

CABINET

26 SEPTEMBER 2023

MEDIUM TERM FINANCIAL OUTLOOK 2023-2028

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Summary

This report sets out our projections for the Council's finances over the coming five years, presenting our estimates of the available income streams alongside initial assumptions around pressures on the cost of services.

1. Recommendation

- 1.1. The Cabinet is asked to note the forecast level of budget pressures and funding over the medium term and the resultant projected budget deficit for 2024/25.

2. Suggested reasons for decision

- 2.1. The Medium Term Financial Outlook (MTFO) provides the framework that underpins the budget setting process for 2024/25 and beyond.

3. Budget and policy framework

- 3.1. Supported by the Corporate Management Team, Cabinet is responsible for developing a draft revenue budget ahead of presenting its budget proposals for approval by Full Council in February of each year. This Medium Term Financial Outlook identifies the key issues that will need to be addressed in order for the Council to balance its budget in the coming years.

4. Background

- 4.1. The Financial Outlook 2023/24 was considered by Cabinet in October 2022 and projected a potential budget gap for the Council of between £32.626 – £56.243million. During the following months the projections were refined based on the latest activity data, challenging costs and reassessing the trends projected. That work had reduced the potential gap to £28.683million by the time the Draft Budget was presented to the Cabinet in November 2022. The provisional Local Government Finance Settlement resulted in £5.362million

additional resources compared to the Draft Budget projections, and officers and Portfolio Holders worked to develop a package of solutions to mitigate the remaining pressures. The proposed budget presented to Full Council in February 2023 still exceeded the available resources by £1.937million, and a series of savings were approved in order to fund newly announced initiatives and close the remaining budget deficit.

- 4.2. Presented in the appendices to the 2023/24 budget report in February 2023, Cabinet and Council considered the projected budget requirement and resources for future years. Those projections resulted in a potential budget gap for 2024/25 of between £7.156 and £15.429million.
- 4.3. The Capital and Revenue Budget Outturn for 2022/23 was reported to the Cabinet in June 2023, and represented a net overspend on the cost of services of £6.094million. Including the budgeted use of reserves, funding the 2022/23 financial year required the use of £10.947million of general reserves, reducing the balance to £10.083million.
- 4.4. The results of the first round of the Council's revenue budget monitoring were presented to the Cabinet in August 2023, and projected an overspend of £17.267million.

5. Income Projections

5.1. Government grant

- 5.2. The government have confirmed that the Autumn Statement will be laid before parliament on 22 November 2023. The Local Government Finance Settlement for 2023 to 2024 confirmed grant allocations for the two years, 2023/24 and 2024/25. For Medway this represented an inflationary increase to the Revenue Support Grant of £438,491 and further growth in Adult Social Care Grant of £3.898million. In addition to the social care grant allocations for 2024/25 announced in the final Settlement for 2023/24, on the 28 July 2023 the government announced additional funding to be delivered through the Market Sustainability and Improvement Fund – Workforce Fund which is projected to be £852,300 in 2024/25. The MTFO also reflects our latest assumptions for Public Health, Education and other ring-fenced grants, however any increases reflected are also reflected in increased ring-fenced spend, and do not therefore impact the general fund budget gap. This MTFO therefore reflects total additional grant of £5.563million compared to the 2023/24 budget.

- 5.3. The consultation documents published ahead of the final Settlement for 2023/24 set out that “The government had previously committed to carry out a Review of Relative Needs and Resources and a reset of accumulated business rates growth. Whilst we can confirm that these will not be implemented in this Spending Review period, the government remains committed to improving the local government finance landscape in the next Parliament.” Medway Council is part of F20, a cross party group of councils across the country who are lobbying the government to implement a fairer

method to distribute funding. Analysis conducted by the group shows that its members are the 20 very lowest funded local authorities in the country, with significantly lower core spending power than the average for all other local authority groups, which leads to disproportionately higher demands on the Council Tax to fund services as shown in the tables overleaf. Core Spending Power is a government calculation of the level resources available to local authorities to fund service delivery; the calculation is not in itself a statement of the actual resources available to local authorities; it is a mechanism used by Government to illustrate the potential funds available to local authorities.

Local Authority type	Average Core Spending Power per head of population in 2022/23
Inner London Boroughs	£1,377
Outer London Boroughs	£1,108
Metropolitan areas	£1,070
Unitary areas	£994
Shire County areas	£977
F20 authorities	£919

Local Authority type	2022/23 Council Tax averages (Band D)
Inner London Boroughs	£1,437
Outer London Boroughs	£1,844
Metropolitan areas	£1,960
Unitary areas	£2,034
Shire County areas	£2,041
F20 authorities	£2,010

- 5.4. Many of the local authorities that have issued Section 114 reports, or which are publicly in financial distress have low core spending power relative to other authorities, and a significant proportion are shire unitary councils suggesting a structural funding imbalance in the government's current methodology. It is therefore anticipated that implementing the long-delayed reforms to the funding distribution methodology would see Medway Council receive a higher proportion of government grant funding than results from the existing mechanism.
- 5.5. **Income from Local Taxation – the Collection Fund**
- 5.6. 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.

5.7. **Council Tax**

5.8. 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.

5.9. The Council's financial planning advisors are projecting that our taxbase will grow for 2024/25 to 90,566.7 band D equivalents, an increase of 1.38% broadly in line with pre-pandemic historic growth which averaged around 1.4%.

5.10. In December 2022, ahead of the publication of the Provisional Settlement for 2023/24, the Department for Levelling Up, Homes and Communities (DLUHC) published a Local Government Finance Policy Statement 2023/24 to 2024/25, setting out the government's intentions for the Local Government Finance Settlement for those two years. This document stated that the Council Tax referendum threshold would be set at 3% per year, with local authorities with social care responsibilities able to set an adult social care precept of up to 2% per year, without a referendum.

5.11. The cost of living crisis is impacting on the Council Tax income we can budget for. The number of claimants for the Council Tax Reduction Scheme is increasing and the collection rate is expected to reduce as residents' ability to pay their bills is reduced. This MTFO assumes that it will therefore be necessary to increase the level of provision for bad debt by £2million. Our initial projections also indicate that there will be a deficit on the Council Tax collection fund for Medway of £755,285 that will need to be repaid through the 2024/25 budget.

5.12. Therefore, at the projected taxbase of 90,566.7 dwellings with a 4.994% increase, accounting for an increase to the bad debt provision and repayment of the deficit, the Council's projected income from Council Tax is £7.272million higher than the 2023/24 budget.

5.13. **Business Rates**

5.14. 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 fund 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 CPI.

- 5.15. 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.
- 5.16. The change in the total RV in Medway between the end of January and the end of the following financial year (a period of 14 months) since January 2018 is shown in the table below.

	January estimated RV in advance of financial year	Actual RV as at end of financial year (*2023-24 as at August 2023)	RV change
2018-2019	226,801,200	231,816,956	+2.16%
2019-2020	229,022,911	230,379,494	+0.59%
2020-2021	229,803,547	229,567,388	-0.10%
2021-2022	228,917,468	227,238,654	-0.74%
2022-2023	226,974,397	227,022,224	+0.02%
2023-2024	250,651,176	249,189,714*	-0.59

- 5.17. While previously the business rates base in Medway had grown year on year, despite the government meeting a significant proportion of liabilities through rates relief and grants throughout the pandemic, adverse impact on the total RV was clear in 2020/21 and 2021/22. While a minor improvement was seen in 2022/23, and the impact of the revaluation of rateable values for the latest rating in our projections for 2023/24, the latest data suggests again the RV will reduce in 2023/24 overall.
- 5.18. Collectively our advisors are projecting that the total income to Medway Council through Retained Business Rates (which represents Medway's share of the rates locally collected, the impact of any surplus or deficit from previous years and the impact of any change in the debt provision required) in 2024/25 will be 4.8% higher than in 2023/24, representing an increase of £2.575million. Our advisors are also projecting that total income through Business Rates Related Grants (compensating authorities for the impact of the government freezing the Business Rates multiplier, and the Top Up Grant) will increase by £5.969million for 2024/25. Our advisor's projections for future years reflect the impact of the Business Rates Baseline Reset expected to take place in 2026/27; this is anticipated to result in Medway becoming a tariff authority rather than one receiving a top up grant, with a compensatory increase in Revenue Support Grant projected to mitigate some of the impact.

6. Expenditure projections – Corporate and Centralised costs

6.1. Funding the inherent gap

6.2. The 2023/24 budget was funded with the use of £2.985million from earmarked reserves relating to the Interest and Financing budget provision. This will need to be addressed in a sustainable way in the 2024/25 budget and this (less the removal of one-off elements of the current year budget) is therefore the first call on the additional resources projected in section 5 of this report.

6.3. Staff pay

6.4. Prior to 2023/24, Medway Council staff received pay awards broadly in line with inflation; 1% in 2017/18, 1.5% in 2018/19 and 2% from 2019/20 to 2022/23, though the initial planning assumption had been 1% for some years. Many lower paid staff had however received increases in excess of this resulting from increases in the National Living Wage rates.

6.5. The 2023/24 pay award represented a general cost of living increase of £1,000 (pro-rata) for all staff and, in addition, the introduction of a £500 gap between pay ranges 1-4. The percentage increase therefore varied for staff, with those at the bottom of the pay ranges receiving uplifts of 8.8% with decreasing percentage uplifts for those on higher pay ranges.

6.6. Following protracted negotiations and public sector strikes, the government announced that it would implement the recommendations of the various pay review bodies to increase public sector pay for teachers, doctors and dentists, civil servants, police, the armed forces, and justice staff by between 5% and 7% in 2023/24.

6.7. The review of the MedPay structure is underway, with the first cohort of teams going live with their new pay arrangements in August 2023. The impact of these reviews resulted in pressures that will be reflected in the Round 2 budget monitoring for 2023/24 and are captured as part of the projected pressure for 2024/25. Work on the second cohort of teams began in September 2023.

6.8. To enable a meaningful consultation process between the unions and Medway Council, this MTFO assumes that the total cost of a pay award and the impact of the MedPay review will cost the Council £10million in 2024/25.

6.9. Interest rates & minimum revenue provision

6.10. Though the loss of the Housing Infrastructure Fund grant for the development of the Hoo Peninsula represents a significant reduction, the Council's capital programme remains ambitious. Around £132million of the Council's remaining capital budget of c£234million is funded through borrowing in some way. While much of this represents relatively short-term borrowing, in lieu of future income from grant, capital receipts or rents, rising interest rates continue to impact the financing of the capital programme.

- 6.11. The Council's interest and financing budget funds the cost of interest payments to service this borrowing, with the current budget set at £15.3million. Of this, £2.985million is funded from earmarked reserves in 2023/24 as set out in section 6.2 above.
- 6.12. The Bank of England's Monetary Policy Committee (MPC) has increased Bank Rate three times in the 2023/24 financial year to date, to the current 5.25%. The MPC projects that Bank Rate will peak at 6% in Q3 of 2024, before beginning to fall to 5.2% in Q3 2025 and again to 4.5% in Q3 2026. This projected peak is 1% higher than was forecast in Autumn 2022 and reflects a slower reduction than was previously forecast.
- 6.13. Where authorities borrow to finance capital spend, we are required under regulations to set aside money each year from the revenue account to make sure we can afford to repay the principal of the debt, known as the Minimum Revenue Provision (MRP). The Council's interest and financing budget also funds the cost of contributions to this provision.
- 6.14. The extent to which projected rate rises will impact the Council's borrowing is dependent on progress with the agreed capital programme. Based on the first round of budget monitoring, the projected cost of financing the programme as planned to the end of 2024/25 (including new borrowing agreed by Full Council in 2023/24) could exceed the 2023/24 budget by £5.502million.
- 6.15. **Housing Benefit Subsidy Shortfall**
- 6.16. While most new claimants for benefits are now made through Universal Credit, administered by the Department for Work and Pensions (DWP), local authorities continue to administer existing Housing Benefit claims that have not been transferred to the DWP, and new applications for pensioners, temporary accommodation and specified accommodation. The government pays local authorities to administer Housing Benefit through a subsidy scheme, and while 100% subsidy is received for most ongoing benefit claims, the types of claim for which local authorities continue to administer new claims for do not attract 100% subsidy, representing a growing issue for the Council's budget. The 2023/24 Round 1 monitoring projected that this subsidy shortfall will result in a pressure of £735,000. As the DWP continues to migrate Housing Benefit claimants over to Universal Credit, we expect this trend to continue and project that this will result in a pressure of £800,000 for 2024/25.
- 6.17. **Legal Services: Additional resource to support social care**
- 6.18. On 8 August 2023 the Cabinet approved a restructure of the Council's Legal Services and recommended to Council that the revenue budget for the service be increased to fund the impact (decisions ref: 12-133/2023 refer). This MTFO reflects the impact of the restructure of £124,822 and the cost of the additional staffing required of £313,150. The report also noted the impact of the MedPay review on the service, which is featured in the projection for the Staff Pay award set out in Section 6.3 of this report.

6.19. Levies

6.20. Medway Council is required to contribute to other public bodies for the delivery of statutory functions, including to Kent County Council for the Kent and Medway Coroners Service, to the relevant Internal Drainage Boards and to the Environment Agency in respect of flood and coastal protection. Though no specific increases have been communicated by the levying authorities to date, levy amounts increased by an average of 5% from 2021/22 to 2022/23 and by an average of 8% from 2022/23 to 2023/24. On that basis this MTFO projects that the cost to Medway of these levies will increase by 10% for 2024/25, adding a total of £225,000 to the Council's budget requirement.

7. Expenditure projections – Children and Adults

7.1. Adult Social Care

7.2. The 2023/24 placements budgets assumed 2,977 placements and reflected an average 5% increase in weekly rates across all placement types. The Round 1 budget monitoring reflects pressures including a net increase of 20 clients in supported living at a 16% increase in the average weekly cost, and 25 clients in older people services, with around a third of residential and nursing placements now placed in packages above band rates. The Round 1 budget monitoring also reflects a significant increase in homecare placement numbers, as a great deal of work has been carried out to update homecare packages on Mosaic and reduce waiting lists since the budget for 2023/24 was agreed. This MTFO assumes those additional placement numbers and costs will continue into 2024/25, so the cost of the current service in excess of the existing budget will add a total of £6.602million to the budget requirement for 2024/25. Further progress towards increasing band rates to the level identified in the Fair Cost of Care Exercise would add a further £1.380million.

7.3. In addition to funding the cost of the current service, our initial projections around demographic growth suggest that the adult social care caseload could increase by 3%. Net of the impact of increasing benefit rates, this would add a further £2.973million to the budget requirement for 2024/25.

7.4. If adult social care provider fees and the out of hours contract were uplifted at the OBR projected CPI rate for Q3 2023 of 5.4%, this would add a £5.397million to the budget requirement for 2024/25.

7.5. As a result of ongoing difficulties in recruiting and retaining an in-house workforce, 30% of adult social workers engaged by the Council are currently locums. The premium payable to the agency along with higher rates of pay are driving a pressure in the 2023/24 financial year of £557,000, which is projected to rise to £715,000 in 2024/25.

7.6. Collectively these pressures would add £16.446million to the Council's budget requirement for 2024/25.

7.7. **Children's Social Care**

- 7.8. The 2023/24 placements budget assumed 452 placements and 558 client support packages and reflected a 5% increase in weekly rates across all placement types. Though placement numbers have stabilised, expenditure on client support packages to stabilise existing placements has increased driving a pressure of £1.332million in 2023/24. After full Council approved the budget, central government announced a 12.4% mandatory increase for foster carers and the Independent Fostering Agency's framework was linked to the September inflation rate of 10.7% creating a budget pressure of £1million in 2023/24. This MTFO assumes that this additional placement cost will continue into 2024/25, so the cost of the current service in excess of the existing budget will add a total of £3.026million in 2024/25.
- 7.9. In addition to funding the cost of the current service, our initial projections around demographic growth suggest that the children's social care caseload for children in care could increase by 45, or 10% adding a further £1.965million to the budget requirement for 2024/25.
- 7.10. If children's social care provider fees, the out of hours and Regional Adoption Agency contracts were uplifted at the OBR projected CPI rate for Q3 2023 of 5.4%, this would add a £2.672million to the budget requirement for 2024/25.
- 7.11. Continued increases in the complexity and therefore cost of legal proceedings relating to children's social care are driving a pressure in 2023/24 of £253,000 which is expected to increase to £471,000 in 2024/25.
- 7.12. Following a legal judgement the Council must now take responsibility for the care of 65 Unaccompanied Asylum Seeking Children (UASC) placed in Medway through the National Transfer Scheme. There is no current budget, so the Round 1 monitoring for 2023/24 projects a pressure of £1.3million. This MTFO projects that the Council will be responsible for supporting 65 children and young people through this scheme at a projected cost of £1.691million in 2024/25.
- 7.13. Collectively these pressures would add £10.025million to the Council's budget requirement for 2024/25.

7.14. **Education**

- 7.15. The Council meets the cost of transporting pupils with Special Educational Needs and Disabilities (SEND) to school, however as reported in the first round of budget monitoring for 2023/24, the increase in pupil numbers seen in Medway and rising fuel costs have resulted in a forecast pressure of £1.455million in the current year. Our initial projections assume we will be responsible for transporting 300 additional mainstream pupils, and 259 additional SEND pupils, taking the total number of SEND pupils transported to 2,203. With costs uplifted by the OBR projected CPI rate for Q3 2023 of 5.4%, this would add £3.978million to the budget requirement for 2024/25.
- 7.16. The cost to the general fund of school improvement, place planning and

assessment services is projected to increase by £441,000. Finally, as in children's social care, the cost of legal proceedings is projected to increase and alongside the increasing cost of the information and advice service, this is projected to add £223,000 to the budget requirement for 2024/25.

7.17. Collectively these pressures would add £4.642million to the Council's budget requirement for 2024/25.

7.18. **Public Health**

7.19. This MTFO assumes that any increased cost of Public Health services will be met from the projected increase in ring-fenced grant of £373,000 as set out at Section 5.2 of this report and will not therefore increase the Council's net budget requirement.

7.20. Collectively the pressures reflected across the Directorate would add a total of £31.487million to the Council's budget requirement for 2024/25.

8. Expenditure projections – Regeneration, Culture and Environment

8.1. **Inflation on contractual expenditure** – As at July 2023 the UK Retail Price Index rate was 9% while the Consumer Price Index rate was 6.8%. The Office of Budgetary Responsibility (OBR) project that the CPI rate will be 5.4% at Q3 2023. Though the consensus among economic advisors is that rates will continue to fall, with Capital Economics currently forecasting the CPI measure to be 4.6% at the end of the year, and to be below 2% by May 2024, uplifts in line with inflation (primarily at RPI) are built into many of the Council's service delivery contracts at specified points in time, meaning this will continue to be a significant pressure in 2024/25. Our initial projections for the required uplifts on contracts including waste management and disposal, and the services delivered through the Joint Venture with Medway Norse (including refuse collection, grounds and facilities management) have been calculated primarily on the CPI rate at Q3 of 5.4% and arriving at a total additional budget requirement of £2.342million in 2024/25.

8.2. **Utilities** – The Directorate is responsible for managing the Council's property portfolio, including its energy budgets. Energy costs continue to be volatile in response to geo-political forces, and there is no clear consensus among analyst projections for prices in the coming years. Some analysts suggest that utilities prices in the UK will stabilise at current levels, though others suggest gas costs for generating electricity will surge by 35% by 2025. Inflationary impacts on suppliers will inevitably lead to increased costs regardless of the impact of wholesale prices, so this MTFO assumes that utilities costs across the Council's properties will increase by 10% for 2024/25, adding £437,000 to the budget requirement.

8.3. **Homelessness including temporary accommodation** – The Council's budget for homelessness assumes we would need to support 213 households in temporary accommodation. The Round 1 monitoring for 2023/24 reported that the number of households had reached 366 however that has now reached 440. In addition the cost of accommodation has risen significantly

while the local housing allowance rate is fixed, meaning a growing proportion of the cost of temporary accommodation is falling to local authorities. This MTFO assumes that will continue to increase to 480 over the course of 2024/25, and net of our assumptions around direct grant allocations, this will add £2.722million to the budget requirement for 2024/25.

- 8.4. **Planning: fee income shortfall and cost of local plan delivery** – In previous years, the use of external consultants to contribute to the delivery of the Local Plan have been funded from a dedicated reserve. The Round 1 monitoring for 2023/24 projects that the reserve will be used in full and our initial projection is that the delivery will require an additional £515,000 from 2024/25. The Round 1 monitoring also forecasts a shortfall on planning fee income, and this MTFO projects that will also result in a pressure in 2024/25 of £451,000.
- 8.5. **Leisure & Culture: Splashes running costs, events and festivals** – Prior to the closure of the original facility, Splashes was subsidised, operating with a revenue budget of £306,184 per annum. This pressure was removed from the Council's 2021/22 budget when Splashes was closed and it is estimated that the net operating budget would need to be in excess of £500,000 so this figure is included in our assumptions for this MTFO.
- 8.6. **Expanded Warden Service** – Fulfilling the Administration's pledge to tackle crime and anti-social behaviour with a neighbourhood warden for every ward will require the addition of £339,000 to the budget requirement for 2024/25.
- 8.7. **Regeneration: rebase staffing following loss of the Housing Infrastructure Fund (HIF)** – The staff responsible for managing the Council's ambitious regeneration programme have historically been primarily funded by charges to the relevant capital schemes, with the overall management resource boosted when the HIF funding was confirmed. It is not possible to fund these posts solely from the remainder of the capital programme without adversely impacting the delivery of regeneration in Medway. It will therefore be necessary to fund the staffing required to deliver the Council's regeneration aspirations from the general fund budget, adding £314,000 to the budget requirement for 2024/25.
- 8.8. Collectively, including the contractual uplifts, these projections represent a net pressure of £7.620million against the Directorate budget for 2024/25.
9. **Expenditure projections – Business Support**
 - 9.1. **Historic budget pressures including unachievable income targets** – Prior to the government's programme of academisation of schools, Business Support Department provided a number of services directly to schools on a fee-earning basis, including HR and Payroll. As more Medway schools convert to academies, many in multi-academy trusts, the number of schools buying such services from the Council has significantly reduced resulting in pressures on income budgets. Some services have income targets for services provided directly to other parties including other local authorities or companies, however over time the demand on these services has reduced

leaving unachievable income targets. While services have been reduced to reduce the pressure on income budgets, this MTFO assumes that the budget will be rebased to remove these pressures from 2024/25, adding £802,000 to the budget requirement.

- 9.2. **Transformation staffing funded from revenue as no capital receipts available** – In approving the budget for 2022/23 in February 2022, Full Council agreed for the costs of the transformation staffing to be funded through the Flexible Use of Capital Receipts for 2021/22 and 2022/23 financial years. This has also been sufficient to fund the resources for 2023/24 however the Council is not currently projecting the availability of any further capital receipts beyond those committed within the capital programme. As such, in order to ensure services continue to be supported on their transformation journey, it will necessary to fund the transformation staffing from the revenue budget. This MTFO assumes that these resources will help the Council to deliver at least their own cost in budget savings through the delivery of transformational activities, and this service does not therefore represent a budget pressure for 2024/25. The Council's transformation roadmap is in development, and will be presented to the Corporate Management Team in October 2023 before being presented to the Cabinet ahead of the Budget report in February 2024.
- 9.3. **Inflation on contractual expenditure** – As set out in paragraph 8.2 above, the impact of inflationary uplifts on contracts will manifest in a pressure in 2024/25 and beyond. The cost of increases on the CCTV and ICT contracts in the Department have been calculated as at the Q3 CPI projection of 5.4% and result in a total additional budget requirement of £138,000.
- 9.4. **Members' allowances** – The MTFO reflects the increased number of Members of the Council from 55 to 59 and the annual uplift of Members' Allowances, adding a total of £126,000 to the budget requirement.
- 9.5. Collectively these pressures would add £1.066million to the budget requirement for Business Support for 2024/25.

10. Summary

Summary Medium Term Financial Outlook Projections 2024 - 2028				
	2024/25	2025/26	2026/27	2027/28
Brought forward potential budget gap		38,745	49,158	65,052
Projected additional resources:				
Non-ringfenced government grant	(5,563)	(2,501)	(16,927)	(1,550)
Council Tax	(7,272)	(12,982)	(10,902)	(11,614)
Retained Business Rates	(2,575)	(1,026)	(1,712)	(1,788)
Business Rates Related Grant	(5,969)	(206)	22,689	103
Total projected additional resources	(21,378)	(16,716)	(6,851)	(14,849)
Projected increased budget requirement:				
Corporate and centralised cost pressures:				
Funding the inherent gap: use of earmarked reserves	2,985	0	0	0
Staff Pay: pay award and impact of MedPay review	10,000	6,500	6,500	6,500
Interest Rates and Minimum Revenue Provision	5,502	2,045	(2,072)	(1,936)
Housing Benefit Subsidy shortfall	800	100	100	100
Legal services: additional resource support social care	438	0	0	0
Levies including Coroner's Service from Kent County Council	225	113	56	56
Children & Adults Directorate specific pressures:				
Adult Social Care: demographic growth, price increases (including Fair Cost of Care rates)	16,446	9,903	9,892	8,511
Children's Social Care: demographic growth, price increases and UASC	10,025	4,981	5,108	5,285
Education: SEND and mainstream school transport	4,642	1,039	1,315	1,529
Public Health increased expenditure covered by grant increase	373	381	656	402
Regeneration, Culture & Environment Directorate specific pressures:				
Inflation on contracts	2,779	1,390	695	695
Homelessness including temporary accommodation	2,722	400	400	400
Planning: Fee income shortfall and cost of local plan delivery	966	0	0	0
Leisure & Culture: Splashes running costs	500	150	0	0
Expanded Warden Service	339	0	0	0
Regeneration: rebase staffing following loss of the HIF	314	0	0	0
Business Support Department specific pressures:				
Historic budget pressures including unachievable income targets	802	0	0	0
Transformation: staffing funded from revenue as no capital receipts available	570	0	0	0
Transformation: expected minimum savings delivered	(570)	0	0	0
Inflation on contracts	138	69	35	35
Members' Allowances	126	60	60	60
Total projected increase in budget requirement:	60,123	27,129	22,744	21,637
Cumulative potential budget gap:	38,745	49,158	65,052	71,840

11. Conclusions

- 11.1. Our initial projections for additional resources are limited to £21.378million, however our initial projections for the increased budget requirement stand at £60.123million, leading to a potential budget gap for 2024/25 of £38.745million, rising to £71.840million in 2027/28.
- 11.2. We await the new Chancellor’s announcements through the Autumn Statement on 22 November for any further funding for local authorities.
- 11.3. In the meantime, Portfolio Holders and senior officers are working to identify a range of measures to balance the budget. The Corporate Management Team are currently working to a cash-limit approach, whereby the first call on any final additional resources would be used to fund the corporate pressures identified at Section 6 of this report. The remainder of the additional resources would then be directed to the pressures on the delivery of statutory services in Children and Adults, with the Regeneration, Culture and Environment Directorate and Business Support Department budget pressures to be mitigated within each service area.
- 11.4. Progress in reducing the projected gap will be reflected in the Draft Budget 2023/24 which will be presented to the Cabinet in November.

12. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Council fails to deliver a balanced budget and it becomes necessary to issue a S114 notice.	S114 notices are widely reported, reflect poorly on the organisation’s ability to govern and would therefore result in reputational damage.	It may be necessary to carry out some or all of the following: <ul style="list-style-type: none"> • stopping all or severely reducing discretionary spend immediately, including cessation of some or all discretionary services; • limiting expenditure on non-discretionary services to the statutory minimum levels; • reduction or deferral of capital spend to reduce overall borrowing and the consequent call on revenue; • freezing recruitment to non-essential posts; • seeking opportunities to maximise income; and • ultimately, use of reserves. 	All
Demographic Growth	Further demographic pressures may	Close monitoring of demand for service to identify pressures early, robust budget monitoring.	All

Risk	Description	Action to avoid or mitigate risk	Risk rating
	surface across social care above those assumed in our projections.		
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.	All
Special Educational Needs and Disabilities	Further increases in the number of children requiring support, and in the complexity of needs may surface above those assumed in our projections.	Close monitoring of demand for service to identify pressures early, robust budget monitoring.	All
Inadequate funding	If the local government settlement does not provide sufficient funding, there is a risk to the future sustainability of the local authority sector.	Officers and Members continue to work closely to identify savings.	All
Likelihood		Impact:	
A Very likely B Likely C Unlikely D Rare		I Catastrophic II Major III Moderate IV Minor	

13. Consultation

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

Initial budget proposals to Cabinet	21 November 2023
Reports to Overview and Scrutiny Committees	December 2023
Budget proposals to Cabinet	13 February 2024
Budget proposals to Council	29 February 2024

13.2. The Leader has set out an aspiration to engage the public in the process to develop the budget for 2024/25, consideration is currently being given to potential options.

14. Climate change implications

14.1. There are no direct climate change implications to this report.

15. Financial implications

15.1. Our initial projections for income and expenditure result in a budget deficit of £38.745million for 2024/25, rising to £71.840 in 2027/28. As set out in paragraph 4.4 of this report, the first round of the Council's budget monitoring for 2023/24 projects an overspend of £17.267million while the Council's general reserves balance is just £10.083million, so it will not be possible to assume the use of reserves to close the projected gap. It will instead now be necessary for the administration and senior officers to materially reduce expenditure in the current year, and to identify and implement a robust savings programme in order to balance the budget for 2023/24 and 2024/25.

16. Legal implications

16.1. 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.

16.2. Section 11 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 Section 151 finance officer). The Section 151 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.

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Appendices

None

Background papers

None