

COUNCIL

26 FEBRUARY 2015

CAPITAL AND REVENUE BUDGETS 2015/16

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 2015/16. In accordance with the Constitution, Council is required to approve the capital and revenue budgets, rent increases and council tax for 2015/16 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 2015/16. 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 2015/16 and the outcome of that review is considered as a separate item on this agenda.

2. Background

- 2.1 On 2 December 2014 Cabinet considered the draft capital and revenue budget proposals, based on the principles and assumptions contained within the Medium Term Financial Plan (MTFP) 2014/18 approved by Cabinet on 30 September 2014. The MTFP highlighted a potential revenue shortfall of some £12.4 million for 2015/16 rising to £27.3 million in 2017/18. This was after savings of £5.8 million had been identified along with additional council tax yield of £2.3 million in 2015/16.
- 2.2 Of greater impact for the draft budget was the incorporation of the outcomes of the first two rounds of budget reviews under the 'star chamber' regime, and

enhanced revenue from revised calculations for Council Tax and New Homes Bonus fed by increased properties. Unfortunately the additional resources of almost £5 million generated by these were largely negated by additional budget pressures, particularly in Children's Social Care, and the budget gap remaining to be found in the Draft Budget was £12.017 million.

- 2.3 The Chancellor's Autumn Statement at the beginning of December 2014 and the subsequent Provisional Financial Settlement announcement on 18 December 2014 had little impact on the resource assumptions in the Draft Budget agreed by Cabinet on 2 December 2014. The Final Settlement figures were released on 3 February 2015 and confirmed the announcements in the Provisional Settlement other than a national increase of £74 million in response to consultation responses regarding Local Welfare Provision (LWP). This has resulted in a £310,000 increase in our Upper Tier allowance in the Settlement Funding Assessment (SFA). This is set out at Table 1. Whilst this addition was as a result of representation regarding LWP there is no ring-fence to the additional RSG and no statutory duty related to it either. The excessive limit on Council Tax increases was also confirmed at 2%.
- 2.4 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 3 February 2015 reflects only a minor change from the Provisional Settlement figures, in that the Revenue Support Grant (RSG) has increased from £38.474 million to £38.784 million, an increase of £310,000 against the Provisional Settlement figure but an overall decrease of 27% against the equivalent for 2014/15.
- 3.1.2 The headline for Medway for 2015/16 is a Settlement Funding Assessment (SFA) of £82.544 million, representing a decrease of 14.1% over the equivalent sum for 2014/15. The detail is set out in Table 1 below. The SFA reduction at 14.1% in 2015/16 is slightly less than the Shire Unitary average of 14.6% but greater than the all England average reduction of 13.6%. Figures for 2016/17 are not available but the Chancellor in his Autumn Statement indicated that further public spending reductions of £25 billion would be needed in the next Parliament and this would maintain, if not accelerate the rate of decline since 2010 which has seen 48% of Government funding support disappear from the Council
- 3.1.3 Table 1 below shows that £43.8 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 2015/16 and that will be informed by the actual collection, to date, in 2014/15. This is discussed further in paragraph 3.2 below.

Table 1. Settlement Funding Assessment

	2014/15 (actual)	2014/15 (adjusted)	2015/16 (Prov.)	2015/16 (Final)
	£000's	£000's	£000's	£000's
Upper-tier Funding	59,682	59,682	49,386	49,696
Lower-tier Funding	15,446	15,446	12,907	12,907
2011-12 Council Tax Freeze Compensation	2,452	2,452	2,443	2,443
Early Intervention Funding	7,690	7,690	7,004	7,004
Homelessness Prevention Funding	148	148	147	147
Lead Local Flood Authority Funding	130	130	130	130
Learning Disability and Health Reform Funding	9,657	9,657	9,621	9,621
Returned New Homes Bonus holdback	126	126		
Local Welfare Provision		792	596	596
Settlement Funding Assessment	95,331	96,123	82,234	82,544
% reduction			-14.4%	-14.1%
Revenue Support Grant	52,391	53,183	38,474	38,784
Baseline NNDR Funding	42,940	42,940	43,760	43,760

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 2015/16 will receive an additional grant of £0.433 million as a result. For 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 Provisional/Final Settlement and Autumn Statement announced no changes to the business rates retention scheme although there is a continuation of schemes to aid small business and retail premises for whom the exemption of £1,000 is raised to £1,500. The multiplier increase was also yet again capped at 2% against an inflation figure of 2.3%. All of the additional reliefs and the cap to the multiplier are to be recompensed by section 31 Grant to the Council as in 2014/15.
- 3.2.4 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 238 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 2013. For the pre 1 April component we were able to spread the cost estimated at the 31 March 2014 over 5 years and ease the burden that would otherwise have been imposed in 2013/14. 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 informed guesswork.

- 3.2.5 In 2014/15 the Council estimated that the income received through business rates, inclusive of top-up, section 31 grant for additional reliefs, the capping of the multiplier, and the phasing of pre-2013 appeals costs would be £44.916 million. Unfortunately the accounting treatment of the phasing adjustment, which was not released until some months after the budget was set, meant that an incorrect assumption was used in the estimate and accordingly the amount drawn from the Collection Fund for NNDR is now thought to be £1.6 million more than the Council share. Fortuitously this over-estimate in the take from the Collection Fund is balanced by an equivalent surplus from the Council Tax component. Precise figures will not be available until the accounts for 2014/15 are produced later in the year but it serves to illustrate the risk and volatility of the estimation process.
- 3.2.6 The current forecast for 2015/16, 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 £45.866 million. This is based on latest forecast of business rates predicated on December data and used as the basis of submission to Government of the statutory NNDR1 return. This is £0.064 million more than the estimate used in the draft budget.
- 3.2.7 The forecast income from this source is particularly volatile and difficult to estimate with precision as the experience of 2014/15 has shown. It is subject to both local and central influences. In his Autumn Statement the Chancellor announced the continuation of a raft of changes to the business rate regime introduced in 2014/15 many of which are reliant upon take-up by local businesses which may or may not occur. 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 in March 2013 but equally the commissioning of a new supermarket could push income in the other direction. Whilst there is some advance notice of significant new development such as at Chatham Waters for instance, the sudden collapse of a major business is often a surprise as illustrated by the recent closure announcement for Tesco, Chatham. Variation on both fronts can be of a significant amount 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 and Finance Portfolio holder, on 28 January, have agreed the council tax base for 2015/16 at 80,212.80 band D equivalents. This represents an increase of 625 band D equivalents set against the assumption in the Draft Budget and represents an additional yield of £742,000. The major reason for the variation is that the level of discount awarded under the Council Tax Reduction Scheme (CTRS) continues to fall requiring re-visiting the figure to be used for 2015/16 and this has meant a reduction in the discount value from 10,901 band D equivalents to 10,171 – an effective increase in the band D equivalents for Council Tax yield of 730. This has been offset by a reduction in the estimated yield for long-term empty properties.
- 3.3.2 The Final Finance Settlement confirmed the Government intention to press ahead with the offer of a grant to those authorities that choose to keep council tax at 2014/15 levels. For Medway this ‘freeze’ grant would be worth £1.052 million and compares to a £0.938 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 this report assumes that the Council will not take up the offer of a freeze grant but will instead opt for a 1.994% increase in council tax. Press reports suggest that there will be a majority of councils taking this view.
- 3.3.3 In respect to Council Tax levied, Medway’s position in 2014/15 remained one of the lowest in both our peer group of Mainland Unitary Councils (9th lowest of 55) and nationally (35th lowest of 325 billing authorities), and this is despite increases at the maximum permitted to avoid referenda rules set out below.
- 3.3.4 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 is announced before budget and council tax levels are set. The Final Settlement confirmed that the level for 2015/16 would be 2%. 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.

3.4 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 £6.100 million grant in 2015/16 and this remains in accord with the latest estimate with 354 band D equivalent properties (net of voids) completed in the year to October 2014, and including affordable homes accrual of £78,950 based on 217 affordable homes being completed in the year to 31 March 2015.

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 and 2019/20 will have £3.573 million. The Labour party have committed to end the New Homes Bonus scheme should they be elected to Government in May 2015 and this adds another dimension to the questions around 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 or indeed whether the anticipated payment for 2016/17 will cease. In any event this is presently a significant resource in support of the budget.

3.5 Department for Education (DfE) Grants

3.5.1 *Dedicated Schools Grant (DSG)*

DSG for 2015/16 continues to be calculated in three blocks for Schools, Early Years and High Needs and driven by pupil numbers. The per-pupil rates for the Schools Block for 2015/16 have increased by £6.12 and this is also accompanied by an increase in pupil numbers. The Early Years Block in 2015/16 reflects the end of the 2-year old additional allocation of £4 million, and hence the reduction in total. Overall the DSG for 2015/16 is calculated as set out in Table 2 below:

Table 2: Schools Based grant Funding (DSG)

	2014/15	2015/16	2016/17
Schools Block – Pupil Numbers	37,029	37,680	38,180
Schools Block Funding	£158,929,150	£161,999,545	£164,178,045
Early Years Block – Pupil Numbers	2,717	2,817	2,917
Early Years Block Funding	£16,255,605	£12,476,279	£13,114,605
High Needs Block Funding	£34,445,265	£34,696,265	£34,696,265
DSG (gross)	£209,630,020	£209,172,089	£211,988,915
Academy Deductions	(£93,732,302)	(£102,428,012)	(£112,282,369)
DSG (Net)	£115,897,718	£106,744,077	£99,706,546
Pupil Premium	£6,406,426	£5,530,478	£4,699,086
Sixth Form Funding	£1,047,098	£689,761	£434,521
Net Schools Based Funding	£123,351,242	£112,964,316	£104,840,153

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 £102.428 million, leaving Medway's net DSG allocation at £106.744 million.

3.5.2 *Pupil Premium*

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' (LAC), and children with a parent in the armed forces.

Only the primary funding rate for 2015/16 will be increased.

	2014/15		2015/16	
	Primary	Secondary	Primary	Secondary
Free School Meals	£1,300	£935	£1,320	£935
Looked After Children	£1,900	£1,900	£1,900	£1,900
Service Children	£300	£300	£300	£300

These rates will produce a total grant for Medway schools (excluding academies) of about £5.530 million in 2015/16.

3.5.3 *Sixth Form Funding*

3.5.3.1 2014/15 sixth form funding is based on the allocations for the remaining two Medway secondary schools and three special schools. One secondary and one special school have converted 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.

3.6 After allowing for transfers to academies, the funds available to the Schools budget are estimated at £112.964million, comprising an estimated DSG allocation of £106.744 million and Education Funding Agency (EFA) sixth form grants of £0.690 million together with a Pupil Premium allocation of £5.530 million. The Cabinet on 10 February considered a report detailing the final formula funding arrangements for schools/academies for 2015/16 as approved by the Schools Forum on 8 January 2015.

3.7 The funding delegated to schools and academies for 2015/16 from the DSG schools block will be £162 million with £0.964 million retained as agreed by the Schools Forum. The Schools Forum agreed the delegated and central expenditure budgets at their meeting on 8 January 2015 and this was further explained at the Cabinet meeting on 10 February 2015, within the report "Final Funding Formula for Mainstream Schools and Academies 2015-16".

3.8 *Education Services Grant*

3.8.1 The Education Services Grant (ESG) 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 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.

Based on the funding rates per pupil issued by the DfE and some reasonable assumptions about Academy conversions anticipated during 2015/16, the ESG attributable to non-academies has been calculated as:

2014/15	£3,052,118
2015/16	£2,236,436
2016/17	£2,133,760

3.9 Other Specific Grants

3.9.1 Other specific grants are set out in Table 3 below and are for the most part allocated directly to services. For 2015/16 these have increased largely as a consequence of the New Burdens funding for Social care. This masks other cuts in grant for elements such as Local Welfare Provision.

Table 3 Specific Grants

	2014/15	2015/16	2015/16
	Final Settlement	Draft Budget	Final Settlement
	£m	£m	£m
Community Right to Bid*	0.008	0.000	0.000
Community Right to Challenge*	0.009	0.000	0.000
Inshore Fisheries	0.032	0.032	0.032
Lead Local Flood Authorities*	0.077	0.051	0.051
Local Welfare Provision (now part of RSG)	0.792	0.000	0.000
Council Tax Support New Burdens Funding*	0.145	0.000	0.059
CTRS/HB Admin grant	1.799	1.619	1.583
Local Reform and Community Voices*	0.180	0.180	0.134
Extended rights to free travel	0.093	0.093	0.042
Adjusted Adult Social Care New Burdens	0.125	0.000	1.212
SEND implementation grant (formerly adoption grant)	0.331	0.000	0.158
New Homes Bonus returned	0.143	0.000	0.142
Total	3.734	1.975	3.413

* indicates not allocated to base budgets

3.10 Public Health Grant

3.10.1 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 was increased from £13.170 million to £14.280 million in 2014/15 and it is further expected to increase in 2015/16 to accommodate the transfer of 0-5 children's public health commissioning to Local Authorities. The final baseline for this transfer is £2.522 million. In this report it has been assumed that the £2.522 million is added with a corresponding expenditure increase to match the additional grant.

3.11 Capital Settlement

3.11.1 The capital settlement announcements are often delayed and this is again the case. However both the Department for Transport (DfT) and Department of Health (DoH) have made announcements during 2014/15 and these are reflected in Table 4 below. The 2015/16 DfT allocation for Integrated Transport is reduced from previous years but this has been as a consequence of a top-slice to create the Local Growth Fund from which we are beneficiaries to the extent of £28.6 million. From 2015/16 capital funding for Adult Social Care and Disabled Facilities Grant will be included within the 'Better Care Fund' (BCF).

Table 4 Indicative Capital Grant Allocations

	2014/15	2015/16	2016/17
	£m	£m	£m
Department for Education			
Basic Need Grant	2.513	2.237	2.349
Schools Capital Maintenance Grant	2.543	2.042	TBA
Schools Devolved Formula Capital	0.472	0.380	TBA
Universal Infant Free School Meals	0.567	0.000	0.000
Department of Health			
Adult Social Care Transformation Grant	0.557	0.556	0.556
Department for Transport (DfT)			
Highway Maintenance	2.216	2.545	2.333
Integrated Transport	2.122	1.589	1.589
Department of Communities and Local Government (DFG's)	0.739	0.922	.0.922

4. Capital Programme 2014/15 and beyond

- 4.1 This section of the report seeks to ensure that the capital programme is integrated with the process for setting the revenue budget and the level of council tax. For a number of years the financial settlement has not included 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. Council will be considering the Treasury Management Strategy, which incorporates prudential indicators, as a separate item on this agenda.
- 4.2 The Final Settlement and capital grant allocation announcements have provided more certainty albeit schools grants as indicated above are based on pupil numbers and academy transfers which are not certain. Likely grant funding for next year is presented in Table 4 above. In addition to government grant assumptions, the capital programme summarised at Appendix 1 also reflects other sources of funding to the extent that we believe them to be secure, including developer contributions, revenue contributions and even some capital receipts.
- 4.3 The proposed capital programme reflects funding rolled forward from 2014/15 to meet on-going delivery of the existing programme, together with the new schemes and future funding assumptions for 2015/16 and beyond. Table 5 summarises planned expenditure, providing an analysis of how it will be funded. More detailed analysis is provided at Appendix 1a-1d.

Table 5 Funding the proposed capital programme

	C & A	RCC	BSD	Member Priorities	Total
	£000's	£000's	£000's	£000's	£000's
Expenditure Profile:					
2014/2015 forecast	22,942	28,850	1,731	381	53,904
2015/2016 forecast	18,890	31,145	2,896	214	53,144
2016/2017 forecast	43	15,471	807	0	16,321
2017/2018 & future year's forecast	13	30,028	292	0	30,333
Total Forecast Expenditure	41,888	105,494	5,725	595	153,703
Funding Source:					
Grants	29,561	47,459	0	0	77,020
Prudential borrowing	0	25,241	1,316	0	26,558
Developer & other contributions	6,878	989	0	0	7,867
Capital Receipts	3,022	4,804	2,889	595	11,309
Right To Buy receipts	0	500	0	0	500
Reserves/Revenue	2,427	26,501	1,521	0	30,448
Total Funding	41,888	105,494	5,725	595	153,703

5. Departmental Programmes (2015/16)

5.1 Business Support Department

5.1.1 The Business Support capital programme primarily comprises existing approvals, including the thin client (ICT) initiative, mercury abatement scheme, Strood riverside, corporate building maintenance and two recent additions in the current year for smarter working at Gun Wharf and to relocate the contraceptive and sexual health service.

5.1.2 The only new scheme next year represents capital investment in ICT in order to deliver the digital transformation agenda.

5.2 Children and Adults Directorate

5.2.1 The Children and Adults proposed programme represents planned expenditure for the medium term, based upon the forecast carry forward from 2014/15 and taking into account grant funding and developer contributions over the next three years. The brought forward programme includes additional funding, in the form of both the Targeted Basic Needs Grant and DSG reserves, which has given the Council enough funding to provide sufficient primary school places in the short to medium term. Having said that, more places will be needed in 2017/18 and there will subsequently be a need for more secondary school places too. The gap will have to be met by bidding against additional grant funding, which it is expected that Government will make available in a similar way to the Targeted Basic Need Grant.

5.2.2 The proposed capital programme is summarised at Appendix 1a and the directorate's main priority continues to be the provision of sufficient primary

school places in Chatham and Gillingham. In addition to £1.9 million of uncommitted grant rolling forward from 2014/15, the proposed programme will make use of developer contributions, to the extent to which they are certain. Table 6 below summarises the four schemes which it is proposed to take forward next year.

Table 6: Planned Additional Primary School Places

	2013/14 forecast £
New Schemes in 2015/16	
- Hundred of Hoo Primary	2,500,000
- Cuxton Primary Expansion	1,200,000
- Saxon Way Expansion	1,500,000
- Elaine Primary Expansion	1,000,000
Total Funding Requirement	6,200,000

5.2.3 Schools Condition Programme

It is anticipated that the 2014/15 condition programme budget will be spent this year and that the 2015/16 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 as £2.545 million and £1.589 million respectively. These compare to allocations of £2.216 million and £2.122 million in 2014/15.

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 £915,000 will be supplemented with the grant funding of £922,000 for 2015/16.

5.3.5 The 2015/16 programme also includes £28.6 million of schemes funded by the Local Growth Fund (LGF) and £4 million for the Strood Riverside flood protection works funded from PWLB 'project rate' borrowing. In addition the recent announcement of LGF funding for the Rochester Airport development is now reflected in Appendix 1b as a change in funding source from our own earmarked reserve to Government grant.

- 5.3.6 Cabinet, on 10 February, considered a report on the relocation of the archives and local studies centre into the former Strood library. This will be a £971,600 scheme part funded by a virement from the redundant Strood CPO scheme and the balance of £324,600 from capital receipts generated not least by the freeing up of a further area of the former Civic Centre site.
- 5.3.7 As part of the process of searching out revenue budget savings the infrastructure investment in the CCTV / Lifeline service has been capitalised at a cost of £200,000 to be funded from capital receipts.
- 5.3.8 Capital funding for the Housing Revenue Account (HRA) is included in the Appendices 1 and 1b and includes £14.321 million, in respect of Planned Maintenance and Disabled Adaptations for the next three years, together with the residual spend on the House Building programme of £6.551 million. This is funded by a combination of use of the Major Repairs Reserve, contribution from the HRA working balance and additional borrowing.

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 at Table 7 below, there is limited capacity for utilising these funds but the comments in the previous section have highlighted additional investment in addition to the continued support are the Highways Capital Investment Programme at £1.5 million. The total investment from capital receipts next year is proposed to be funded from future Capital Receipts.
- 5.4.2 Table 7 shows the movement in capital receipt balances, after funding the existing approved capital programme including the £1.5 million highways commitment and other schemes outlined in paragraph 5.3.6 and 5.3.7.

Table 7. Movement in Capital Receipts

Description	General Fund Receipts £000's	Housing Receipts £000's	Total £000's
Balance @ 1 April 2014	2,943	(2,943)	0
Anticipated Receipts 2014/15	(4,659)	(1,138)	
Applied to Capital Programme 2014/15:	3,811	740	
Estimated Balance at 1 April 2015	2,095	(3,341)	(1,246)
Anticipated Receipts 2015/16	(6,197)	(758)	
Applied to Capital Programme: 2015/16	5,814	670	
Estimated Balance at 1 April 2016	1,712	(3,429)	(1,717)
Anticipated Receipts 2016/17	(5,135)	(758)	
Applied to Capital Programme: 2016/17	2,103	451	
Estimated Balance at 1 April 2017	(1,320)	(3,736)	(5,056)

6. Revenue Budget 2014/15

6.1 The draft budget approved by Cabinet on 2 December 2014 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 MTFP and subsequent budget is prepared alongside the Council Plan and reflects the Council's priorities, as articulated by two core values and four key outcomes:

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

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:

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

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 £12 million in excess of the anticipated resources available, largely driven by a reduction in Government grant. Expenditure pressures already experienced and the continued growth in those pressures had offset the savings achieved in the first two rounds of the 'star chamber' review process that were detailed in the draft budget appendices.

6.5 The Final Local Government Financial Settlement was announced on 3 February 2015 and was a slight improvement on that shown in the Provisional Settlement and, together with other changes in the anticipated resources outlined in section 3, have revised the deficit to £10.4 million.

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 ninth lowest council tax of all mainland unitary authorities and is, currently, on average, £118 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 2015/16 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 1.994%.
- 6.8 In accordance with Council delegation, the Chief Finance Officer and Finance Portfolio Holder, on 28 January, agreed the Council Tax base for 2015/16 at 80,212.80, an increase of 625 against that used for the draft budget. This is a significant increase and reflects principally a reduction in the levels of discounts awarded for the Council Tax Reduction Scheme which in turn reflects the improving economic position and reduced claimant numbers. The additional yield from the revised council tax base set against the draft budget proposal will be an extra resource of £742,000.
- 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 but it highlights General Fund resource reductions of £8.075 million and £2.002 million after allowing for increases in Council Tax, Business Rates and New Homes Bonus, together with the £2.522 million increase in Public Health Grant. Education funding decreases are as a consequence of Academy transfers.

Table 8. Funding Medway's Revenue Budget 2015/18

	Round 1 Budget	Draft Budget Forecast Requirement	Proposed Budget Forecast Requirement	Proposed Budget Forecast Requirement
	2014/15	2015/16	2015/16	2016/17
	£000's	£000's	£000's	£000's
Dedicated Schools Grant	218,328	214,300	209,172	211,989
Academy Transfer	(92,456)	(91,536)	(102,428)	(112,282)
Other School Specific Grants	7,806	6,548	6,220	5,134
Schools Based Resources	133,678	129,312	112,964	104,841
Council Tax	91,285	94,508	95,249	97,634
Revenue Support Grant	52,392	38,062	38,784	28,984
Business Rates Share	44,916	45,802	45,866	47,618
New Homes Bonus	5,582	6,100	6,242	7,173
Education Support Grant	3,206	2,221	2,236	2,134
Specific Grants	419	231	186	186
Public Health Grant	14,280	14,280	16,802	19,324
Use of Reserves	1,100	50	50	50
General Fund Resources	213,180	201,254	205,415	203,413
Estimated Available Funding	346,858	330,566	318,379	308,254

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 be extended into 2015-16 and remain the same. 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 2015-16.
- 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. Monitoring of the Council Plan will continue on a quarterly basis, focusing on key measures of success and updates on key projects identified as supporting the delivery of the priorities.
- 7.3 As options for meeting the 2015/2016 budget gap are debated, some of the commitments included in the revised indicators and key projects may need to be revisited. Changes made to the budget up to and including Full Council may also have an impact that will need to be reflected in the final version that Members agree, and an appropriate delegation has been sought in the Council Plan Indicator report on this agenda to enable this alignment of the Council Plan to the final budget decisions.

8. Revenue Budget 2015/16 – Proposals to Bridge the Budget Gap

- 8.1 The funding shortfall of £12.017 million in the draft budget report on 2 December 2014 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 8.7 onwards outline the changes made since 2 December 2014 with an overall summary of budget build at Appendices 3.
- 8.2 The draft budget report as set out on 2 December 2014 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 £1.64 million highlighted in Table 9.
- 8.3 Under the financing arrangements for the DSG in 2015/16 the Local Authority can continue to retain funds at the same level as 2014/15 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 8 January 2015 and approved all the Council requests to retain funding centrally in 2015/16. Cabinet subsequently approved these proposals on 10 February 2014.
- 8.4 The budget build assumed a nil increase in pay costs for staff but Table 9 identifies a provision of £800,000 allocated for increases in pay equivalent to about 1% of the paybill cost with 60% allocated to the cost of living increase and 40% to performance awards. Employment Matters Committee met on 28

January 2015 and confirmed this as a recommendation to Council with a specific request that it also provides for the removal of the bottom point of the pay scale at a cost of just over £35,000, to be contained within the £0.8 million. This will further need to be apportioned between a 'cost of living' increase applicable to all staff in the Local Pay Scheme and an element to provide for performance awards under the Medpay model and the removal of the lowest pay point. Clearly the financial pressure the Council is under courtesy of grant cuts and expenditure pressures have made any addition for pay difficult but Council staff have been subject to a pay freeze for five years albeit last year's changes to pay and conditions and the one-off payment to lower paid staff was at a cost of £900,000 or just over 1%.

- 8.5 Table 9 below identifies some modest increases to costs that have been identified subsequent to the draft budget proposals. These and the £6.6 million of savings proposals that have been found by the directorates are discussed in paragraphs 8.6 to 8.8 and set out in Appendix 3.

Table 9. General Fund Budget Changes

Budget Preparation Summary 2015/16			
		£000s	£000s
General Fund			
Budget Gap 2 December 2014			12,017
Less:	Additional Taxbase (Council Tax)	742	
	Additional Revenue Support Grant	722	
	Additional Business Rates Share	64	
	Additional New Homes Bonus	142	
	Additional Education Support Grant	15	
Add:	Reduced specific Grants (not included in budgets)	45	
	Sub Total	1,640	10,377
Add	Pay Provision	800	
	BfL Savings Shortfall	389	
	FM overhead savings shortfall	321	
	Sub Total	1,571	11,887
Less:	Savings from Directorates		
	Children & Adults	2,276	
	Regeneration, Community & Culture	1,915	
	Business Support	2,421	
	Additional RCC savings from Public Rights of Way and Parking	27	
	Sub Total	6,639	5,248
Less:	Corporate Savings:		
	Category Management 'Pipeline' projects	1,300	
	Category Management – in-year procurement savings (15/16)	500	
	Category Management – in-year procurement savings (14/15)	119	
	Public Health Grant funding of General Fund projects	1,700	
	Treasury Surplus	1,000	
	Fees and Charges increases	250	
	Digitalisation project	250	
	'De-minimus' budgets	137	
	Centralisation of furniture and equipment purchases	82	
	Sub Total	5,338	(90)
	Total Surplus		(90)

8.6 Children and Adults (Appendix 2a)

8.6.1 In addition to the £3.1 million of savings included in the draft budget considered by Cabinet on 2 December, the Children and Adult Services directorate has identified a further £2.3 million of budget reductions in response to the need to balance the budget overall. Appendix 3 details the savings that have been identified which for the major part are individual reductions of less than £100,000 and have a focus on removing vacant posts so as to minimise the effect on service and reduce costs of severance. The paragraphs below highlight the

more significant elements (above £100,000) of the additional £2.3 million savings.

8.6.2 *Adult Social care*

£327,000 of the £2.3 million relates to Adult Social care but there are no items over £100,000 and indeed the maximum individual saving proposed is £50,000.

8.6.3 *Children's Social Care*

Of the £2.3 million £267,000 relates to Children's Social Care budgets and once again there are no items over £100,000 and indeed the maximum individual saving proposed is £90,000.

8.6.4 *School Effectiveness and Inclusion*

£973,000 of the £2.3 million relates to this area and there are three significant budget reduction proposals:

- £200,000 from a 7% reduction in Children's Centre budgets but retaining all 19 centres operational. This also entails a review of activity to ensure the centres are best placed to participate in the new Child Health programme arising from the transfer of NHS responsibilities to Public Health in the second half of the year.
- £110,000 from non-renewal of the Child-minding Support contract to assist with Ofsted preparations, and revised arrangements to ensure safeguarding is assured coupled with an emphasis on digitalisation.
- £200,000 arising from a review of the provision of youth services to identify opportunities for efficiencies.

8.6.5 *Partnership Commissioning*

£708,000 of the £2.3 million relates to this area and there are two significant budget reduction proposals.

- £190,000 achieved by the charging of premature retirement costs for teachers to the retained component of the DSG. Education Funding Authority guidance on the accounting for these costs is clear that a local authority must fund redundancy costs (not premature retirement costs, which are the responsibility of the school concerned) of school staff, unless there is a good reason not to fund them centrally (section 37, Education Act 2002).
- £100,000 with the demolition of the buildings at Temple Mill and site security responsibility passing to new owners and contractors there is a saving of £100,000 to be realised in 2015/16.

8.7 Regeneration, Community and Culture (Appendix 2b)

8.7.1 Regeneration, Community and Culture have identified £1.9 million of additional budget reductions in response to the need to balance the budget overall. Appendix 3 details the savings that have been identified which for the major part are individual reductions of relatively small sums. The paragraphs below highlight the more significant elements (above £100,000) of the additional £1.9 million savings.

8.7.2 Front Line Services

£783,000 of the £1.9 million relates to this area and there is one significant budget reduction proposed by way of reducing the frequency and volume of clear sacks distributed. There is widespread anecdotal evidence that the present arrangement is too generous. Halving the present arrangement will save £110,000 and should not impact on recycling performance.

8.7.3 Housing and Regeneration.

£491,000 of the £1.9 million relates to this area and there is no significant budget reduction proposed, indeed only one saving proposal exceeds £50,000 and that is an amalgam of budget headings.

8.7.4 Leisure & Culture

£641,000 of the £1.9 million relates to this area and there are three significant budget reductions proposed:

- It is proposed to negotiate a variation to the Tree contract and reduce expenditure from £300,000 to £200,000. This will have an obvious impact on the volume of work undertaken but it is believed to be manageable.
- The Council undertakes a number of festivals across the Towns. These are discretionary events and whilst very popular they are also costly. For 2015/16 it is proposed not to hold the FUSE festival and this will save £115,000.
- The current monitoring reports reveal that Medway Sports and Leisure have exceeded the income budget by over £500,000. Accepting that there are some recurring costs associated with this income and indeed some risks associated with the expectation of additional income from the Strood Echoes development that, whilst assured with the additional capacity, may already be present in part in the additional membership elsewhere. It is none the less felt that an additional income target of £300,000 is achievable next year.

8.8 Business Support (Appendix 2c)

8.8.1 Business Support has identified £2.5 million of additional budget reductions in response to the need to balance the budget overall. Appendix 3 details the savings that have been identified and yet again the major part are individual reductions of individual proposals for less than £50,000. The paragraphs below highlight the more significant elements (above £100,000) of the additional £2.5 million:

8.8.2 *Finance division*

The Finance division has identified £442,000 of the £2.5 million from budget managed by the Chief Finance Officer. Only one of these proposed reductions exceeds £100,000 and that is the proposal to reduce the Ward Improvement Fund allowance from £3,000 per Councillor to £1,000. This is a discretionary heading and whilst popular with Members it is currently a generous allowance given the financial strictures faced.

8.8.3 *Communications, Performance and Partnerships*

This division has identified £353,000 of the £2.5 million but again has only one proposal that exceeds the £100,000 threshold and that is an amalgam of post deletions across the administration hubs totalling £103,000 and deleting 5.1 FTE posts.

8.8.4 *Organisational Services*

Organisational Services contribute £322,000 towards the £2.5 million total but no individual proposal exceeds the £100,000 threshold.

8.8.5 *Legal and Corporate Services*

This division contributes £990,000 towards the £2.5 million total but is also the lead for significant corporate savings identified below. There are three individual proposals that exceed the £100,000 threshold but one of those is the deletion of two posts at Category Lead level that are presently vacant. This saving totals £105,000. In addition there is presently an over-provision of budget for Gun Wharf utility costs and that presents a saving of £100,000. Finally the draft budget included provision for one-off Litigation costs in a national Land Charges dispute. There is now some optimism that there may be Government funding forthcoming for this but if that does not materialise it will be charged to reserves as a one-off.

8.8.6 *Customer Contact, Democracy and Governance*

This division contributes £315,000 to the £2.5 million total with one significant saving at £125,000 as a result of deleting 5 vacant Initial Contact Officer posts.

8.8.7 *Public Health*

As part of the exercise to reduce the funding gap Public Health were targeted to identify areas where current General Fund spending was achieving legitimate public health outcomes and the ring-fenced grant could be used to 'save' general fund costs and these are set out at Appendix 4. Appendix 5 identifies the areas that have contributed to the major part of the 'headroom' of £1.7 million with Appendix 3 identifying a number of small savings proposals that were part of the cross-directorate exercise and have contributed a small part of the wider £1.7 million headroom.

8.9 Corporate Savings

8.9.1 Category Management

There are three components to the Category Management savings proposals:

(1) Pipeline Projects £1.3 million saving

One of the key objectives of the Category Management function is to identify areas where we can commission or procure differently to the advantage of the Council. The initial Strategic Sourcing Project (SSP) embarked upon was the Homecare contract and that achieved recognised success and saved £1.9 million whilst improving the service offered. In tune with that ethos the following projects are targeted for 2015/16;

Category Management Lead	Project	Target £000's
Place	- SEN transport, vehicle management, health and safety, highway equipment and materials, cemetery and crematoria supplies and horticultural supplies)	400
People	- Day care services	150
	- Dynamic Purchasing System (residential and nursing home places)	250
Strategy/Operational Support	- Consultancy services	150
	- Non-contract spend	200
	- IT contracts	150

(2) In-year procurement savings (2014/15) – saving £119,000

The regular re-procurement of contracted spend through the Gateway/Procurement Board process, assisted by the Category Management team has yielded savings of £3.9 million in 2013/14 and £2.6 million to date (December 2014/15). The £2.6 million is split £1.1 million revenue and £1.5 million capital. The majority of the £1.1 million has already been extracted through the star chamber process but a review of these procurements has revealed £119,000 still to be taken. These savings have now been taken against service headings.

(3) In-year procurement savings (2015/16) – target saving £500,000

The success achieved in the last two years provides optimism that a £500,000 target is comfortably within scope for 2015/16.

8.9.2 Public Health

This is described in 8.8.7 above and the target areas to fund current General Fund services set out at Appendix 4 and these have been adjusted against the directorates as identified.

8.9.3 *Treasury*

The monitoring for 2014/15 reveals a £1 million forecast surplus on treasury and this is forecast to continue and the budget adjusted accordingly.

8.9.4 *Fees and Charges*

The fees and charge schedule attached as Appendix 12 (within Supplementary Agenda No.1) is predicated on a broad 2.5% increase on the current year, except for all parking which is frozen until 2017. The effect of these increases will be to provide an additional £250,000 of income. The majority of this increase is in 2 areas – Crematorium £50,000 and Leisure £125,000. These savings have now been taken against service headings.

8.9.5 *Digitalisation*

The rate of change in digital technology, and its use by residents in all aspects of their lives, poses both challenges and opportunities for the council. We are seeking to build on work to date under the Better for Less programme in bringing all initial contact together in the contact centre, by now significantly enhancing our website and the online service delivery capability that we currently offer to residents. We know from customer research that a large proportion of our residents transact on line and are keen to do so more in their dealings with the council. We need to be able to respond to that demand. The capital programme proposals include an allocation for replacing our current website and adapting on line forms so that they are accessible on mobile phones and tablet devices. We will continue the programme of radical review of content on the website and improve the functionality of the search engine so the site offers a good foundation for customers doing business with the council online.

There will be a further stage of work in future where we look at the potential for 'digitising' processes from initial contact right the way through to back-office systems so removing unnecessary paper and manual processing – which are inefficient and slow up the response to the customer. An example of a 'digital customer journey' would be a customer reporting a pothole on line, this request going through our own systems to the highways contractor, with a response automatically going back to the customer when the work has been completed. This programme of review will cover all services and will deliver service improvements and cost saving.

8.9.6 *'De-minimus' budgets*

There are thousands of individual budgets across the Council and over time some of these have become nonsensical. It is proposed to rationalise this position and set a 'de-minimus' budget level at £250. Those budgets below that level will be removed and expenditure, if incurred, managed across the budget for that area as a whole. This releases a modest £137,000. These savings have now been taken against service headings.

8.9.7 *Furniture and equipment centralisation*

Accommodation provision is changing with the advent of 'agile' working. Services have traditionally been responsible for their own furniture and equipment provision (new desks etc.) but it is agreed that this is now an outdated model. For the future there will be a central budget for replacement of worn out furniture and equipment and it is believed that a 20% saving can be achieved in this move. This generates an equally modest £82,000 saving. These savings have now been taken against service headings.

8.9.8 *Category Management FM shortfall – £321,000 pressure*

The move of facilities management services to Norse was accompanied by a requirement to save £700,000 against Council overheads. Half of this target has been achieved, notably through reductions in client functions. However it is now very difficult to distinguish such savings from the other proposals that have emerged – for example Finance reduced costs by £350,000 in this year's budget and HR did a similar reduction of £300,000, both of which would have contained elements of overhead support. The current round of savings (£6.6m from directorates) further illustrates the inability to make discreet reductions against the savings target which is now rather a matter of netting off against other gains. Accordingly removal of this unachievable target creates a pressure of £321,000.

8.9.9 *Better for Less residual savings target - £389,000 pressure*

The draft budget contained an assumption of £589,000 savings accruing from the residual phase 4 of the BfL project. The major part of these savings were attributable to Children's Social Care services and given the degree of change and focus on improved performance in that area, the administration and customer contact reviews were put on hold. Subsequent changes to the service, notably the centralisation at Broadside, may also mean that the level of saving is questionable. In many of the other areas services have moved on too. It is still felt that there are savings to be had from applying the project methodology but it is proposed to downgrade the savings expectation to £200,000.

8.10 At Cabinet on 10 February it was agreed that £220,000 of the £310,000 additional RSG would be used to fund the Homelessness pressure that had previously been identified and was a clear consequence of welfare reforms. In addition to balance the £247,000 deficit at that time, a £20,000 saving would be taken from the Public Rights of Way budget and the final £7,000 by additional parking income.

8.11 A number of the proposals in 8.9 above will require adjustments to directorate budgets as the savings are identified to services and to enable these to occur without reference back to full Council in accordance with budget rules, Cabinet have requested a delegation to the Chief Finance Officer, in consultation with the Portfolio Holder for Finance, to effect these changes as they are identified.

9. Revenue Budget Summary

9.1 Table 10 below summarises the Revenue budget position for 2015/16 with more detail provided in Appendices 2 and 2a to 2c.

Table 10. Summary Budget Requirement 2015/16

Directorate/Service	Proposed Budget		
	Expenditure £000s	Income £000s	Net £000s
Children and Adults			
- DSG and School Specific Expenditure	111,467	0	111,467
- Other	139,432	(29,113)	110,319
Regeneration Community & Culture	74,848	(28,208)	46,640
Business Support	145,380	(121,420)	23,960
Public Health	13,334		13,334
Interest & Financing	16,960	(3,717)	13,243
Levies	1,039		1,039
BfL	(200)		(200)
Medway Norse JVC		(263)	(263)
Pay Provision	800		800
Category Management SSP's	(1,300)		(1,300)
Forward Procurement Plan savings target	(500)		(500)
Digital transformation	(250)		(250)
Surplus to be allocated	90		90
Total Net Budget	501,190	(182,721)	318,379
Estimated Funding			
Dedicated Schools Grant			106,744
Other School Specific Grants			6,220
Council Tax			95,249
Revenue Support Grant			38,784
Business rate Share			45,866
New Homes Bonus			6,242
Education Support Grant			2,236
Specific Grants			186
Public Health Grant			16,802
Use of reserves			50
Total Funding			318,379

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 12.

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 2014 were some £8.1 million (4.3%) in the form of the Revenue Balance and the General Reserve.
- 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 and years as a consequence of turbulent weather patterns serve as a prudent reminder of such occurrences. None the less there are compensatory schemes to mitigate such events and these include the Government 'Belwin' 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 2014 was £4.7 million including a provision for identified liabilities of £2.4 million accumulated over a number of years with the larger cases taking some time to reach settlement.
- 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 Kent and Medway Police and Crime Panel (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 11.
- 13.2 The PCP agreed a 1.99% increase in the band D rate at £147.15 at their meeting on 3 February 2015 together with an associated precept of £11,803,314.
- 13.3 The KFRS budget was agreed at their meeting held on 13 February 2014 where an increase in their band D rate of 1.95% was approved with a band D rate of £70.65 and an associated precept of £5,667,034.
- 13.4 The Parish Council precepts and the consequent additions to the general level of Council Tax are detailed at Appendix 10. In total the Parish precepts amount to £366,466 and add an average of £4.57 to the Medway band D rate compared to £4.55 in 2014/15 – a 0.44% 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 3 February 2015, 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 10 February 2015.
- 14.3 Cabinet recommended:
- 14.3.1 A proposed average rent increase of 2.2% for the housing stock as set out in Appendix 7 to this report (based upon 50 collection weeks) and a rent increase of 1.2% for garages
- 14.3.2 The harmonisation of all garage rents, charging across all garage sites managed by the HRA Service specifically those as set out as per Appendix 8 to the report.
- 14.3.3 That the service charges and increases as set out in Appendix 9 of the report for 2015/16 be approved.
- 14.3.4 That the revenue budget for the HRA Service for 2015/16 as per Appendix 6 to this report be approved.
- 14.3.5 That the provision for the repayment of debt continues to be based on a minimum revenue payment of 2% on the 2015/2016 HRA opening outstanding debt.
- 14.3.6 That a three-year capital programme for maintenance and adaptations as set out below be agreed.

3-Year Capital Programme Budget

	15-16	16-17	17-18
Planned Maintenance	£4.630 million	£4.338 million	£4.648 million
Disabled Adaptations	£0.200 million	£0.250 million	£0.255 million
Total	£4.830 million	£4.588 million	£4.903 million

14.3.7 To increase the 2015/16 HRA housing building development programme amount by the 2014/15 MRP payment which is estimated to be £0.790 million thereby increasing the capital programme to £7.096 million for the period from 2014/15 to 2015/16.

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 2015/16 the dates are as follows:

22 April 2015	22 May 2015
22 June 2015	22 July 2015
21 August 2015	22 September 2015
22 October 2015	20 November 2015
22 December 2015	22 January 2016
22 February 2016	22 March 2016

16. Council Tax Setting

16.1 Cabinet on 10 February 2015 recommended a 1.994% increase in council tax levels. The level of Band D council tax with this increase will be £1,187.46. The total Band D for billing purposes, incorporate the PCP and KFRS Service requirements will be £1,405.26. Additional requirements for parish areas are shown in Appendix 10 and in the formal Resolution at Appendix 11.

16.2 The following table summarises Council spending, external financing and the impact on the council tax for 2015/16.

Table 11. Impact of Expenditure on Council Tax

Medway Council Tax	£
Directorate Requirements (Table 10)	318,379,000
Less:	
Dedicated Schools Grant	(106,744,000)
Other school specific grants	(6,220,000)
New Homes Bonus	(6,242,000)
Other Specific Grants	(2,422,000)
Public Health Grant	(16,802,000)
Use of Reserves	(49,727)
Revenue Support Grant	(38,783,782)
Business Rate share	(45,866,000)
Expenditure to be met from Council Tax	95,249,491
Taxbase	80,212.80
Council tax at Band D (excluding precepts)	£1,187.46

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 2015/16, 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 2015/16 the latest date for posting the notices (first class) is 9 March 2015.

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 2015/16 include:

- The 2015/16 budget is predicated on the successful outcome of a number of significant savings proposals predicated around procurement/commissioning of services, particularly for Social Care (£2 million) and other areas set out at 8.9 above. 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 2015/16 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 envisaged by the enactment of the Care Act will also present challenges for the Council both in meeting the demands of the Act but also in managing the financial consequences. New Burdens funding of £1.2 million is identified in Table 3 but the Act is new territory for Adult Social Care and there is no guarantee that the funding will be sufficient. Additionally 2015/16 is the first year of operation for the Better Care Fund and whilst every effort has been made to plan for this, and Medway received the highest rating out of the 4 possible ratings for our plan by NHS England, like the Care Act it is new territory.
- Universal Credit (UC) will be implemented in Medway in the third tranche of the roll-out from September to November 2015 as part of the on-going Welfare Reform agenda. Some of these reforms 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 the wider economic situation of the Medway Towns with UC clearly in this category;
- As demonstrated in other parts of the country recently, extreme weather may increase the demand for highway maintenance and put pressure on other front line services;

- 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 13. 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 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.
- 19.4 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 26 February 2015. 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.

20.5 Any votes on the budget including votes on amendments must be by way of a recorded vote since the introduction of the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2014.

21. Consultation

21.1 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 what was most in need of improving, and least needing improvement. Roads maintenance was identified as one of the most important but also the most in need of improving.

21.2 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 20 January 2015 and there was general satisfaction at the proposals for the HRA budget

22. Recommendations

That Council;

- 22.1 Consider the recommendations of Employment Matters Committee on 28 January 2015 regarding the proposals for a pay award as set out at paragraph 8.4;
- 22.2 Approve the capital budget proposals as set out in Appendix 1;
- 22.3 Approve the general fund gross, income and net revenue estimates as summarised in Table 10 and detailed in Appendix 2 in the sum of £318.379 million;
- 22.4 Note the Kent Police and Crime Commissioner's precept requirement;
- 22.5 Note the Kent Fire and Rescue Service precept requirement;
- 22.6 Note the parish council precept requirements of £366,466 as detailed at Appendix 10 of this report;
- 22.7 Agree the schedule of precept instalment dates as set out in section 15 of this report;
- 22.8 Approve the basic rate of Council Tax at band D for 2015/16, before adding the police, fire and parish precepts, at £1,187.46;
- 22.9 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 2015' as set out in Appendix 12;
- 22.10 Agree the recommendations set out at 14.3 in this report with regard to the Housing Revenue Account and detailed in the following appendices:
 - The budget proposed as summarised at Appendix 6;
 - The proposed increase in rents as set out at Appendix 7;
 - The proposed increase in garage rents as set out in Appendix 8; and
 - The proposed service charges as set out at Appendix 9.
- 22.11 Adopt the formal resolution for the council tax requirement and schedule of council tax charges for 2015/16 as set out in Appendix 11 to this report and to incorporate any amendments arising from the meeting;
- 22.12 Notes the findings of the Diversity Impact Assessments as set out at Appendix 13, and the proposal to continue, where necessary, to report through quarterly monitoring any further unidentified or unintentional impact;
- 22.13 That Council approve a delegation to the Chief Finance Officer, in consultation with the Portfolio Holder for Finance, to make adjustments to directorate budgets as the identification of the Corporate savings targets occur.

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 and (a) to (c)	Schedule of Directorate savings proposals
4	Public Health savings
5	Schedule of General Fund to Public Health projects
6	Housing revenue account
7	Proposed HRA rent increases
8	Proposed HRA garage rent increases
9	Proposed HRA service charges
10	Schedule of Parish Precepts
11 and (a)	Council Tax Resolution and bandings
12	Schedule of Proposed Fees and Charges
13	Diversity Impact Assessment

Please note that Appendix 12 has been included within Supplementary Agenda No.1.

Background papers:

Medium Term Financial Plan 2014/18 – Cabinet 30 September 2014:

<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=25099>

Draft budget proposals to Cabinet 2 December 2014.

<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=25596>

Provisional Local Government Settlement report to Cabinet 13 January 2015

<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=25902>

Capital and Revenue Budgets 2015/16 report to Cabinet 10 February 2015

<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=26241>