services compared to the current cost of the full staffing establishment has yielded a budget reduction of £1.478million. Work is underway to review the highest cost placements and we are reviewing options for future service delivery models to ensure this cohort of children and young people receive the most appropriate care in the most cost-effective way possible.

- 6.3 Adult Social Care – While the work on the cohort of young people transitioning from Children's Services into Adult Social Care manifests as a further pressure here, as set out in 6.2 above this in fact represents a net saving to the Council overall. The continuation of the Adult Social Care Transformation & Improvement Programme is projected to deliver a further £3million in savings in 2022/23. A review of our initial projections for price increases across Adult Social Care Placements results in a reduction in the pressure of £1.012million. Work is underway to estimate the impact of the social care reforms on the service delivery and cost to inform the final budget.
- 6.4 The SR21 announcements confirmed that following the recommendations of the independent Low Pay Commission, the government will increase the National Living Wage (NLW) for individuals aged 23 and over by 6.6% from £8.91 to £9.50 an hour effective from April 2022. This is a greater increase than assumed at the Financial Outlook and therefore adds a pressure of £100,000 to the Council's budget.

7. The Capital Programme

- 7.1 On 16 November 2021 the Cabinet agreed the 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 Round 2 Capital Monitoring report (presented to the Cabinet on 16 November 2021), which reflects planned capital expenditure over the medium term and incorporates everything we currently know about capital grant allocations for the period.
- 7.3 In the SR21 announcements, the government confirmed Medway was successful in the first round of bidding for the Levelling Up Fund, securing £14.4million for the regeneration of Chatham Town Centre. This will be added to the Capital Programme in due course.

Table 2: Summary of Current Capital Programme

Directorate	Current Budget £000's	2021/22 Forecast £000's	2022/23 Forecast £000's	2023/24 Forecast £000's	2024/25 Forecast £000's	Forecast Under / (over) spend £000's
Children and Adults	30,194	9,128	18,569	50	0	(2,447)
Regeneration, Culture and Environment	420,094	164,887	120,631	130,969	3,625	17
Housing Revenue Account	21,656	12,386	9,270	0	0	0
Business Support Department	4,404	2,344	1,528	498	0	(34)
Members Priorities	363	323	40	0	0	0
Total	476,711	189,068	150,038	131,517	3,625	(2,464)

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	100,037	22,690	64,528	12,572	247	0
Borrowing in lieu of Capital Receipts	112,193	0	112,193	0	0	0
Borrowing in lieu of Future Business Rates	36,533	0	36,533	0	0	0
Borrowing in lieu of Future Section 106 Contributions	1,585	1,585	0	0	0	0
Capital Receipts	7,699	623	2,591	0	4,122	363
Capital Grants	205,393	2,440	202,952	0	2	0
RTB Receipts	45	0	0	45	0	0
Developer Contributions	4,126	2,856	1,270	0	0	0
Revenue / Reserves	9,100	0	27	9,039	34	0
Total	476,711	30,194	420,094	21,656	4,404	363

8. Conclusions

- 8.1. This report sets out the outline proposals that will form the basis of the 2022/23 Capital and Revenue Budgets to be agreed by Council in February 2022. There is a statutory requirement for the Council to present a budget that balances to available resources. As this report and its appendices set out, our current projections result in a budget gap of £18.176million. While this represents a significant improvement on the gap presented in the Financial

Outlook 2022/23, there is still work required to identify further opportunities to deliver a balanced budget.

- 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 8 February 2022. 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	While the government have made the Autumn Budget announcements, there is a risk that the final local government settlement may differ from our projections. In addition our projections for Council Tax and Business Rates may not be achieved should the economy not recover as anticipated.	Funding assumptions in the Draft Budget 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 2022 than anticipated in the Draft Budget, or income may be lower than anticipated.	The pressures reflected in the Financial Outlook 2022/23 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 2022	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 2022/23 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.

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

Business Support	25 November 2021
Children and Young People	1 December 2021
Regeneration, Culture and Environment	2 December 2021
Health and Adult Social Care	18 January 2022
Business Support	25 January 2022
Cabinet	8 February 2022
Council	24 February 2022

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Appendices

Appendix 1 – Draft Budget Summary
Appendix 2A – C&A Draft Budget Summary
Appendix 2B – C&A Revenue Pressures and Savings 2021/22

Background papers

Financial Outlook 2022/23 – Cabinet 28 September 2021
<https://democracy.medway.gov.uk/ielssueDetails.aspx?Id=31093&PlanId=0&Opt=3#A125662>