

## **COUNCIL**

**20 FEBRUARY 2014**

### **CAPITAL AND REVENUE BUDGETS 2014/15**

Portfolio Holder: Councillor Alan Jarrett, Deputy Leader and Finance

Report from: Mick Hayward, Chief Finance Officer

#### **Summary**

This report sets out Cabinet's proposals for the capital and revenue budgets for 2014/2015. In accordance with the Constitution, Council is required to approve the capital and revenue budgets, rent increases and council tax for 2014/15 as proposed by Cabinet.

#### **1. Budget and Policy Framework**

- 1.1 The council has responsibility for determining the budget, both capital and revenue, and setting the council tax level. In undertaking this responsibility the Council must consider the budget proposals developed by the Cabinet. However, ultimately it is Council's decision, and it may adopt Cabinet's budget proposals, amend them or substitute its own in their place.
- 1.2 In respect of the Housing Revenue Account budget proposals, the Council is required to carry out an annual review of rents and notify tenants not less than 28 days prior to the proposed date of change.
- 1.3 The Council Plan is part of the Council's Policy Framework as set out in the Constitution. The current Council Plan's strategic priorities and commitments will remain the same during 2014/15. There is a need however to review and refresh the current suite of indicators and projects that support the plan to ensure they remain relevant and informative during 2014/15 and the outcome of that review is considered as a separate item on this agenda.

#### **2. Background**

- 2.1 On 26 November 2013 Cabinet considered the draft capital and revenue budget proposals, based on the principles and assumptions contained within the Medium Term Financial Plan (MTFP) approved by Cabinet in October 2013. The MTFP highlighted a potential revenue shortfall of some £16.2 million in 2014/15, after allowing for savings from the 'Better for Less' programme of £1.5 million and a council tax increase of 2% yielding £2.2 million, however by the time the provisional budget was reported to Cabinet in November this 'gap' had been reduced to £4.8 million.

- 2.2 The Chancellor's Autumn Statement at the beginning of December 2013 and the subsequent Provisional Financial Settlement announcement on 20 December 2013 impacted on some of the resource assumptions and these were reflected in the report to Cabinet on 11 February 2014. Unfortunately the Final Settlement figures were not released until 5 February 2014, after the Cabinet report had been published. However the impact of this was reported as an addendum to the Cabinet report and has been reflected in the Council report.
- 2.3 Relevant overview and scrutiny committees have considered Cabinet's proposals in detail and referred their comments back to Cabinet. In compliance with the budget and policy framework rules, detailed budgets have been prepared culminating in this report.

### 3. Financial Resources

#### 3.1 General Fund

- 3.1.1 The Final Settlement Funding Assessment announced on 5 February 2014 reflects only a minor change from the Provisional Settlement figures, in that the Revenue Support Grant (RSG) has increased by £12,577 to £52,391,218.
- 3.1.1 The headline for Medway for 2014/15 is a Settlement Funding Assessment (SFA) of £95.331 million, representing a decrease of 9.6% over the equivalent sum for 2013/14 with a further decrease of 13.6% for 2015/16. The detail is set out in Table 1 below.

**Table 1. Adjusted and Provisional Settlement Analysis**

	<b>2013/14 (adjusted)</b>	<b>2014/15 (final)</b>	<b>2015/16 (final)</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Upper-tier Funding	66,764	59,682	50,046
Lower-tier Funding	18,019	15,446	12,926
2011-12 Council Tax Freeze Compensation	2,463	2,452	2,451
Early Intervention Funding	8,336	7,690	7,033
Homelessness Prevention Funding	150	148	148
Lead Local Flood Authority Funding	132	130	130
Learning Disability and Health Reform Funding	9,566	9,657	9,654
Returned Funding	0	126	0
<b>Settlement Funding Assessment</b>	<b>105,430</b>	<b>95,331</b>	<b>82,388</b>
<b>% reduction</b>		<b>-9.6%</b>	<b>-13.6%</b>
<b>Revenue Support Grant</b>	<b>63,311</b>	<b>52,391</b>	<b>38,263</b>
<b>Baseline NNDR Funding</b>	<b>42,119</b>	<b>42,940</b>	<b>44,125</b>

- 3.1.2 Table 1 above demonstrates that £42.9 million of the SFA is the Baseline NNDR Funding. This is predicated on a baseline calculation founded on collections in 2010/11 and 2011/12. The actual contribution to be used as the basis for resourcing the budget will be an anticipated collection for 2014/15 and that will be informed by the actual collection, to date, in 2013/14. This is discussed further in paragraph 3.2 below.

- 3.1.3 The SFA reduction at 9.6% in 2014/15 is slightly greater than the Shire Unitary average of 9.2% although the 2015/16 position is reversed at 13.6% versus 13.8%. The all England average reduction is 8.8% and 13.2% for 2014/15 and 2015/16 respectively.
- 3.1.4 In a recent speech the Chancellor has also set out plans to cut an extra £25 billion from the Public Sector in the first half of the next Parliament arguing that the state would have to be 'permanently smaller' in the future to ensure long-term stability.

### **3.2 NNDR (business rates) Share**

- 3.2.1 The SFA is split between Revenue Support Grant (RSG) and Business Rates Retention (expressed as Baseline Funding). The level of RSG is guaranteed throughout the year, whilst the Baseline Funding is not, and ultimately, the level of business rates collected by authorities in any year will determine the funding available for this element, with any surplus or deficit against expectation dealt with through the Collection Fund. Any such variation will not be clear until the accounts for that year are confirmed and any surplus or deficit is required to be shared with the Kent Fire and Rescue Service (and not the police).
- 3.2.2 Where an authority's original Baseline Need was higher than their NDR Baseline, a Top Up grant is payable – Medway is such an authority and in 2013/14 received an additional grant of £0.413 million as a result. Authorities with a Baseline Need that is lower than their NDR Baseline, a Tariff is paid to central Government. The Top Up payment is guaranteed and, as the published data confirms, increases annually in line with the multiplier, until the Government re-bases the system which is not expected to occur until 2020.
- 3.2.3 The settlement announced no changes to the business rates retention scheme although there is a consultation on 13 new proposals for pooling in 2014/15.

The income from business rates, and the subsequent Council share, will be affected by the measures announced in the 2013 Autumn Statement. These are:

- The 3.2 per cent RPI increase for 2014/15 will be capped at 2 per cent;
- A £1,000 discount for all retail, pubs, cafes (excluding banks and betting establishments) with rateable values below £50,000 for 2 years;
- The doubling of Small Business Rate Relief will continue for a further year; and
- Ratepayers will continue to keep their Small Business Rate Relief (SBRR) entitlement for a year where they take on a second property. New occupiers of former retail premises which have been unoccupied for a year will receive a 50 per cent discount for 18 months.

At its meeting on 11 February 2014 Cabinet agreed the proposed relief schemes for these and the previously announced New Build relief under the powers given by Section 69 of the Localism Act 2011.

- 3.2.4 They will not present the Council with a cost burden, as the Government has said that the loss of income suffered by the Council in respect of these schemes will be reimbursed through the section 31 grant arrangement and in so far as the 2013/14 scheme for the extension of SBRR, the Council received a payment of £0.752

million at the end of January 2014 representing 90% of the estimated sum due. The final and full payment will be made upon completion of the business rate accounts.

- 3.2.5 In determining the available resource from Medway's share of the business rate collection, assumptions have to be made about the likely growth or decline in the rateable base and the potential for any successful appeal against the Valuation Office's attribution of rateable value. In respect of the latter there are presently some 450 appeals outstanding, some of which date back to 2005. In addition outstanding appeals that have been settled since 1 April 2013, when the new regime was constituted, have to be apportioned between pre and post 1 April. For the pre 1 April component we are able to spread the cost over 5 years and ease the burden that would otherwise have been imposed and were the claims to have been settled and billed before 1 April 2013 then the National Pool would have suffered the cost rather than Medway. For the purposes of estimating the potential loss of income that may arise from these appeals, officers have been required to assess each appeal and consider the potential outcome from the assessment by the Valuation Office and any consequent change in liability that will be created together with any mitigation from the impact of transitional Relief arrangements whereby such changes are damped over time. Such estimates can invariably only be based on informed guesswork.
- 3.2.6 In 2013/14 the Council took a view that it would estimate the likely revenue available from business rates at the level declared in the SFA for that year i.e. £42.119 million. This was not an accurate prediction but rather what the Chief Finance Officer considered a reasonable estimate. The current forecast, taking account of top-up, appeals and the S31 grant to cover the lost revenue from the extended SBRR scheme, is for a figure of £41.7 million. This will undoubtedly change between now and finalising the account. A test file of current data has been used to generate initial figures for 2014/15 billing and using this as a baseline and assuming neither growth nor decline in the rateable base, it is forecast that the 2014/15 resource should be assumed at £44.466 million which is £0.120 million less than the estimate used in the draft budget.
- 3.2.7 The forecast income from this source is particularly volatile being subject to both local and central influences. In his Autumn Statement the Chancellor announced a raft of changes to the business rate regime as set out above, and elsewhere in this paper are recommendations that flow from these announcements. The practical accounting arrangements for these changes can be complex and muddy the estimation of income. In addition the local economy at a very specific level can throw up significant change to levels of rate income as was seen with the closure of Kingsnorth power station but equally the commissioning of a new supermarket could push income in the other direction. Whilst there is some advance notice of significant new developments, such as at Chatham Waters for instance, the sudden collapse of a major business is often a surprise. Variation on both fronts can be have a significant value and some authorities are planning to use any potential surplus on the Collection Fund to create a reserve to buffer such fluctuation. The forecast income and corresponding revenue demand for Medway do not afford the Council such a luxury at the moment.

### **3.3 Council Tax**

- 3.3.1 In accordance with Council delegation, the Chief Finance Officer in consultation with the Finance Portfolio holder, on 30 January, agreed the council tax base for 2014/15 at 78,406.79 band D equivalents.
- 3.3.1 The Provisional Settlement confirmed the Government intention to press ahead with the offer of a grant to those authorities that choose to keep council tax at 2013/14 levels. For Medway this 'freeze' grant would be worth £1.011 million and compares to a £0.9 million yield from a 1% increase in council tax. Given the need to maximize revenue in the face of extraordinary levels of cuts in Government support the proposed budget assumes that the Council will not take up the offer of a freeze grant but will instead opt for a 1.995% increase in council tax. Press reports suggest that there will be a majority of councils taking this view.
- 3.3.2 In respect to Council Tax levied, Medway's position in 2013/14 remained one of the lowest in both our peer group of Mainland Unitary Councils (7<sup>th</sup> lowest) and nationally (19<sup>th</sup> lowest of 326 billing authorities). However, for non-schools expenditure, Council Tax represented only 21% of the resources supporting the 2013/14 budget.
- 3.3.3 The former capping regime is now replaced with a process for referenda for 'excessive' Council Tax increases. Essentially Government determines the rate of increase above which it is deemed to be excessive. This is similar to the old "capping" regime but the level was to be announced before budget and council tax levels are set. Comprehensive Spending Review (CSR) 2013 stated that the level for 2014/15 and 2015/16 would be 2% and, despite recent speculation, this has been confirmed with the announcement of the Final Settlement. Any proposal to exceed the set level will need to be supported by an alternate budget to meet the determined increase and subject to a local referendum.
- 3.3.4 The additional yield from the revised council tax base set against the draft budget proposal for 2014/15 and assuming a 1.995% increase in council tax will be an extra resource of £838,800.

### **3.4 New Homes Bonus**

- 3.4.1 New Homes Bonus was introduced in the Local Government Finance Settlement for 2011/12 to recognise the additional burden that new development in an area places upon the Local Authorities. The 'bonus' payment is calculated based upon the increase in taxbase between October in each year together with additional payments for the numbers of affordable homes and empty properties bought back into use in the period. The payment is to be made as a grant payable each year for a six year period.
- 3.4.2 The draft budget assumed £5.581million grant in 2014/15 and £3.081million in 2015/16 as a consequence of a proposed 'top-slice' to the grant of 35%. The latest estimate, including affordable homes accrual, is for £5.462 million in 2014/15 and £6.289 million in 2015/16. The reduction in 2014/15 is attributable to fewer affordable homes being completed than expected and the increase in funding for 2015/16 is largely as a consequence of Government dropping the proposal to top slice the grant by 35%.

3.4.3 New Homes Bonus is payable over a 6-year period thus the 2011/12 grant will cease in 2017/18 creating a revenue pressure of £1.163m increasing by the annual increments of grant so 2018/19 will have a pressure of £2.432m. What is unclear, as it is beyond the view of this settlement, is the longevity of the scheme and whether the 2011/12 loss in 2017/18 will be replaced by a new bonus payment for 2017/18.

### **3.5 Other Specific Grants**

3.5.1 The major part of this resource is the Education Services Grant (ESG). This was introduced in 2013/14 to fund education services outside of the DSG. This includes local authorities' statutory responsibilities and funding for services such as school improvement and education welfare. The ESG has been formed from funds transferred out of formula grant under the LACSEG (Local Authority Central Support for Education Grant) adjustment and is therefore not new money. The total deducted from formula grant is split between local authorities and individual academies in proportion to their pupil numbers. For Medway the deduction in 2013/14 was £5.859 million with £3.611 million returned for Medway retained pupils.

3.5.1 Based on the funding rates per pupil issued by the DfE and some reasonable assumptions about Academy conversions anticipated during 2014/15, the ESG attributable to non-academies has been calculated as:

2013/14	£3,610,981
2014/15	£3,205,939
2015/16	£2,259,788

3.5.2 The draft budget assumed a standstill on academy conversions, which is not realistic and therefore the revised forecasts above represent a further pressure in 2014/15 of £0.27 million rising to £0.41 million for 2015/16 with a potential transfer of some 4,613 pupils to academy status compared to current status.

3.5.3 Other specific grants for 2014/15 include Council Tax Support New Burdens Funding of £0.145 million, Community Right to Bid funding of £0.008 million, Community Right to Challenge funding of £0.009 million, Lead Local Flood Authorities funding of £0.077 million and Local Reform and Community Voices funding of £0.180 million. All of these grants were matched by budget funding in 2013/14 which remains in the base other than Council Tax Support which was removed in error and is now proposed to be reinstated. For 2015/16 all of these non-ESG grants disappear, other than Community Voices and a reduced level (£0.051 million) for Lead Local Flood Authorities.

### **3.6 Public Health Grant**

3.6.1 The ring-fenced Public health Grant was introduced for 2013/14 along with the transfer of statutory Public Health responsibilities from the NHS. The grant increases from £13.170 million to £14.280 million in 2014/15 with the same figure for 2015/16. The ring-fenced nature of the grant for public health purposes is maintained over this period.

### 3.6.1 Department for Education (DfE) Funds

#### 3.7.1 Dedicated Schools Grant (DSG)

3.7.1.1 DSG for 2014/15 continues to be calculated in three blocks for Schools, Early Years and High Needs. The per-pupil rates are unchanged from 2013/14, but are multiplied by the latest pupil number data to generate the DSG allocation for 2013/14. The October 2013 school census shows that pupil numbers for 2014/15 will be slightly higher than 2013/14 leading to an increase in the DSG on a like-for-like basis. The only other adjustment made to the DSG in 2014/15 relates to the decision to remove the local authority's responsibility in relation to carbon reduction. Consequently the DSG for 2014/15 has been calculated as set out in Table 2 below:

**Table 2. Schools Based grant Funding (DSG)**

	2013/14	2014/15	2015/16
	£		
Schools Block – Pupil Numbers	36,826	37,029	37,559
Schools Block Funding	£158,292,248	£158,929,426	£161,235,865
Early Years Block – Pupil Numbers	2,615	2,730	2,850
Early Years Block Funding	£14,407,014	£15,797,014	£16,853,572
High Needs Block Funding	£33,535,265	£33,659,265	£33,659,265
DSG (gross)	£206,234,527	£208,385,705	£211,748,701
Academy Deductions	(£77,184,439)	(£96,270,946)	(£110,645,827)
<b>DSG (Net)</b>	<b>£129,050,088</b>	<b>£112,114,759</b>	<b>£101,102,874</b>
Pupil Premium	£5,692,551	£6,151,760	£5,169,805
Sixth Form Funding	£3,123,422	£1,654,376	£468,909
<b>Net Schools Based Funding</b>	<b>£137,866,061</b>	<b>£119,920,895</b>	<b>£106,741,589</b>

3.7.1.2 The DSG is calculated initially using the pupil numbers for all schools in Medway, including academies. Subsequently the Education Funding Agency will reduce the Council's DSG allocation in respect of schools that have converted to academies. Academies are expected to account for £96.271 million, leaving Medway's net DSG allocation at £112.115 million.

#### 3.7.2 Pupil Premium

3.6.1.1 Schools receive a separate grant to improve the attainment of pupils from deprived backgrounds based on pupils eligible for a free school meal, 'looked after children', and children with a parent in the armed forces.

3.6.1.2 The funding rates for 2014/15, set out below, represent a significant increase on the current rates as illustrated below. It should be noted that whereas in the current year schools would attract both sums for a 'looked after child' who was also eligible for free school meals; in 2014/15 'looked after children' only attract the £1,900.

	2013/14		2014/15	
	Primary	Secondary	Primary	Secondary
Free School Meals	£953	£900	£1,300	£935
Looked After Children	£900	£900	£1,900	£1,900
Service Children	£300	£300	£300	£300

3.6.1.3 These rates will produce a total pupil premium grant for Medway schools (excluding academies) of about £6.152 million in 2014/15.

### 3.7.3 Sixth Form Funding

3.7.3.1 2013/14 sixth form funding is based on the allocations for the remaining two Medway secondary schools and three special schools. It is assumed that one secondary and one special school will convert to academy status in 2014/15 with the final secondary converting in 2015/16. This would leave 2 special schools for the remainder of 2015/16.

3.7 After allowing for transfers to academies, the funds available to the Schools Budget are estimated at £118.267 million, comprising an estimated DSG allocation of £112.115 million and Education Funding Agency (EFA) sixth form grants of £1.654 million together with a Pupil Premium allocation of £6.152 million. The final formula funding arrangements for schools/academies for 2014/15 were approved by the Schools Forum on 22 January 2014 and subsequently Cabinet on 11 February 2011.

3.8 The funding delegated to schools and academies for 2014/15 from the DSG schools block will be £157.8 million with £1.1 million retained as agreed by the schools forum. The Schools Forum agreed the delegated and central expenditure budgets at their meeting on 22 January 2014 and this was further explained in the Cabinet report on this matter on 11 February 2014 ("Final Funding Formula for Mainstream Schools and Academies 2014-15").

## 3.10 Capital Settlement

3.10.1 Capital settlement announcements are often delayed and this is again the case, however both the Department for Transport and Department of Health announced 2014/15 allocations last year and these are reflected in Table 3 below. Also in his ministerial statement on 18 December the Secretary of State announced Basic Need Grant allocations for 2014/15, 2015/16 and 2016/17, together with new capital funding to help local authorities respond to the challenge of providing free school meals for all infant age children. Since then the EFA have announced Schools Capital Maintenance and Devolved Formula Capital allocations for 2014/15. From 2015/16 capital funding for Adult Social Care and Disabled Facilities Grant will be included within the 'Better Care Fund' (BCF), whilst Department for Transport capital funding will only be accessible via a bid against the 'Local Sustainable Transport Fund' (LSTF).



**Table 3. Indicative capital Grant Allocations**

	2013/14	2014/15	2015/16
	£m	£m	£m
Department for Education			
Basic Need Grant	2.513	2.513	2.237
Targeted Basic Need Grant	10.050	0.000	0.000
Schools Capital Maintenance Grant	2.970	2.543	TBA
Schools Devolved Formula Capital	0.532	0.472	TBA
Universal Infant Free School Meals	0.000	0.567	0.000
Department of Health			
Adult Social Care Transformation Grant	0.537	0.547	BCF
Department for Transport (DfT)			
Highway Maintenance	2.153	2.122	LSTF
Integrated Transport	1.576	2.216	LSTF
Department of Communities and Local Government (DFG's)	0.739	0.766	BCF

#### 4. Capital Programme 2014/15 and beyond

- 4.1 This section of the report seeks to ensure that the capital programme process is integrated with the process for setting the revenue budget and the level of council tax and all borrowing under the Prudential Regime for capital investment is affordable, prudent and sustainable. Council will be considering the Treasury Management Strategy incorporating prudential indicators as a separate item on this agenda.
- 4.2 The uncertainty of the financial settlement makes assumptions about future capital funding for local authorities subject to some risk. However it is reasonable to assume that the core components of the current funding regime will continue and to provide an indication of the future capital programme the assumptions are set out in Table 4 below, with estimates in italics.
- 4.3 For some time now, the financial settlement does not include any revenue support for capital, but local authorities still have access to 'unsupported' borrowing through the prudential regime, providing that these capital investment plans are affordable, prudent and sustainable. Developer contributions and capital receipts might also become available for capital investment, but at this stage of the budget setting process, it is assumed that future investment will be restricted to the current programme, supplemented by the Council's expectations in relation to Government grant, with the call on capital receipts restricted to the £1.5 million for highways referred to at paragraph 5.4.1 and £185,000 for the relocation of Children's Care teams, as recommended by Cabinet on 11 February 2014.

**Table 4. 2014/15 Government Capital Grant Assumptions**

	<b>C &amp; A</b>	<b>BSD</b>	<b>RCC</b>	<b>Total</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Disabled Facilities Grant	0	0	766	766
Education Basic Needs Grant	2,513	0	0	2,513
Schools Capital Maintenance Grant (est.)	2,543	0	0	2,543
Schools Devolved Formula Capital (est.)	472	0	0	472
Universal Infant Free School Meals	567	0	0	567
Adult Social Care Transformation Grant	547	0	0	547
Integrated Transport Grant	0	0	2,122	2,122
Highways Capital Maintenance Grant	0	0	2,216	2,216
<b>Total Forecast</b>	<b>6,642</b>	<b>0</b>	<b>5,104</b>	<b>11,746</b>

- 4.4 The proposed capital programme reflects slippage from 2013/14, together with the anticipated 2014/15 and 2015/16 grant allocations. This programme will continue to be delivered throughout 2014/15 and beyond and Table 5 summarises planned expenditure, providing an analysis of how it is funded. For completeness, the current schemes that will continue into 2014/15 are detailed and summarised in Appendix 1.

**Table 5. Funding the proposed capital programme**

	<b>C &amp; A</b>	<b>BSD</b>	<b>RCC</b>	<b>Member Priorities</b>	<b>Total</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
2014/2015 Forecast	25,558	1,467	26,922	216	54,163
2015/2016 Forecast	2,573	830	8,044	0	11,447
2016/2017 & future year's forecast	2,374	479	2,554	0	5,407
<b>Total Forecast</b>	<b>30,505</b>	<b>2,776</b>	<b>37,520</b>	<b>216</b>	<b>71,017</b>
<b>Funding Source</b>					
Grants	25,621	0	10,114	0	35,735
Prudential borrowing	0	802	12,401	0	13,203
Developer & other contributions	0	0	911	0	911
Capital Receipts	2,622	1,974	2,632	216	7,444
Right To Buy receipts	0	0	392	0	392
Reserves/Revenue	2,262	0	11,070	0	13,332
	<b>30,505</b>	<b>2,776</b>	<b>37,520</b>	<b>216</b>	<b>71,017</b>

## 5. Departmental Programmes (2014/15)

### 5.1 Business Support Department

- 5.1.1 There is no new funding identified for 2014/15, the programme consisting of progressing existing approvals, principally the Thin Client (ICT) initiative, Strood Riverside and corporate building maintenance.

## **5.2 Children and Adults Directorate**

5.2.1 The Children and Adults proposed programme represents planned expenditure for 2014/15 and beyond, based upon the forecast carry forward from 2013/14 and taking into account new grant funding in 2014/15. Additional funding, in the form of both the Targeted Basic Needs Grant and DSG reserves, has given Members and Chief Officers an opportunity to re-evaluate the directorate's capital investment priorities and to accelerate delivery of the SEN strategy, whilst continuing to create the planned additional primary school places.

5.2.2 The proposed capital programme is summarised at Appendix 1a and is broken down into several broad programme areas:

### **5.2.3 Adult Social Care**

The Adult Social Care programme comprises a number of specific schemes, including the new social care system, occupational therapy adaptations and a trio of 'changing places' facilities, however the carry forward also reflects £889,000 of uncommitted grant funding and capital receipts, which when added to £308,000 of the 2014/15 grant, gives the directorate £1.2 million to fund re-provision of the Napier Unit and Enhanced Care Unit and the potential relocation of integrated care management teams.

### **5.2.4 Children's Care**

At its meeting on 11 February, Cabinet recommended £185,000 to fund the cost of moving the three Children's Care teams into new premises on a single site. This scheme is to be funded from part of the capital receipts generated from the disposal of the three current Children's Care centres.

### **5.2.5 Academy Programme**

The Academy Programme is broadly on track to complete on time and within the grant funding available, however there is a risk around the cost of removing asbestos located on the BORA and Brompton sites.

### **5.2.6 Basic Need: Special Educational Needs**

With the successful Targeted Basic Need bid and Schools Forum agreeing to allocate part of the DSG Reserve, it has been possible to accelerate delivery of the SEN Strategy and £14.4 million has been set aside to fund three key schemes. £11.8 million has already been agreed for Abbey Court Special School, with the balance available to fund expansion works for Dane Court Special School and Will Adams Pupil Referral Unit.

### **5.2.7 Basic Need: Additional Primary School Places**

The directorate's main priority is the provision of sufficient primary school places in Chatham and Gillingham, however with the successful Targeted Basic Needs bid, it has been possible to develop a programme that delivers the required primary school places, as well as the first phase of the SEN Strategy. The proposed programme does not include any further call on developer contributions, however there are still some uncommitted funds from S106 agreements available to mitigate any risk in the programme. Table 6 below summarises committed schemes amounting to £12.7 million, however the proposed programme also provides for a

further £1.5 million to fund expansion at other sites, including the Napier, Cuxton, Halling and Hoo St Werburg Primary Schools.

**Table 6. Planned Additional Primary School Places**

	<b>2013/14 forecast £</b>	<b>2014/15 onwards £</b>
<b>Committed Schemes</b>		
- Wainscott Primary Expansion	3,336,664	0
- Chatham Primary Academy	1,530,145	4,738,075
- Greenvale Infant Expansion (Phase 2)	117,176	322,824
- Brompton Westbrook Primary	251,000	1,887,622
- Saxon Way Primary	227,957	195,000
- Programme management	45,250	45,000
<b>Total Funding Requirement</b>	<b>5,508,192</b>	<b>7,188,521</b>

#### 5.2.8 Schools Condition Programme

It is anticipated that the 2013/14 condition programme budget will be spent this year and that the 2014/15 Capital Maintenance Grant will similarly be fully allocated to the schools condition programme.

### 5.3 Regeneration, Community and Culture Directorate

5.3.1 The anticipated funding from Government for both the Highways Maintenance and Integrated Transport were confirmed in the Financial Settlement as £2.122 million and £2.216 million respectively. These compare to allocations of £2.153 million and £1.576 million in 2013/14. The LTP3 Transport Strategy which set out the priorities for the funding, which are in summary as follows:

5.3.2 Integrated transport. This will be used for funding accident reduction measures, traffic management, public transport infrastructure improvements, cycling and walking schemes, and safer routes to schools projects.

5.3.3 Highways capital maintenance. This is funding the maintenance of carriageways, footways, bridges, highway drainage and traffic signals and is further supplemented by the additional funding from capital receipts referred to at 5.4.1 below.

5.3.4 Disabled Facilities Grants (DFG): These grants enable elderly or disabled people to remain in their own home through the provision of adaptations to their property and the forecast carry forward allocation of £914,000 will be supplemented with the grant funding of £766,000 for 2014/15 together with an additional allocation of £500,000 from adult social care resources.

5.3.5 Capital funding for the Housing Revenue Account (HRA) is discussed in more detail in the HRA report elsewhere on the agenda but new funding of £5.585 million, in respect of Planned Maintenance, Disabled Adaptations, and an extension of the House Building programme has been included in the capital programme at Appendix 1b, being a combination of use of the Major Repairs Reserve, contribution from the HRA working balance and additional borrowing. The capital works are split

£4.529 million and £0.250 million for Planned Maintenance and Disabled Adaptations respectively with the balance being the house building programme.

## 5.4 Capital Receipts

- 5.4.1 The draft capital programme specifically includes those schemes where funding has already been committed by the Council and new external funding has been secured. The Council has, in previous years, injected considerable sums into the capital programme mainly from capital receipts and prudential borrowing. Given the constraints on revenue and the restricted availability of capital receipts as demonstrated in paragraph 5.4.2 below, the only schemes recommended for continued support are the Highways Capital Investment Programme at £1.5 million to be funded from future Capital Receipts.
- 5.4.2 In recognition of the slow down in the realisation of capital receipts additional borrowing of up to £10 million through the prudential regime was approved in 2008/09 to fund the capital programme in advance of anticipated receipts. The actual loans to cover this borrowing have now been repaid so there is no debt cost in the treasury account, however £5.4 million was used from this source in 2008/09; a further £1.3 million anticipated for 2013/14; £0.4 million in 2014/15; and £0.5 million in 2015/16 taking the draw down against the £10 million to £8.3 million. This will need to be set aside from capital receipts at some point in the future but it is not anticipated that there will now be any repayment against these funds until 2016/17.
- 5.4.3 Table 7 shows the movement in capital receipt balances, after funding the existing approved capital programme including the £1.5 million highways commitment in paragraph 5.4.1 for next and succeeding years. The accumulated use of the prudential borrowing allocation is now forecast to rise to £8.3 million as described above and it is therefore clear that outside of existing approved funding there is little scope for adding to the programme at this time and future receipts will need to repay the borrowing.

**Table 7. Movement in Capital Receipts**

Description	General Fund Receipts £000's	Housing Receipts £000's	Total £000's
Balance @ 1 April 2013	2,388	(2,451)	
Anticipated Receipts 2013/14	(1,442)	(450)	
New Borrowing 2013/14	(1,260)	0	
Applied to Capital Programme 2013/14:	3,120	52	
<b>Estimated Balance at 1 April 2014</b>	<b>2,806</b>	<b>(2,849)</b>	<b>(43)</b>
Anticipated Receipts 2014/15	(5,420)	(461)	
New Borrowing 2014/15	(372)	0	
Applied to Capital Programme: 2014/15	6,089	0	
<b>Estimated Balance at 1 April 2015</b>	<b>3,103</b>	<b>(3,310)</b>	<b>(207)</b>
Anticipated Receipts 2015/16	(1,850)	(461)	
New Borrowing 2015/16	(522)	0	
Applied to Capital Programme: 2015/16	2,669	392	
<b>Estimated Balance at 1 April 2016</b>	<b>3,400</b>	<b>(3,379)</b>	<b>(21)</b>

## 6. Revenue Budget 2014/15

6.1 The draft budget approved by Cabinet on 26 November 2013 reinforced the principles set out in the Medium Term Financial Plan. The strategic priorities for Medway as set out in the Council Plan are considered elsewhere in this agenda. The Council Plan is the council's business plan. It has four priority areas and sets out what will be done to deliver these and how we will tell what difference has been made. Those four priorities are:

- Children and young people have the best start in life in Medway;
- Adults maintain their independence and live healthy lives;
- Safe, clean and green Medway; and
- Everyone benefiting from regeneration

Our two core values set out the principles of the how we work to deliver these priorities, they are:

- Putting our customers at the centre of everything we do; and
- Giving value for money

6.2 In addition, the underlying financial aims of the MTFP and budget remain so as:

- To ensure there is a sustainable budget, without recourse to the use of reserves;
- Generating efficiencies, in partnership with others where appropriate, for reinvestment in priority spending;
- Assessing the revenue impact of funding streams supporting capital investment decisions, whether that be from supported borrowing, use of reserves, capital receipts or prudential borrowing; and
- Avoiding the sanction of central government controls, for example capping.

6.3 The budget proposals in this report have been prepared with these principles in mind.

6.4 In accordance with the constitutional requirements, the draft budget, proposed by Cabinet, was forwarded to overview and scrutiny committees inviting comments. At that stage the draft budget was some £4.8 million in excess of the anticipated resources available, largely driven by an anticipation of grant reductions, pressures already experienced and the continued growth in those pressures but offset by savings achieved in the first two rounds of the 'star chamber' review process that were detailed in the draft budget appendices.

6.5 The Provisional Local Government Financial Settlement announced on 20 December 2013 was a slight improvement on that predicted in the draft budget and, together with other changes in the anticipated resources outlined in section 3, revised the deficit to £3.7 million. The Final Settlement confirms this position

6.6 Both during and after the overview and scrutiny process, officers have continued to examine the budget proposals and work closely with portfolio holders to find measures to close the gap and achieve a balanced budget, whilst attempting to keep a minimal impact on service delivery. These measures are discussed in more detail in Section 9 of this report.

- 6.7 Medway currently has the seventh lowest council tax of all mainland unitary authorities and is, currently, on average, £117 below the combined council tax for Kent County Council (KCC) and Kent districts. Given the scale of the budget challenge both for now and the future, it is not proposed to accept the additional Council Tax Freeze grant for 2014/15 but rather maximise the income yield. This is likely to be in tune with the majority of billing authorities. Referendum rules currently dictate that an increase below 2% will be necessary to avoid the cost and risk of holding a referendum. Accordingly this report is predicated on a council tax rise of 1.995%.
- 6.8 In accordance with Council delegation, the Chief Finance Officer in consultation with the Finance Portfolio holder, on 30 January, agreed the council tax base for 2014/15 at 78,406.79, an increase of 724 against that used for the draft budget. This is a significant increase and reflects both the extra new properties that have also driven increases in the New Homes Bonus, but also a reduction in the levels of discounts awarded for the Council Tax Reduction Scheme. For the latter, the 2013/14 taxbase included an estimated discount reduction equivalent to 12,126 band D properties and this is now calculated at 11,479. The additional yield from the revised council tax base set against the draft budget proposal will be an extra resource of £838,800.
- 6.9 The revenue budget that Medway must set is determined by the total of Government Grant and the amount raised from council tax and is summarised in the table below:

**Table 8. Funding Medway's Revenue Budget 2014/16**

	<b>Draft Budget Forecast Requirement 2014/15</b>	<b>Proposed Budget Forecast Requirement 2014/15</b>	<b>Proposed Budget Forecast Requirement 2015/16</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Dedicated Schools Grant	216,302	208,386	211,749
Academy Transfer	(86,810)	(96,271)	(110,646)
Other School Specific Grants	6,602	7,806	5,639
<b>Schools Based Resources</b>	<b>136,094</b>	<b>119,921</b>	<b>106,742</b>
Council Tax	90,446	91,285	93,570
Revenue Support Grant	51,845	52,392	38,263
Business Rates Share	44,586	44,466	45,612
New Homes Bonus	5,581	5,462	6,289
Specific Grants	3,895	3,625	2,491
Public Health Grant	14,280	14,280	14,280
<b>General Fund Resources</b>	<b>210,633</b>	<b>211,510</b>	<b>200,505</b>
<b>Estimated Available Funding</b>	<b>346,727</b>	<b>331,431</b>	<b>307,247</b>

## **7. Council Plan**

- 7.1 As the council's overarching business plan, the Council Plan identifies objectives the council wishes to achieve (referred to as its 'priorities'), and as such it is important that it is considered alongside the budget setting process. The national background to the development of the Plan has remained as volatile as it has been in recent years, both in terms of funding and policy developments. The current Council Plan's strategic priorities and commitments will remain the same during 2014/15. There is a need however to review and refresh the current suite of indicators and projects that support the plan to ensure they remain relevant and informative during 2014/15.
- 7.2 The Council Plan forms an essential part of the council's performance management framework, setting out the priorities, commitments, measures and targets against which progress will be judged. This year, in response to members' feedback, targets have been revised at a much earlier stage for members to consider and the plan also references the key change projects that the council is taking forward to support the delivery of its priorities.

## **8. Revenue Budget 2014/15 – Proposals to Bridge the Budget Gap**

- 8.1 The funding shortfall of £4.812 million in the draft budget report on 26 November has been subject to continuing work both through the overview and scrutiny process and by officers in consultation with portfolio holders. Table 9 below summarises the changes from that position to the proposal presented in this report. Paragraphs 9.6 onwards outline the changes made since 26 November 2013 with an overall summary of budget build at Appendix 2.
- 8.2 The draft budget report as set out on 26 November identified a number of workstreams to identify savings proposals and reduce pressures on the budget. Clearly the final settlement and other resource changes have improved the position for the General Fund by the £0.9 million highlighted above.
- 8.3 Under the financing arrangements for the DSG in 2014/15 the Local Authority can continue to retain funds at the same level as 2013/14 for SEN, Early Years and statutory functions in relation to schools. However, funds can only be retained for non-statutory functions in support of schools with the approval of the Schools Forum. The Schools Forum discussed these budgets on 22 January 2014 and approved all the LA's requests to retain funding centrally in 2014/15. This was subsequently approved by Cabinet on 11 February 2014.
- 8.4 The budget build assumed a nil increase in pay for staff and a continued freeze on increments. Officers have been seeking to get the agreement of the Trade Unions to a proposal to amend the present pay structure in tandem with a review of grades and assimilation to the new structure. The results of these negotiations were considered at a meeting of the Employment Matters Committee on 6 February 2014 and the Committee recommended the following to Council:
- 8.4.1 To agree that the revised pay structures (option 4) shown at Appendices 7 and 8 (in the Employment Matters Committee report attached as Appendix 10) are implemented;



- 8.5 The Employment Matters Committee agreed the following subject to Council agreement of the recommendation at paragraph 8.4.1 above:
- 8.5.1 The current protection arrangements be increased to 100% for years one to three, 75% for year four and 25% in year five;
- 8.5.2 The revised annual leave and notice periods as detailed in section 7 (of the Employment Matters Committee report) are adopted for those staff below service manager.
- 8.5.3 The principles of pay progression as set out in Section 4 (of the Employment Matters Committee report).
- 8.5.4 The Committee noted that consultations with the trade unions will continue on the job evaluation appeals procedure, the competency framework, and the detail of the pay progression scheme.
- 8.5.5 The Committee agreed that in the event that a collective agreement cannot be reached that the Assistant Director, Organisational Services is delegated authority to undertake the necessary dismissal and reengagement process. Should it be necessary to unilaterally change individual contracts of employment, that the dismissal appeal process be amended as set out in decision (8.5.6) below; and
- 8.5.6 The Committee agreed to delegate the power to consider, hear and determine appeals against dismissal resulting from the Pay and Grade Review to the Council's Directors, Assistant Directors and Service Managers.
- 8.6 Employment Matters Committee is scheduled to meet again on the 18 February 2014 to consider the outcome of the collective dispute between the Council and the trade unions in respect of the Pay and Grade review should that dispute reach stage 3 of the Collective Dispute Procedure. The Committee will be asked to consider any further proposals from the trade unions and, if necessary, make a final recommendation to Council. If that were to arise an addendum report will be issued for this meeting.
- 8.7 The trade unions on the 5 February have also lodged a pay claim for the following:
- That Medway council recognises and commits to the National living wage;
  - Medway will be aware the Employees have not had any pay award since 2009 and this has amounted to a 20% pay cut due to the increase in the cost of living therefore staff side find a 5% pay claim for 2014; or in place of this
  - Nationally the Trade Unions who represent government Employees have made a pay claim for £1 per hour for staff, this would help staff close a significant gap in earnings that they have lost over the past 5 years and will help to protect staff from inflation that is expected to remain high for 2014 / 2015.

Employment Matters Committee will also discuss this claim which could have serious cost consequences were it to be agreed and this will also be reported in the addendum report.

- 8.8 Table 9 below identifies some modest increases to costs that have been identified subsequent to the draft budget proposals. These and the £5.8 million of savings proposals that have been found by the directorates are discussed in paragraphs 9.8 to 9.11.

**Table 9. General Fund Budget Changes**

<b>Budget Preparation Summary 2014/15</b>			
		<b>£000s</b>	<b>£000s</b>
<b>General Fund</b>			
Budget Gap 26 November 2013			
			<b>4,812</b>
Less:	Additional Taxbase (Council Tax)	839	
	Additional Revenue Support Grant	547	
	Additional Business Rates Share	(120)	
	Reduced Education Services Grant	(270)	
	Reduced New Homes Bonus	(119)	
	<b>Sub Total</b>	<b>877</b>	<b>3,935</b>
Add	Pay and Grade review	400	
	BfL Savings Shortfall	800	
	Benefit Administration Grant reduction	196	
	Council Tax Reduction Scheme (new burdens)	145	
	Derelict Property Post	29	
	System Support Posts LAGAN/IDOX	72	
	Sports Development	257	
	<b>Sub Total</b>	<b>1,899</b>	<b>5,834</b>
Less:	Savings from Directorates		
	Children & Adults	2,178	
	Regeneration, Community & Culture	1,311	
	Business Support	504	
	Public Health	1,110	
	Employer's pension Contributions	650	
	<b>Sub Total</b>	<b>5,753</b>	<b>81</b>
	<b>Revised Gap (surplus)</b>		<b>81</b>

## 8.9 Children and Adults (Appendix 2a)

- 8.9.1 In addition to the full year effect of 2013/14 savings reflected in the MTFP and £4.7 million of savings included in the draft budget considered by Cabinet on 26 November, the Children and Adult Services directorate has identified a further £2.2 million of budget reductions in response to the need to balance the budget overall. The paragraphs below highlight the more significant elements of the additional £2.2 million savings.

### 8.9.1 *Children's Social care*

£1.044 million of additional savings are proposed from this area as follows:

- £450,000 by the establishment of an 'Access to resources Team' to review children's proposed placements;
- £17,000 by applying a deflator to support packages for disabled children;
- £100,000 by restructuring the senior management in children's disability services; and
- £477,000 by applying the non- ring-fenced Adoption Reform Grant to services.

### 8.9.2 *Adult Social Care*

Of the £2.2 million £0.632 million relates to Adult Social Care budgets identified in Appendix 3 and largely comprises the following:

- £120,000 from a restriction of free service at the ethnic minority day centres to FACS eligible clients;
- £125,000 by reviewing the current disregards for income purposes in the financial assessment where there is alternative free provision or no longer appropriate;
- £60,000 introduce charges for temporary respite care outside of the facility offered for a week free care and additional provision by GP referral;
- £75,000 inclusion of community meals with other community services as part of the financial assessment;
- £70,000 use of mobility allowances/vehicles for transport to/from daytime facilities;
- £170,000 from more extensive use of Telecare/Telehealth technologies; and
- £12,000 for a service charge of £300 in respect of finalising deceased client affairs.

### 8.9.3 *Inclusion and School Improvement*

£0.076 million; largely from a reduction in supplies and services budgets.

### 8.9.4 *Commissioning and Partnerships*

£0.426 million

- £488,000 from a review of voluntary sector contracts;
- £30,000 a post reduction in the performance hub; and
- (£72,000) arising from mainstream home to school transport

## **8.10 Regeneration, Community and Culture (Appendix 2b)**

8.10.1 Since the draft budget was issued the following £1.312m savings have been identified:-

8.10.2 *Supplies and Services (saving £318,000)*: from across the Directorate

8.10.3 *Regeneration, Community & Culture Directorate Support (saving £100,000)*: Staff savings identified via a restructure within Emergency Planning.

8.10.4 *Frontline Services (saving £341,000)*: A reduction of six posts across the Division, a budgeted £90,000 increase in income from Telecare and £64,000 no longer required for the retendering of the supported bus services.

8.10.5 *Leisure & Culture (saving £331,000)*: Increase in income of £281,000 from leisure centres and £50,000 via staff savings.

8.10.6 *Housing & Regeneration (saving £222,000)*: Increase in Innovation Centre budgeted income by £40,000 and staff savings from Development Management and Planning, Policy & Design.

8.10.7 These are offset by investment in Sport Development £257,000 to continue the 'legacy' programme and £29,000 to fund the Derelict Property Officer.

## **8.11 Business Support (Appendix 2c)**

8.11.1 Since the draft budget was issued the following £0.504m savings have been identified:

8.11.2 *Legal Services (saving £100,000)*: restructuring & in house advocacy.

8.11.3 *Performance and Intelligence (saving £58,000)*: restructuring and other efficiency measures.

8.11.4 *Administration Hub (saving £152,000)*: review of operation to identify efficiencies.

8.11.5 *Supplies and Services (departmental saving £194,000)*: Target reduction in line with corporate requirement – equates to approximately 4% of spend.

8.11.6 These have been offset by additions in respect of reduced benefit admin. grant £196,000, Council Tax new burdens costs £145,000 and additional system support costs in respect of the LAGAN system £34,000 and IDOX £38,000.

## **8.12 Public Health**

8.12.1 On 10 January 2013 the Department of Health (DoH) released details of the new Public Health Grant to accompany the transfer of responsibility for the Public Health function from the NHS to Local Government. This is a ring fenced grant to be used only for Public Health purposes. The grant for Medway rises from £13.170 million to £14.280 million in 2014/15.

8.12.2 The public health grant is being provided to give local authorities the funding needed to discharge their new public health responsibilities. It is vital that these funds are used to:

- improve significantly the health and wellbeing of local populations
- carry out health protection functions delegated from the Secretary of State
- reduce health inequalities across the life course, including within hard to reach groups
- ensure the provision of population healthcare advice.

8.12.3 The primary purpose of these conditions is to ensure that the grant is spent on the new public health responsibilities being transferred from the NHS to local authorities, and that it is spent appropriately and accounted for properly. The expectation is that funds will be utilised in-year, but if at the end of the financial year there is any underspend this can be carried over, as part of a public health reserve, into the next financial year. In utilising those funds over the next year, the grant conditions will still need to be complied with. However, where there are repeatedly large underspends the Department will consider whether allocations should be

reduced in future years. The DoH have also indicated that future growth in the grant will be linked to the satisfactory achievement of Public Health outcomes.

8.12.4 These conditions do not preclude the use of funds to finance existing Council expenditure that meets the requirements of the grant conditions and is in accord with the Public Health objectives for Medway. Table 10 identifies that in balancing the 2014/15 budget the growth in the Public Health Grant has been used to finance a number of areas of expenditure that fall within these qualifying conditions.

## 9. Revenue Budget Summary

9.1 Table 10 below summarises the Revenue budget position for 2014/2015 with more detail provided in Appendices 2 and 2a to 2c.

**Table 10. Summary Budget Requirement 2014/15**

Directorate/Service	Proposed Budget		
	Expenditure £000s	Income £000s	Net £000s
Children and Adults			
- DSG and School Specific Expenditure	118,786	(361)	118,425
- Other	141,354	(29,772)	111,582
Regeneration Community & Culture	73,862	(25,595)	48,267
Business Support	147,510	(120,972)	26,538
Public Health	12,572		12,572
Interest & Financing	18,121	(3,915)	14,206
Levies	879		879
BfL	(444)		(444)
Medway Norse JVC		(263)	(263)
Pay & Grade Review	400		400
Superannuation Rate Reduction	(650)		(650)
Headroom	(81)		(81)
<b>Total Net Budget</b>	<b>512,309</b>	<b>(180,878)</b>	<b>331,431</b>
<b>Estimated Funding</b>			
Dedicated Schools Grant			112,115
Other School Specific Grants			7,806
Council Tax			91,285
Revenue Support Grant			52,392
Business rate Share			44,466
New Homes Bonus			5,462
Specific Grants			3,625
Public Health Grant			14,280
<b>Total Funding</b>			<b>331,431</b>

## **10. Capping Regime**

- 10.1 The former capping regime has been removed but in its place is a declaration by the Minister as to what he perceives to be an 'excessive' increase in Council Tax. For all Councils the excessive threshold for 2014/15 is set at 2%. Any increase above the threshold requires the consent of residents through a local referendum. The cost of such an exercise is estimated at £250,000. The proposed increase at 1.995% will not exceed the threshold.

## **11. Fees and charges**

- 11.1 The draft budget proposals have been formulated on an assumption that fees and charges would increase by an overall average of 2.5%. Where market conditions allow or where the Council has a statutory obligation to recover costs, greater increases have been applied. The schedule of proposed fees and charges is set out at Appendix 8.

## **12. General Reserves**

- 12.1 One of the key aims of the MTFP is to produce a sustainable budget without recourse to the use of reserves. Past strategy has been to maintain the overall level of non-earmarked reserves at circa 5% of non-schools budget, which equates to circa £10 million. Non-earmarked reserves at 31 March 2013 were some £8.5 million (4.2%) in the form of the Revenue Balance and the General Reserve. This figure excludes the amount approved for severance payments (£3 million) and VAT repayments achieved by Pricewaterhouse Coopers (PWC) as part of the 'Better for Less' programme of just under £1 million. The latter are an offset to costs of implementing the transformational change.
- 12.2 The principal risk to be covered by the contingency balance relates to that of an overspending and this is a reflection of both control and the robustness of the budget set. In that respect past experience has shown that management controls would trip in to contain the potential overspending within the year and deal with the causes in the next budget setting round.
- 12.3 The second significant risk to be covered by the contingency reserve is that of a catastrophe led spend. Events occurring in recent weeks as a consequence of the severe storms serve as a prudent reminder of such occurrences. None the less there are compensatory schemes to mitigate such events and these include the Government 'Bellwin' scheme and our own insurance cover which, whilst largely of a self-insured nature, does provide for extreme claims with property excess capped at £1.25 million and claims above this met by the insurers and the aggregate of liability claims in a similar vein at £2.9 million. The balance on the Insurance Fund at 31 March 2013 was £4.8 million including a provision for identified liabilities of £2.6 million and, whilst reserve cover of a greater amount would be a comfort, it is not warranted on a risk-assessed basis.
- 12.4 Against this background it is difficult to argue the case for a higher level of unallocated balance than that already held, other than on a crude percentage basis.

### **13. Precepting obligations and Council Tax Leaflet**

- 13.1 In order to declare the Council Tax, the precepting requirements of the Police and Crime Panel for Kent (PCP), the Kent Fire and Rescue Service (KFRS) and Parish Councils must be added. These requirements are detailed in the following paragraphs and incorporated in the formal resolution set out at Appendix 7.
- 13.2 The PCP agreed a 1.99% increase in their band D rate at £144.28 at their meeting on 5 February 2014 together with an associated precept of £11,312,532.
- 13.3 The KFRS budget was agreed at their meeting held on 11 February 2014 where an increase in their band D rate of 1.99% was approved with a band D rate of £69.30 and an associated precept of £5,433,591.
- 13.4 The Parish Council precepts and the consequent additions to the general level of Council Tax are detailed at Appendix 6. In total the Parish precepts amount to £356,602 and add an average of £4.55 to the Medway band D rate compared to £4.54 in 2013/14 – a 2.39% increase.

### **14. Housing Revenue Account**

- 14.1 The Council is required under the Local Government and Housing Act 1989 to ensure that the Housing Revenue Account (HRA) does not fall into a deficit position.
- 14.2 Business Support Overview and Scrutiny Committee on 4 February 2014, received a report that detailed the HRA revenue and capital budget proposals, and the recommendations for the revenue and capital proposals, rent increases and service charges, were considered by Cabinet on 11 February 2014.
- 14.3 Cabinet recommended:
- 14.3.1 The proposed revenue and capital budgets for 2014/15, inclusive of an average rent increase of £3.13 per week (based upon 50 collection weeks and equating to an average increase of 3.79%); and a rent increase of 3.2% for garages.
- 14.3.2 That service charges for 2014/15 reflect the full costs incurred in providing that service (excepting the Homes for Independent Living Service Charge), using above inflation increases to do so where necessary. However overall the charges for services show a net decrease of 2.6% for all services.
- 14.3.3 The repayment of debts based on a minimum revenue payment of 2% on outstanding debt.
- 14.3.4 An increase in the 2015/16 capital programme by the following amounts:
- House Building Programme £0.806 million;
  - Planned Maintenance programme £4.529 million; and
  - HRA Disabled Adaptations Programme £0.250 million.
- 14.4 The summarised Housing Revenue Account is attached at Appendix 3 and the capital component is included in Appendix 1.

## 15. Schedule of Precept Dates

- 15.1 Medway Council, as billing authority for council tax purposes, is required to determine a schedule of instalment dates for the payment of precepts to all the precepting authorities. The dates proposed for 2014/2015 the dates are as follows:

22 April 2014	22 May 2014
20 June 2014	22 July 2014
22 August 2014	22 September 2014
22 October 2014	21 November 2014
22 December 2014	22 January 2015
20 February 2015	20 March 2015

## 16. Council Tax Setting

- 16.1 Cabinet on 11 February 2014 recommended a 1.995% increase in council tax levels. The level of Band D council tax with this increase will be £1,164.24. The total Band D for billing purposes, incorporate the PCP and KFRS Service requirements will be £1,377.82. Additional requirements for parish areas are shown in Appendix 6 and in the formal Resolution at Appendix 7.
- 16.2 The following table summarises Council spending, external financing and the impact on the council tax for 2014/15.

**Table 11. Impact of Expenditure on Council Tax**

<b>Medway council tax</b>	<b>£</b>
Directorate Requirements (Table 10)	331,431,000
Less:	
Dedicated Schools Grant	(112,114,759)
Other school specific grants	(7,806,136)
New Homes Bonus	(5,462,817)
Other Specific Grants	(3,624,619)
Public Health Grant	(14,280,300)
<b>Budget Requirement</b>	<b>188,142,369</b>
Less: Revenue Support Grant	52,391,218
Business Rate share	44,466,000
<b>Expenditure to be met from Council Tax</b>	<b>91,285,151</b>
Taxbase	78,406.79
<b>Council tax at Band D (excluding precepts)</b>	<b>£1,164.24</b>

## 17. Legal Considerations

- 17.1 Sections 30 to 36 of the Local Government Finance Act 1992 require that the Council sets a budget and council tax by 11 March each year and in doing so make a number of statutory calculations incorporated by resolution. The Localism Act 2011 has amended some of the terms and definitions to accommodate the introduction of powers to call local referendums for excessive council tax increase.



The Council is now required to make a calculation of the Council Tax Requirement (Section 31A), excluding Parish precepts. The Act (Section 36) further prescribes that a calculation of the basic amount of Council Tax be presented together with an analysis of the Council Tax across the area and by valuation band. These calculations are required to be presented in a prescribed format and be subject to formal resolution by the Council.

- 17.2 The Local Authorities (Standing Orders)(England) Regulations 2001 deal, amongst other things, with the process of approving the budget. Under the constitution the adoption of the budget and the setting of the council tax are matters reserved for the Council upon recommendation from Cabinet.
- 17.3 In seeking to finalise the overall shape and detail of the budget for 2014/2015, Cabinet needs to be cognisant of the following legal considerations.
- 17.4 **Council budget:** In reaching their decisions, Members and officers must act reasonably taking into account all relevant considerations and ignoring irrelevant ones. There is a need to ensure that when making budget decisions the result is not one which is irrational in the Wednesbury sense (i.e. one which no reasonable local authority could have made). The Council's overriding duty is to make a lawful budget and this is the touchstone against which other considerations must be tested.
- 17.5 The council must have regard to its public sector equality duties when making decisions. This includes the requirement to undertake a Diversity Impact Assessment in relation to all significant changes to policies, procedures or practice, and to pay 'due regard' to the need to eliminate discrimination and promote equality with regards to race, disability and gender. An overarching Diversity Impact Assessment is attached to this report.
- 17.6 **Legal Obligations:** Local authorities provide services pursuant to statutory duties (a mandatory requirement to provide services), and statutory powers, (where the Council has a discretion whether or not to provide services). Where the Council has a legal duty then it still has a discretion in determining the manner in which those services are provided, so long as the level of quality of service provision is sufficient to fulfil the statutory duty.
- 17.7 Where the Council has a statutory discretion, rather than a duty, budget proposals should not put the Council in a position so that the discretion may not be exercised at all, even where there may be compelling reasons for exercising the discretion in a particular case.
- 17.8 Even where Members and officers are under pressure to make a budget reduction, they must not pre-empt proper decision-making processes by focusing solely on financial considerations. Members and officers must address the core question of individual service users' needs, rather than a lack of resources. Recent case law has held that resources may be a relevant consideration in making a decision relating to the manner of service provision, so long as the individual's assessed needs are met.
- 17.9 **Charges for services:** In considering charges for services, Members and officers should also try to achieve a fair balance between the interests of the users of council services and council tax payers. Where charges are being increased, Members need to bear in mind the scale and extent of the charges, and may need

in some cases to have regard to the costs of service provision, associated with the power to charge.

- 17.10 **Members' responsibility to make a personal decision:** In Council, Members must make a personal decision on how to vote on the budget proposals. Members' overriding duty is to the whole community. Members have a special duty to their constituents, including those who did not vote for them. Whilst Members may be strongly influenced by the views of others, and of their party in particular, it is their responsibility alone to determine what view to take when deciding upon budget questions. He/she should not follow party loyalty and party policy to the exclusion of other considerations.
- 17.11 Members need to balance the cost to council tax payers of any budget reductions, against the need for the benefits of services of the particular nature, range and quality, under consideration. If having taken into account all relevant (and disregarding all irrelevant) considerations, Members are satisfied that it is financially prudent and reasonable to make any budget cuts proposed and adopt the recommendations as proposed then they may properly and reasonably decide to do so.
- 17.12 **Capping:** The Localism Act 2011 has superseded the previous capping legislation and dictates that should a council propose an increase in council tax which would be deemed to be excessive in accordance with principles and levels designated by the minister, then a local referendum on the proposal will be required. This will necessitate the drafting of an alternative proposal that will meet ministerial requirements that is put to the electorate alongside the 'excessive' proposition. Since the proposal is below the 'excessive' threshold this will not apply.
- 17.13 **Housing Revenue Account:** Under Section 76 of the Local Government & Housing Act 1989, the council is required, in advance of the financial year, to formulate proposals which satisfy the requirement that, on certain stated assumptions, the Housing Revenue Account for that year does not show a debit balance. The council is obliged to implement those proposals and from time to time to determine whether the proposals satisfy the 'break even' requirement. If not, then the council shall make such provisions as are reasonable practicable towards securing that the proposals as revised, shall satisfy the requirement.
- 17.14 Under Section 24 of the Housing Act 1985, the council can make such reasonable charges as it determines for the tenancy or occupation of its houses. The council is obliged, from time to time, to review rents charged and make such changes, as circumstances may require. In exercising this function (determining and fixing rent), the council should have regard to the rents charged in the private sector.
- 17.15 A decision to increase rent constitutes a variation of the terms of a tenancy. Under Section 103 of the Housing Act 1985, in respect of secure tenancies, a notice of variation (specifying the variation and date on which it takes effect) must be served on each tenant. For non-secure tenancies (excluding introductory tenancies), a notice must be served that complies with Section 25 of the Housing Act 1985.
- 17.16 The Housing Act 1985 defines the legal requirements for informing tenants of rent increases. In practice this requires the issue of written notification to each tenant a minimum of four weeks in advance of the date that the increase becomes operative. For 2014/15 the latest date for posting the notices (first class) is 10 March 2014.

17.17 In respect of the new business rate relief set out at Appendix 6 it is for individual local billing authorities to decide to grant relief under section 69 of the Localism Act 2011, but central government will fully reimburse local authorities for the local share of the discretionary relief (using a grant under section 31 of the Local Government Act 2003) based on outturn of relief granted in the circumstances specified.

## **18. Risk Management**

18.1 As in previous years there remain risks inherent in the assumptions that underlie the budget build and these are described below.

18.2 Other risks in the budget construction and general finances for 2014/15 include:

- The 2014/15 budget is predicated on the successful outcome of a number of significant savings proposals. Such assumptions can be significantly impacted upon by events allied to or even outside of the area affected by the proposals.
- Further demographic pressures within Children and Adult Services in adult social care and children's services may surface in 2014/15 above those assumed in building the budget. Specialist children's services are particularly volatile given the additional pressures both from referral and the regulatory regime brought about by the high profile problems of other Local Authorities.
- The very significant changes in the welfare benefits regime that occurred in 2013/14 will continue to impact and indications from Government are that the pressure created in this area will continue to be felt in the coming years. Some of these such as the new Council Tax Support scheme and the 'spare room subsidy' directly impact on Council services. Others will have a knock-on impact particularly for debt collection and as the previous point made, the wider economic situation of the Medway Towns;
- As is particularly current, extreme weather may increase the demand for highway maintenance and put pressure on other front line services;
- Inflationary increases and pay award predictions have been set at nil other than for particular contractual commitments. Clearly current RPI indications will put strain on these assumptions, particularly looking ahead;
- There is no allowance at this stage for discretionary service improvement priorities and any such proposals will require the identification of additional resource.

## **19. Diversity Impact Assessment**

19.1 In setting its budget, the Council is exercising a public function and must therefore comply with the duties in section 149 Equality Act 2010 to have 'due regard' to the matters set out that section. Accordingly due regard to the need to eliminate discrimination, advance equality, and foster good relations between those with a protected characteristic (pregnancy and maternity, age discrimination, disability, gender reassignment, marriage and civil partnerships, race, religion or belief, sex and sexual orientation) and those who do not share it must form an integral part of the decision making process in relation to the budget. In practice the Council must show it has thoroughly considered any impact its decisions could have on groups with 'protected characteristics' before any decision is arrived at. Complying with this duty does not prevent the council from making difficult decisions about reorganisations, redundancies and service reductions nor does it stop decisions being made which may affect one group more than another. What must be demonstrated is that where there is potential for disproportionate impact this is

transparent and any appropriate mitigating actions have been considered before final decisions are made.

- 19.2 A Diversity Impact Assessment is attached as Appendix 9. It is an overarching report containing a summary of the results of the Diversity Impact Assessments which have been completed for each of the services affected by the proposed budget changes.
- 19.3 The summary Diversity Impact Assessment identifies five services where there may be potential adverse impact on some protected characteristic groups as a result of the proposed budget changes.
- 19.4 The five Diversity Impact Assessments are enclosed for reference by Cabinet:
- Decommissioning of ethnic minority day centres (Appendix 9a)
  - Telecare and Telehealth efficiencies (children and adults) (Appendix 9b)
  - Reorganisation of the Business Administration support service (Appendix 9c)
  - Restructure of disability services (Appendix 9d)
  - Packages for disabled children (Appendix 9e).
- 19.5 It should be noted however that although equality impact assessments help to anticipate the likely effects of proposals on different communities and groups, in reality the full impact will only be known once the proposal is introduced. To mitigate against any unintentional and unidentified impact monitoring will continue and will be reported through quarterly monitoring if necessary.
- 19.6 The budget report sets out in full the proposals and funding reductions impacting on the Council. Clearly in a time of limited resources it is not possible to fund the full range of services that may be asked for and choices will have to be made. However, the budget has been compiled to meet the statutory duties and to enable the council to deliver statutory services. It is also based on delivering good quality services to residents despite the need to find savings.

## **20. Financial and constitutional implications**

- 20.1 The financial implications are contained in the body of the report and in the attached appendices.
- 20.2 The council's constitution contains the budget and policy framework rules. The relevant extracts from the constitution are reproduced as follows:
- The budget and policy framework rules contained in the constitution specify that the Cabinet should produce the draft revenue and capital budget. This initial budget which does not have to give full detail, nor be a finalised set of proposals, should be submitted to the overview and scrutiny committees to consider the initial budget and if appropriate offer alternative proposals. Any such proposals will be referred back to the Cabinet for consideration.
  - Under the constitution the Cabinet has complete discretion to either accept or reject the proposals emanating from the overview and scrutiny committees. Ultimately it is the Cabinet's responsibility to present a budget to the Council, with a special Council meeting arranged for this purpose on 20 February 2014. The adoption of the budget and the setting of council tax are matters reserved for the Council.

20.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) states that the following factors should be taken into account when considering the overall levels of reserves:

- Assumptions regarding inflation;
- Estimates of the level and timing of capital receipts;
- Treatment of demand led pressures;
- Treatment of savings;
- Risks inherent in any partnerships, etc;
- Financial standing of the authority (level of borrowing, debt outstanding, general reserves etc.);
- The authority's track record in budget management (including the robustness of medium term plans); and
- The authority's capacity to manage in-year budget pressures.

20.4 The above factors are discussed in the body of the report and taking all of the above into account, the Chief Finance Officer considers that the budget calculation is robust.

## **21. Conclusion**

21.1 The budget has been formulated to accord with the principles set out in the MTFP. In addition, budgets have been proposed to deliver the aspirations of the Council Plan and preserve those services that are important to residents.

21.2 The proposed revenue budget of £331.431 million (table 10) is based on a Council Tax increase of 1.995%. As in previous years considerable effort has been made to achieve a balanced budget without seriously impacting on direct services to the public. There does however remain a gap of £81,000 still to be identified.

21.3 Against a backdrop of reducing grant support that is expected to see the Government contribution to Medway services reduce by 48% in the 2010 to 2015 period, the budget as presented in this report is a remarkable achievement with front line service delivery protected.

## **22. Consultation**

22.1 The citizens' panel were consulted on which services were most important and which services were least important and this information has been made available for both budget planning and drafting of the council plan. As part of this consultation residents were asked if they could identify areas where they felt the council could improve services while reducing costs. There were few responses and, generally, those comments received proposed the council should 'increase efficiency/effectiveness of employees/services.'

22.2 The council has developed a resident engagement strategy detailing how officers will consult and engage with tenants in partnership with tenants' forums. In order to support this commitment, a meeting with tenants to present the proposals for the HRA was held on 31 January 2014.

22.3 The meeting was advised that the Council follows the Government's rent restructuring formula for increasing rents and the decrease of average service charges was noted. Most tenants were very pleased with the service they received

and it was hoped that this would continue to improve. They were also pleased to note that the £5m capital programme designed to improve homes and environment would continue and services would be sustained for the following year despite the budget not being increased. In response to questions, Tenants were assured that the recent £2m transfer to the General Fund would not impact on service delivery for the next year

## **23. Recommendations**

That Council;

- 23.1 Consider the recommendations of Employment Matters Committee on 6 February 2014 regarding the proposals for a new Pay and Grading scheme as set out at paragraph 8.4.1 and the issues including the DIA and consultation responses set out in full within Appendix 10;
- 23.2 Approve the capital budget proposals as set out in Appendix 1;
- 23.3 Approve the general fund gross, income and net revenue estimates as summarised in Table 10 and detailed in Appendix 2 in the sum of £331.431 million;
- 23.4 Note the Kent Police and Crime Commissioner's precept requirement;
- 23.5 Note the Kent Fire and Rescue Service precept requirement;
- 23.6 Note the parish council precept requirements of £356,602 as detailed at Appendix 6 of this report;
- 23.7 Agree the schedule of precept instalment dates as set out in section 15;
- 23.8 Approve the basic rate of council tax at band D for 2014/15, before adding the police, fire and parish precepts, at £1,164.24;
- 23.9 As part of the budget proposals, approve fees and charges, as recommended by Cabinet and set out in the booklet 'Medway Council - Fees and Charges April 2014' as set out in Appendix 8;
- 23.10 Approve the following with regard to the Housing Revenue Account:
  - The budget proposed as summarised at Appendix 3;
  - The proposed increase in rents asset out at Appendix 4;
  - The proposed service charges as set out at Appendix 5; and
- 23.11 Adopt the formal resolution for the council tax requirement and schedule of council tax charges for 2014/15 as set out in Appendix 7 to this report and to incorporate any amendments arising from the meeting;
- 23.12 Notes the findings of the Diversity Impact Assessments as set out at Appendix 9, and the proposal to continue, where necessary, to report through quarterly monitoring any further unidentified or unintentional impact;

Report author            **Mick Hayward, Chief Finance Officer.**

## Appendices

1 and (a) to (d)	Summary and Directorate Capital Programme
2 and (a) to (c)	Summary and Directorate Revenue Budgets
3	Housing Revenue Account
4	Proposed HRA rent increases
5	Proposed HRA service charges
6	Schedule of Parish Precepts
7 and (a)	Council Tax Resolution and bandings
8	Schedule of Proposed Fees and Charges
9	Diversity Impact Assessment
10	Employment Matters Committee report on Pay and Grading proposals

## Background papers:

Medium Term Financial Plan 2014/17 – Cabinet 1 October 2013:  
<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=21413>

Draft budget proposals to Cabinet 26 November 2013.  
<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=21904>

Provisional Finance Settlement report to Cabinet 14 January 2014  
<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=22260>

Capital and Revenue Budgets 2014/2015  
<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=22557>