

CABINET

15 NOVEMBER 2022

DRAFT CAPITAL AND REVENUE BUDGETS – 2023/24

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Summary

This report sets out the Council's draft capital and revenue budgets for 2023/24. 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 2023.

The draft budget is based on the principles set out in the Financial Outlook 2023/24 considered by the Cabinet on 18 October 2022.

1. Budget and policy framework

- 1.1. It is the responsibility of Cabinet, supported by the management team, to develop a draft budget.
- 1.2. The Cabinet is asked to accept this as urgent to ensure that the initial budget proposals can be referred to Overview and Scrutiny in accordance with the process for developing the budget, as set out in the Budget and Policy Framework Rules in the Constitution

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 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 Council meeting arranged for 23 February 2023. 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 2023/24 is 11 March 2023.

3. Budget Monitoring 2022/23

- 3.1. At its meeting on 24 February 2022, the Council set a total budget requirement of £367.493million for 2022/23. Since the budget was approved, additional grant funding to provide assistance to residents through the Household Support Fund, Holiday Activities and Food Programme and Homes for Ukraine Schemes have been received. These additions take the Round 2 budget requirement to a total of £372.602million. The Round 2 Revenue Budget Monitoring Report, considered elsewhere on this agenda, forecasts a net overspend on services of £14.019million. More work will be needed to reduce the forecast overspend and consequent call on the Council's limited reserves, including a freeze on all expenditure that is not essential to the delivery of statutory services or to meet existing contractual obligations.

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 budget proposals. It will be presented for approval at Full Council on 23 February 2023, following initial consideration by the Business Support Overview and Scrutiny Committee on 25 January 2023 and the Cabinet on 7 February 2023.
- 4.2. In the years prior to 2021, 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 impacts of the Covid-19 pandemic and the government not announcing its Spending Review until 27 October 2021 meant it was not possible to produce meaningful projections across the medium term in the Autumn of 2021. We had intended to begin publishing medium term projections alongside the final budget from February 2022, however the significant national political turmoil since and the onset of an energy and cost of living crisis brought great uncertainty again making meaningful forecasting exceptionally difficult. We recognise the importance of medium term projections to strategic planning and decision making, and though we await announcements from the new Chancellor on 17 November 2022, we will publish medium term projections, likely in a set of potential ranges, in

February 2023.

- 4.3. Our initial projections for the cost of services in 2023/24 were set out in the Financial Outlook 2023/24 reported to the Cabinet in September 2022. Those projections amounted to an increase in the budget requirement in the range of £48.361–£72.244million. Our initial projections for income mitigated this, representing growth of £16.001million. Those initial projections arrived at a potential budget gap for the Council in the range of £32.626–£56.243million.
- 4.4. The assumptions set out in this report collectively reduce that gap to £28.683million. Officers will continue to work with Portfolio Holders to formulate savings proposals to address the projected 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 7 February 2023. The broad strategic approach to closing the 2023/24 potential gap is outlined in this report.

5. Income projections

5.1. Government grant (including New Homes Bonus)

- 5.1.1. While the Spending Review 2021 (SR21) set out in October 2021 set government departmental budgets for the three years up to 2024/25, in order to “*prioritise certainty for 2022/23*” instead local government received a one-year finance settlement. Since then, a period of considerable political upheaval has to date delayed any confirmation of funding for 2023/24 and it is currently unclear to what extent the announcements made by the previous administrations (summarised in the Financial Outlook 2023/24 Report to Cabinet in October) will be reflected in the local government finance settlement. Local authorities were funded through the SR21 for the impact of the introduction of the Health and Social Care Levy on National Insurance from April 2022; our budget therefore reflects both the reduction in expenditure on our staff pay budgets, but also the commensurate reduction in the level of government grant the Council receives from April 2023. The new Prime Minister and Chancellor of the Exchequer have confirmed the Autumn Statement will be delivered on Thursday 17 November, after this Cabinet meeting. Any announcements relating to local government funding will be reported to the Cabinet in January and reflected in the final budget proposals presented to the Cabinet in February.
- 5.1.2. Our assumption therefore continues to be that the long-awaited major reforms to local government funding, including changes to the mechanism through which national allocations are distributed to local authorities based on relative needs and resources and the reflection of the 2021 Census data, will be delayed to 2025/26 or replaced altogether. Our projection is a roll-over settlement with the same national grant allocations (less the funded impact of the Health and Care Levy on National Insurance explained in 5.1.1), distributed via the same methodologies as the 2022/23 settlement adding no additional resources to the council’s budget.

5.2. Social Care Reforms funding

5.2.1. Alongside the SR21 the government launched its reforms for health and social care and set out the local government allocations for the first three years of the Department for Health and Social Care's Market Sustainability and Fair Cost of Care Fund. In 2022/23 Medway received £674,000 from a national allocation of £162.0million, and therefore based on the national allocations for 2023/24 (£1.40billion) and 2024/25 (£2.0billion) we expect to receive in the region of £5.8million and £8.2million respectively. Despite confirming the reversal of the Health & Social Care Levy on National Insurance initially introduced to fund these reforms, the new government have not made any official statements as to the continuation of the delivery of the reforms themselves.

5.2.2. In October 2022 the Local Government Association and County Councils Network were publicly lobbying the government for a one-year delay to the implementation of these reforms. Whilst there had been no formal announcements at the date of preparing this report, there have now been numerous reports that a delay is increasingly likely to enable the government to learn from the trailblazer authorities and ensure there is capacity and funding in place for the changes to be delivered. In the meantime, our assumption continues to be that any funding allocation confirmed will be added to the Adult Social Care budget in due course, but that it will only cover the new burdens arising from the reforms and will not help to close the Council's budget gap.

5.3. Education Related Grants

5.3.1. The SR21 set out that the national schools budget would increase by £4.7billion by 2024/25 compared to the 2019 settlement for schools in 2022/23. It also provided a new package of £1.8billion over the SR21 period to 2023/24 to "*recover children and young people's lost learning as a result of the pandemic*". The principles set out in SR21 (primarily 3% annual uplift as a proxy for inflation) are reflected in our latest projections in the table below. Our Draft Budget assumes that Education Related Grants will total £110.448million in 2023/24 and reflects that the Education Services expenditure budget will increase to the same, so this does not help to close the Council's budget gap.

Table 1: Projected Schools related grants for the period to 2024/25

| | 2023/24 £m | 2024/25 £m |
|------------------------------|----------------|----------------|
| DSG (Retained Schools Block) | 0.987 | 1.017 |
| DSG (Schools Block) | 44.758 | 46.101 |
| DSG (High Needs Block) | 41.946 | 43.204 |
| DSG (Early Years Block) | 18.244 | 18.791 |
| Pupil Premium Grant | 3.751 | 3.864 |
| Sixth Form Grant | 0.762 | 0.762 |
| Total Grant | 110.448 | 113.739 |

5.3.2. 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 £25.409million on the DSG High Needs reserve by 31 March 2023. The Council is working with the Department for Education through the Safety Valve programme to agree a plan to address the deficit over the next four years.

5.4. Public Health Grant

5.4.1. The SR21 confirmed that the Public Health Grant will be maintained “*in real terms over the SR21 period*”. The government have to date made no announcements as to whether this grant will see uplifts in line with inflation, and given this grant is ring-fenced and any increase will not help to close the Council’s budget gap, the Draft Budget assumes the Council will receive £18.075million of Public Health Grant, the same level of funding as received in 2022/23.

5.5. Income from Local Taxation – the Collection Fund

5.5.1. 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.

5.5.2. Given the scale of deficits expected owing to the pandemic, in 2020 the then Chancellor announced that repayments to meet collection fund deficits accrued in 2020-21 in respect of Council Tax could instead be phased over a three-year period from 2021/22 to ease immediate pressures on budgets. Therefore 2023/24 is the final year impacted by this deficit spreading, which reduces the amount of income available to the Council from the collection fund in 2023/24 by £2.053million.

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. Despite the continued regeneration of Medway, the impact of the Covid-19 pandemic had reduced the Council’s Taxbase for 2022/23, 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 were the primary

drivers of this reduction at Medway.

5.6.2. Our projections around the taxbase remain unchanged from the Financial Outlook and show the taxbase growing to 89,441.36 for 2023/24. This represents an increase of 1,399.86 band D equivalents or 1.59% compared to 2022/23.

5.6.3. The 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 (unoccupied and substantially 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 for a period of two to five years, and
- a 200% premium for properties in excess of five years.

The Act also provided for a 300% premium to be charged for properties empty in excess of ten years and in February 2022, the council agreed to introduce this premium from 2022/23.

5.6.4. The Levelling-up and Regeneration Bill, currently at committee stage in the House of Commons, proposes an amendment to section 11B of the Local Government Finance Act 1992 and the insertion of a new section 11C which will result in the following changes with effect from 1 April 2024:

- the 100% premium for long-term empty properties may be brought forward so that it can commence after being empty for one year rather than two; and
- a 100% premium may be charged for properties that are unoccupied but furnished (referred to as second homes).

These changes are subject to the bill being enacted (which is anticipated before the end of the current financial year) and to any guidance received from the Government. An authority's first determination under this section must be made at least one year before the beginning of the financial year to which it relates (i.e., it must be made prior to 1 April 2023 if it is to have effect from 1 April 2024). The Cabinet are asked to recommend to Council that these premiums be introduced from 2024/25 onwards and that final decision-making powers, once Royal Assent and Government guidance is received, are delegated to the Council's Chief Operating Officer. Should these changes be adopted from 2024/25, it is estimated that this would affect 392 Long-term empty (unoccupied and unfurnished) properties and 286 second homes (unoccupied and furnished properties) raising an additional estimated £1.127million in council tax income in 2024/25.

5.6.5. In the Financial Outlook 2023/24 we assumed that in the absence of any government announcements, the most prudent assumption was that councils would be allowed to increase the Council Tax within the historic referendum limit of 2% only. Despite resulting in a one-year local government settlement,

the SR21 gave government Departmental resource allocations and set principles for spending for two years, into 2023/24. The SR21 documents stated that *“the referendum threshold for increases in council tax is expected to remain at 2% per year. 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 now Prime Minister Rishi Sunak was the Chancellor of the Exchequer who set SR21, and with Michael Gove returning as Minister for the Department for Levelling Up, it is considered more likely that the principles outlined in SR21 will be held into 2023/24. 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 £1.424million income compared to that projected in the Financial Outlook report.

5.6.6. At the end of the 2020/21 financial year, there was a deficit of £5.774million on the Collection Fund in relation to Council Tax, relating to the pandemic. Of this figure the Council is required to repay the final £2.053million through the 2023/24 budget.

5.6.7. Therefore, at the projected taxbase of 88,441.36 with 3% increase and after repayment of the deficit, the Council’s projected income would be £144.577million representing £6.491million additional resources compared to 2022/23.

5.7. Business Rates

5.7.1. The business rates retention system introduced in 2013 was designed to transfer a level of risk and reward to local authorities, as it means growth or decline in the local economy impacts the council’s income. 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. 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 updated each year by the business rates multiplier, now the Consumer Prices Index (CPI).

5.7.2. The rates payable by individual businesses is based on the Rateable Value of the property as set by the government’s Valuation Office Agency, which is then multiplied by a figure called the business rates multiplier which is set by the government each year. The multiplier has historically been adjusted each year to reflect inflation, based on the CPI inflation figure for the September prior to the billing year. However, the multiplier has been frozen by the government since 2020/21, with local authorities being compensated for the impact in line with CPI. The government have to date made no announcements in respect of business rate reliefs, whether the multiplier may again be frozen, or whether local authorities would be compensated in full for

the impact of any further freeze.

- 5.7.3. The amount of income the Council can expect to receive in respect of the coming financial year is calculated at the end of January through a statutory return to the government called the NNDR1. This calculation reflects any deficit or surplus in actual income received to the fund compared to the previous year's budget, the total income expected through Section 31 grants compensating for rate reliefs awarded by the government, the top-up grant to ensure authorities reach the baseline funding level set by the government, and the total Rateable Value (RV, as set for each non-domestic property by the Valuation Office Agency) of the area.
- 5.7.4. The Draft Budget assumptions are unchanged from the Financial Outlook report in respect of business rates, reflecting growth of £5.134million in retained business rates and Section 31 grants received in government compensation for reliefs awarded compared to 2022/23.

5.8. Funding the inherent gap

- 5.8.1. The 2022/23 budget was balanced with the use of £4.853million of general reserves, which will need to be addressed in a sustainable way through the 2023/24 budget build and this (less the removal of one-off elements of the current year budget) is therefore the first call on the additional resources projected above.

6. Expenditure projections

- 6.1. The Financial Outlook 2023/24 summarised the key themes driving up the cost of service delivery and set out a projected range of potential pressures for each. Our draft budget assumptions reflect work carried out to refine each of those projections, summarised as follows:
- 6.2. Staff pay – while pay awards are agreed following due process and local negotiations with Trades Unions, for the purposes of the Draft Budget and reflecting government staff pay announcements and the expected increases in the National Living Wage, the Council's draft budget represents a 5% pay award for staff projected to cost £4.830million. As set out at paragraph 5.1.1, the Draft Budget reflects the reduction in expenditure arising from the reversal of the Health and Social Care Levy on National Insurance on the cost of staff pay, but also reflects the commensurate reduction in the level of government grant the Council receives from April 2023.
- 6.3. Interest rates and minimum revenue provision – the cost of financing the Council's ambitious and expansive capital programme in light of rising interest rates is currently projected to add £7.822million to the 2023/24 budget.
- 6.4. Children's Social Care and Education – our latest projections on the cost of placements in the latest 2022/23 forecast over the budget, demographic growth and price increases amount to a growth in the divisional budget of £21.295million, however work to increase capacity in local residential

provision and efficiencies are projected to reduce that pressure by £5.346million, resulting in a net budget growth of £15.949million.

- 6.5. Adult Social Care – As set out at section 5 of this report, the draft budget for the division reflects the funding allocation anticipated to implement the reforms of £5.800 million. In addition, our latest projections on the cost of placements in the latest 2022/23 forecast over the budget, demographic growth and price increases amount to a growth in the divisional budget of £7.916million taking the gross budget increase projected to £13.716million. However the continuation of the programme of targeted reviews and the delivery of further supported living capacity are projected to reduce that pressure by £1.726million, resulting in a net budget growth of £11.990million, or £6.190million excluding the impact of the reforms.
- 6.6. Inflation on contractual expenditure – work continues with contract managers seeking to minimise the impact of inflation on the Council's budget, however since the Financial Outlook was published, the CPI rate has again increased from 9.9% in August to 10.1% in September. The Bank of England now project that inflation will peak at 11% in October but will then remain above 10% “for a few months before starting to come down”. At this stage the draft budget assumption for inflation remains as stated in the Financial Outlook, adding £4.393million to the budget for 2023/24.
- 6.7. Utilities – our latest projections for energy usage and our estimate of the potential impact of the Government's announced Energy Bill Relief Scheme drive a net budget pressure of £2.203million.

7. Balancing the 2023/24 Revenue Budget

- 7.1. The Financial Outlook articulated a gap in the range of £32.626–£56.243million. Since then, work to refine our projections has resulted in the draft budget position presented in this report which reduces that gap to £28.683million. Senior officers and Portfolio Holders continue to work together through the usual budget setting processes to identify actions to reduce this gap. The core strands of this work are as follows:
- 7.2. Interest rates and minimum revenue provision – working with our treasury advisors we are continually monitoring the markets and projected interest rates to ensure we finance our capital programme in the most prudent way possible. Officers and Members are reviewing our current programme to identify any opportunities to reprofile schemes to minimise cash-flow at the projected interest rate peak.
- 7.3. Children's Social Care and Education Services – we continue to work to review the highest cost placements and are working to support the market to increase capacity to alleviate the pressure of supporting this cohort. We also continue to work to further strengthen our decision-making processes to ensure children and young people receive the most appropriate care in the most cost-effective way possible.

- 7.4. Scrutiny of contractual commitments – senior officers and Members are working to review service contracts and negotiate with suppliers where possible to minimise the impact of inflationary uplifts. This work is also seeking to identify opportunities to review contract specifications to ensure they remain in line with requirements.
- 7.5. Our ongoing Transformation programme, facilitated by the Business Change team is centred around three key activity streams;
- The Adult Social Care Transformation and improvement programme – working to reduce demand by keeping people independent in their own homes for longer, improving internal pathways to make them as efficient and effective as possible and improving the experience of our customers;
 - The Revenues and Benefits improvement programme – working to enable residents online access and self service capabilities, automating back-office functions and improving customer response times ultimately saving on resourcing requirements; and
 - The Digital, Data and Technology (DDaT) improvement programme – among other ambitions this workstream aims to embed a culture of intelligence-led decision making, making it easy for customers to interact with the Council, reducing transactional costs and rationalising systems.

8. The Capital Programme

- 8.1. The tables below summarise 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 – Round 2 Capital Monitoring Summary

| Directorate | Total Approved Cost £000s | Total Exp to 31/03/22 £000s | Remaining Budget £000s | Forecast Spend 2022/23 £000s | Forecast Spend in Future Years £000s | Forecast (Under)/overspend £000s |
|---|------------------------------|--------------------------------|---------------------------|---------------------------------|---|-------------------------------------|
| Children and Adults (including Public Health) | 37,412 | 16,564 | 20,849 | 15,316 | 6,223 | 690 |
| Regeneration, Culture and Environment | 626,856 | 204,260 | 422,596 | 145,828 | 276,744 | (24) |
| Housing Revenue Account | 47,408 | 19,739 | 27,669 | 13,207 | 14,463 | 0 |
| Business Support Department | 3,677 | 2,952 | 724 | 638 | 87 | 0 |
| Members Priorities | 363 | 0 | 363 | 25 | 338 | 0 |
| Total | 715,717 | 243,515 | 472,202 | 175,013 | 297,854 | 666 |

Table 3 – Funding the Capital Budget

| Funding Source | Total £000 | C&A £000 | RCE £000 | HRA £000 | BSD £000 | Members Priorities £000 |
|---|-----------------------|-------------------------|---------------------|---------------------|---------------------|--|
| Capital Grants | 192,980 | 2,328 | 190,650 | 0 | 1 | 0 |
| Developer Contributions | 3,564 | 2,455 | 1,109 | 0 | 0 | 0 |
| Capital Receipts | 5,544 | 1 | 4,623 | 9 | 548 | 363 |
| RTB Receipts | 2,906 | 0 | 0 | 2,906 | 0 | 0 |
| Revenue / Reserves | 8,515 | 0 | 877 | 7,638 | 0 | 0 |
| Prudential Borrowing | 95,430 | 14,891 | 63,248 | 17,116 | 175 | 0 |
| Borrowing in lieu of Capital Receipts | 121,437 | 0 | 121,437 | 0 | 0 | 0 |
| Borrowing in lieu of Future Business Rates | 30,304 | 0 | 30,304 | 0 | 0 | 0 |
| Borrowing in lieu of Future Section 106 Contributions | 1,174 | 1,174 | 0 | 0 | 0 | 0 |
| Borrowing in lieu of Future NHS Grant | 10,348 | 0 | 10,348 | 0 | 0 | 0 |
| Total | 472,202 | 20,849 | 422,596 | 27,669 | 724 | 363 |

8.2. On 18 October the Cabinet agreed to recommend to Full Council the addition of an amount not exceeding £7.0million to the Splashes Redevelopment Scheme. On 10 November 2022, Full Council agreed to add the sum of £5.8million to the programme from Round 3.

8.3. The Capital Strategy for 2023/24 onwards is in development and will be presented to the Cabinet in December 2022. The strategy will seek to detail the framework in which decisions are made on capital expenditure and funding and articulate the council's aspirations for capital investment in future years.

9. Conclusions

9.1. This report sets out the outline proposals that will form the basis of the 2023/24 capital and revenue budgets to be agreed by the Council in February 2023. There is a statutory requirement for the council to present a budget that balances to available resources.

9.2. As this report and its appendices set out, our current projections for income for 2023/24 amount to an increase in resources available of £21.797million while our initial projections for the cost of services and funding the inherent gap together add a pressure £50.480million. There is therefore a budget gap for the Council of £28.683million and significant work is still required to deliver a balanced budget.

9.3. Table 4 overleaf summarises these projections, which are detailed throughout the appendices to this report.

Table 4 – Summary of Draft Budget changes from 2022/23

| Additional resources: | £million |
|---|-----------------|
| Government grant (reflects reversal of Health & Social Care Levy on NI) | 0.726 |
| Education Related Grants | (5.098) |
| Social Care Reforms Funding | (5.800) |
| Council Tax | (5.067) |
| Council Tax Adult Social Care Precept | (1.424) |
| Business Rates | (5.134) |
| Total | (21.797) |
| Funding the inherent gap | 4.574 |
| Net increased budget requirement: | |
| Staff Pay | 4.830 |
| Reversal of Health & Social Care Levy on NI | (0.726) |
| Interest rates and Minimum Revenue Provision | 7.822 |
| Children’s Social Care and Education | 15.949 |
| Adult Social Care reforms | 5.800 |
| Adult social Care | 6.190 |
| Inflation on contractual expenditure | 4.393 |
| Utilities | 2.203 |
| Transformation programme | (0.556) |
| Total | 45.906 |
| Draft budget gap | 28.683 |

9.4. We await the new Chancellor’s Autumn Statement announcements currently scheduled for 17 November 2022 for any further funding for local authorities. In the meantime, officers and Members will continue to review opportunities to reduce costs and increase income in the period leading up to the Cabinet meeting on 7 February 2023. Overview and scrutiny committees have a vital role assisting in this process, both to comment on the approaches outlines 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 | In the absence of any budget announcements from Government, the settlement may differ from our projections. Our projections for Council Tax / Business Rates could be overstated. | Funding assumptions in the Draft Budget are in line with the assumptions prepared by the Council’s advisors. Officers and Members continue to work closely to identify savings. | C2 |

| Risk | Description | Action to avoid or mitigate risk | Risk rating |
|--|---|---|--------------------|
| 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 2023/24 than anticipated in the Draft Budget, or income may be lower than anticipated. | The pressures reflected in the Financial Outlook 2023/24 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. | C2 |
| Social Care Reforms | The impact of the government's social care reforms may result in higher costs to the authority beyond that received through new burdens funding. | Officers continue to work to determine the impact of the reforms and lobby government for adequate financial support for the sector. | C1 |
| Failure to deliver a balanced budget in February 2023 | 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. | B2 |

| Likelihood | Impact: |
|--|--|
| A Very high B High C Significant D Low E Very low F Almost impossible | 1 Catastrophic (Showstopper) 2 Critical 3 Marginal 4 Negligible |

11. Consultation

11.1. Members are consulted on the development of the final budget as follows:

| | |
|---|---------------------------------|
| Initial budget proposals to Cabinet (this report) | 15 November 2022 |
| Reports to Overview and Scrutiny | December 2022 / January 2023 |
| Budget proposals to Cabinet | 7 February 2023 |
| Budget proposals to Council | 23 February 2023 |

12. Financial implications

12.1. The Draft Budget reflects a budget requirement that is £28.683million in excess of the projected available resources for 2023/24. This gap exceeds the sum in the Council's general reserves, which we anticipate will be around £26.000million once the 2021/22 accounts are finalised.

12.2. The Round 2 Revenue Budget Monitoring Report 2022/23 (presented elsewhere on this agenda) reflects that the approved budget assumed the use of £4.853million from general reserves and represents a forecast overspend of £14.019million. Therefore, if the Round 2 forecast materialises it would be necessary to draw down £18.872million leaving a balance of circa £7.000million.

13. Legal implications

13.1. The Council has a statutory duty to set a balanced budget no later than 11 March in the financial year preceding the one in respect of which the budget is set. When developing the budget, the Council needs to be cognisant that is required in law to provide some services, mandatory services, and others where it is a matter of local choice, discretionary services. It is a matter for the Council to determine what its local priorities are and those which are not. This can assist in determining resource allocation.

13.2. Section 3 of this report refers to the potential budget gap for the next financial year. When determining its budget, the Council must have regard to the advice provided by the Chief Operating Officer (its statutory S151 finance officer). The S151 officer is required to report on the robustness of the estimates made for the purposes of the calculations, and the adequacy of the proposed financial reserves.

14. Recommendations

14.1. The Cabinet is asked to instruct officers to continue to work with Portfolio Holders in formulating robust proposals to balance the budget for 2023/24.

14.2. The Cabinet is requested to refer the draft capital and revenue budgets to overview and scrutiny committees as a work in progress, inviting them to offer comments on the proposals outlined.

14.3. The Cabinet is asked to recommend to Full Council that in February 2023 when setting the Council Tax, that the following changes are applied to Council premia in line with the Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018, as set out in paragraph 5.6.4 of this report:

- the 100% premium for long-term empty properties may be brought forward so that it can commence after being empty for one year rather than two; and
- a 100% premium may be charged for properties that are unoccupied but furnished (referred to as second homes).

15. Suggested reasons for decision

15.1. 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 7 February 2023 and formal council tax setting by Council on 23 February 2023.

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

| | |
|-------------------------------------|------------------|
| Business Support | 24 November 2022 |
| Children & Young People | 29 November 2022 |
| Health & Adult Social Care | 1 December 2022 |
| Regeneration, Culture & Environment | 8 December 2022 |
| Business Support | 25 January 2023 |
| Cabinet | 7 February 2023 |
| Council | 23 February 2023 |

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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 2023/24

Appendix 3A – RCE Draft Budget Summary

Appendix 3B – RCE Revenue Pressures and Savings 2023/24

Appendix 4A – BSD Draft Budget Summary

Appendix 4B – BSD Revenue Pressures and Savings 2023/24

Background papers

Financial Outlook 2023/24 – Cabinet 18 October 2022:

<https://democracy.medway.gov.uk/ielIssueDetails.aspx?Id=33680&Opt=3>