

COUNCIL

23 FEBRUARY 2017

CAPITAL AND REVENUE BUDGETS 2017/18

Portfolio Holder: Councillor Alan Jarrett, Leader

Report from: Phil Watts, Chief Finance Officer

Summary

This report sets out Cabinet's proposals for the capital and revenue budgets for 2017/18. In accordance with the Constitution, Council is required to approve the capital and revenue budgets, rent increases and council tax for 2017/18.

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, Full 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 Council Plan refresh will be considered as a separate item on this agenda.

2. Background

- 2.1 The Medium Term Financial Plan (MTFP) was considered by Cabinet on 27 September 2016 and identified a potential revenue shortfall of some £11.7 million in 2017/18 rising to £14.6 million by 2019/20. On 22 November 2016 Cabinet considered the draft capital and revenue budget, which reflected some of the early work undertaken within the Children and Adults directorate to address the deficit. Having previously been offered and accepted a four year settlement, the Council's MTFP assumptions in respect of Revenue Support Grant were confirmed in the provisional settlement. The Cabinet's proposed budget does however incorporate revised assumptions around business rates and the council tax base.
- 2.2 In accordance with the Council's constitution, overview and scrutiny committees were invited to comment on the draft budget proposals and these comments were considered by Cabinet on 7 February, in agreeing its budget proposals.

3. Revenue Funding

3.1 Core Spending Power

3.1.1 The local government settlement is underpinned by the Core Spending Power calculation, which according to the DCLG measures the core revenue funding available for local authority services. It is not in itself a statement of the actual resources available to the Council over the medium term. It is primarily a mechanism used by Government to illustrate the potential level of resources available to local government, based upon assumptions around each local authority's tax base and its ability to raise funds through local taxation. It should be noted, however, that the assumptions within the Core Spending Power calculation do impact on the SFA methodology and ultimately on the Revenue Support Grant.

3.1.2 Medway Council's Core Spending Power is summarised in Table 1.

Table 1: Core Spending Power

	2015-16 Adjusted £m	2016-17 Adjusted £m	2017-18 £m	2018-19 £m	2019-20 £m
2015/16 Revenue Support Grant	38.784				
Care Act Implementation Grant	1.284				
Lead Local Flood Authority Grant	0.051				
Sustainable Drainage Systems Grant	0.009				
Carbon Monoxide / Fire Alarm Grant	0.001				
Adjusted Revenue Support Grant	40.128	28.031	18.504	12.306	6.053
NDR Baseline Funding Level	43.760	44.125	45.026	46.474	48.127
Settlement Funding Assessment	83.889	72.156	63.529	58.781	54.180
Council Tax excl. Parishes	95.249	98.845	102.925	107.174	111.597
Potential 'Social Care Precept'	0.000	1.938	4.076	6.429	9.014
Proposed Improved Better Care Fund	0.000	0.000	0.000	2.325	4.688
Illustrative New Homes Bonus	6.166	7.563	5.367	4.020	3.857
Transition Grant	0.000	0.343	0.344	0.000	0.000
Adult Social Care Support Grant	0.000	0.000	1.002	0.000	0.000
Core Spending Power	185.304	180.846	177.244	178.729	183.336

Percentage (Reduction) / Increase (2.41%) (1.99%) 0.84% 2.58%

3.1.3 As reported to Cabinet on 17 January 2017, the 2017/18 provisional settlement has impacted adversely on the Council's draft budget assumptions, with changes in the New Homes Bonus scheme reducing next year's allocation by £2.1 million, which has not been fully compensated by one-off Adult Social Care Grant of just £1.0 million.

3.2 Settlement Funding Assessment

3.2.1 Following a cut of £11.733 million last year the 'Settlement Funding Assessment' (SFA) for Medway is set to reduce by a further £8.627 million in 2017/18. This represents a cut of 12.0% compared to the national figure of 10.6%, reflecting Medway's higher than average council tax base relative to SFA. The SFA comprises the adjusted Revenue Support Grant, together with Government's assumptions regarding the local share of business rates. Table 1 (above) sets out

the provisional SFA, however the business rate assumptions are predicated on a baseline calculation founded on historical collections. The budget proposals use the Council's own estimate of the anticipated business rates collection for 2017/18, which in turn is based on the current rateable value. The SFA excludes some other important grants such as the Dedicated Schools Grant (DSG), other schools based grants, Public Health Grant, New Homes Bonus, Housing Benefit Administration Grant, Adult Learning and other minor grants.

- 3.2.2 The important component of the SFA is the Revenue Support Grant (RSG) which is set to decrease by a further £9.527 million to £18.504 million, a 34.0% cut. Together with £343,000 of Transitional Grant, this remains consistent with the MTFP considered by Cabinet on 27 September 2016 and as Medway Council is in the 97% of all local authorities that opted to accept the Government's offer of a four year settlement, this headline level of grant funding is guaranteed.
- 3.2.3 Where an authority's original Baseline Need is higher than their NDR Baseline, a top up grant is payable. Medway is such an authority and following the 2017 revaluation of the ratings list a reduction in the Council's projected 2017/18 rates yield has resulted in a top up of around £4.4 million. For local 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 until the Government re-bases the system.
- 3.2.4 In projecting 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 successful appeals against the Valuation Office's evaluation of rateable values. The forecast has been complicated this year by the revaluation of all non-domestic properties nationally to take effect from 1 April 2018. At a time of revaluation there is always likely to be an increase in the number of appeals, some of which will be speculative although the fact that they can't be back-dated prior to 1 April limits the likely effects. In January officers completed the 2017/18 NDR1 return, a statutory form upon which local authorities are required to base their budgets, and this increased the appeals provision by circa £3.8 million, of which the Council's 49% share represents £1.9m million. As at 31 December 2016, 785 appeals remained outstanding in respect of 528 individual properties in the 2005 and 2010 rating lists.

3.3 Council Tax

- 3.3.1 In accordance with the Council delegation, on 30 January 2017 the Chief Finance Officer, in consultation with the Leader agreed the council tax base for 2017/18 at 81,869 band D equivalents. This represents a reduction of 316 band D equivalents against the tax base reflected in the Draft Budget assumptions.
- 3.3.2 The Council Tax referendum limit applicable to local authorities and fire authorities remains at 2.0%. Also, upper tier local authorities will also be able to continue to apply the so-called "social care precept", however they will now be able to increase Council Tax by up to an additional 3.0% per annum in 2017/18 and 2018/19. Authorities that take advantage of this further flexibility will not be able make a further increase in 2019/20, as the total allowable increase over the three-year period remains at 6.0%. The budget proposed by Cabinet is based upon the Council availing itself of this additional flexibility and raising council tax by 4.994% in 2017/18.

- 3.3.3 Medway currently has the eleventh lowest council tax of all 56 unitary authorities and remains the lowest in Kent.
- 3.3.4 This report considers the budget requirement for Medway Council only. There are a number of other factors that will influence the final council tax requirement to be approved by Council on 23 February 2017. Whilst the final rate will be dependent on the level of spending, it will also be affected by:
- The council tax base of 81,869.00 agreed on 30 January;
 - The parish precepts;
 - The Police and Crime Panel for Kent met on 2 February and agreed a £5.00 (3.286%) increase that produces a Band D rate of £157.15.
 - A Kent Fire and Rescue Service (KFRS) budget meeting was held on 13 February to agree a 1.88% increase on the 2016/17 Band D rate. This produces a KFRS Band D rate of £73.35.

3.4 **New Homes Bonus**

- 3.4.1 The 2017/18 New Homes Bonus allocations and the outcome of the consultation on the future of the scheme were announced. The number of years that the scheme will be based upon (currently six years' in 2016/17) will reduce to five years in 2017/18 and four years from 2018/19 onwards. Furthermore, the scheme will now also only reward growth in homes above 0.4% per annum.
- 3.4.2 The introduction of this threshold and the reduction in the number of years has had a dramatic effect on Medway Council's grant entitlement, reducing the 2017/18 New Homes Bonus figure from the £7.508 million assumed in the MTFP to just £5.367 million.
- 3.4.3 The changes to the scheme have allowed the government to remove £241.0 million from the 2017/18 New Homes Bonus allocation and divert it to the new Adult Social Care Support Grant. This funding is for one year only and is to be distributed based on the adult social care relative needs formula, however Medway's share of this grant is provisionally set at £1.0 million and falls well short of compensating the loss of New Homes Bonus.

3.5 **Education Services Grant**

- 3.5.1 The non-ringfenced Education Services Grant (ESG) was introduced in 2013/14 to fund local authorities statutory and other services outside of the DSG. It notionally funds services related to education, such as admissions, school improvement and education welfare, but also a share of the Council's support services.
- 3.5.2 The MTFP originally anticipated that the ESG would be lost within the DSG completely from 2017/18, however the proposed revenue budget, reflects the Government's decision to phase the loss of this grant over two years.
- 3.5.3 From 2017/18, the ESG will be reduced to £66 per pupil (a £10 per pupil reduction), however, much like the current DSG Schools Block, expenditure will be subject to Schools Forum approval.

3.6 Dedicated Schools Grant (DSG)

3.6.1 The DSG for 2017/18 continues to be calculated in three blocks for Schools, Early Years and High Needs and is driven by pupil numbers. The Schools Block per-pupil rates for 2017/18 have been reduced to £4,294.99 (a reduction of £62.96) per pupil and are accompanied by an increase in pupil numbers. The Early Years per pupil funding rates have remained the same as the 2016/17, whilst the High Needs Block base funding has increased by £0.66m. The starting points for each of the three blocks has been rebased and the overall projected DSG for 2017/18 is set out in Table 2 below.

3.6.2 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 £126.697 million, leaving Medway's net DSG allocation at £94.251 million.

Table 2: Schools Based Grant Funding (DSG)

	2016/17	2017/18
	£000's	£000's
Schools Block – Pupil Numbers	38,158	38,796
Schools Block Funding	£166.346m	£166.628m
Early Years Block – Pupil Numbers	2,823	2,823
Early Years Block Funding	£15.284m	£16.940m
High Needs Block Funding	£32.665m	£37.380m
Dedicated Schools Grant (gross)	£214.295m	£220.948m
Academy Deductions	(£113.194m)	(£126.697m)
Dedicated Schools Grant (Net)	£101.101m	£94.251m
Pupil Premium	£5.014m	£1.402m
Sixth Form Funding	£0.633m	£0.633m
Net Schools Based Funding	£106.748m	£96.286m

3.7 Pupil Premium Grant

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

3.7.2 Per pupil rates for 2017/18 have again remained the same as 2016/17 rates:

	Primary	Secondary
Free School Meals	£1,320	£935
Looked After Children	£1,900	£1,900
Service Children	£300	£300

3.7.3 These rates will produce a total grant for Medway schools, excluding academies, of about £1.402 million in 2017/18.

3.8 Public Health Grant

- 3.8.1 Following the in-year grant reduction during 2015/16, the Public Health Grant has been subject to further cash reductions of 9.6% over the medium term. In his letter to local authorities, dated 27 November 2015, the Chief Executive of Public Health England provided more detail regarding the phasing of this reduction – 2.2% in 2016/17, 2.5% in 2017/18 and 2.6% in each of the subsequent two years. For Medway this amounts to further reductions totalling almost £1.8 million over four years.

4. Revenue Budget Requirement 2017/18

- 4.1 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 three key priorities and three corporate 'ways of working'. The key priorities are:
- Medway: A Place to be Proud Of;
 - Maximise Regeneration and Economic Growth;
 - Supporting Medway's People to Realise Their Potential.
- 4.2 The Council Plan is the council's business plan, setting out what will be done to deliver these three key priorities and how we will measure delivery of the outcomes. This will be delivered through three new corporate 'ways of working':
- Giving value for money;
 - Digital services so good that everyone who can use them prefer to do so;
 - Working in partnership where this benefits our residents.
- 4.3 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 £7.8 million in excess of the anticipated resources available, largely driven by the reduction in Government grant.
- 4.4 The draft budget made provision for increases in pay and the first call on this will be the Council's statutory obligation to meet the uplifted National Living Wage of £7.50 per hour for all colleagues (excluding apprentices) who are over 25 years of age on 1 April 2017, and to further maintain contractual commitments for those colleagues who are not employed under MedPay terms and conditions of employment.
- 4.5 At its meeting on 1 February, Employment Matters Committee recommended that Council agree to allocate sufficient budget to meet the proposed offer to the Trades Unions. The proposed revenue budget makes provision to fund the following:
- 0.60% paid as a general cost of living increase (COLA);
 - 0.40% paid in accordance with the performance arrangements as detailed under MedPay and in accordance with MedPay, staff who are at the top of their current pay range would only receive the COLA increase;
 - Additional payment to those assessed as a 1a and a one off additional day's leave for those awarded as a 1b at appraisal and those staff awarded a level 2, but who are at the top of their current pay range.
- 4.6 Commencing in the Summer, during formulation of the MTFP, and continuing throughout the overview and scrutiny process, officers have worked closely with portfolio holders to identify savings, efficiencies and income generating measures to

close the gap and achieve a balanced budget, without recourse to reserves and whilst attempting to minimise the impact on service delivery. These proposals and their impact in 2017/18 are discussed in more detail in the directorate level commentaries at Section 5 of this report.

- 4.7 Appendix 1 summarises the proposed budget requirement against the funding assumptions, with appendices 1a-1d representing the directorate summaries and appendices 2a-2d providing more detail regarding individual savings proposals and the impact on staff. Table 3 summarises the assumptions made and measures taken to balance the budget.

Table 3: Balancing the 2017/18 Revenue Budget

	£,000	£,000
Medium Term Financial Plan (Cabinet 27/09/16):		
Budget Requirement		271,421
Initial Resource Assumptions		(259,733)
Forecast Deficit in 2017/18		11,688
Revised Funding Assumptions:		
Reduction in Education Services Grant	(1,370)	
Impact of Cap on Centrally Retained SG	1,343	
Accelerated Adult Social Care Precept	(1,015)	
Change in the New Homes Bonus Scheme	2,140	
One-off Adult Social Care Support Grant	(1,002)	
Revised NDR assumptions	(1,707)	
Reduction in Council Tax Base assumptions	409	
		(1,201)
Net Directorate Savings Proposals:		
Children and Adult Services	(6,186)	
Regeneration, Culture, Environment and Transformation	(2,880)	
Business Support Department	(744)	
Public Health	(245)	
Interest and Financing	(500)	
Increase in Coroners Levy	68	
		(10,487)
2017/18 Proposed Budget (Surplus) / Deficit		0

5. Children and Adult Services (Appendices 1a / 2a)

- 5.1 In spite of demographic pressures within Social Care, the MTFP reflected a modest net increase in the directorate's budget requirement of around £300,000 as it also incorporated the full year effect of large savings on Early Years and Youth Services, agreed in building the 2016/17 budget. Through the 2017/18 budget setting process the directorate identified significant savings in getting to the position reflected in the draft budget to Cabinet on 22 November. These savings follow up the diagnostic exercise undertaken in early 2016 and are outlined in Appendix 2a.
- 5.2 Following more recent changes to schools related funding, including the capping of centrally retained expenditure within the DSG, further potential savings were identified against these budgets, also articulated in Appendix 2a.

6. Regeneration, Culture, Environment and Transformation (Appendices 1b / 2b)

- 6.1 Since Cabinet on 22 November the Regeneration, Culture, Environment and Transformation directorate have been working on proposals to address the budget deficit, however many of these will not impact on the budget in the immediate term and will instead feature in the future MTFP. Others will contribute towards the transformation savings already reflected in the 2017/18 and 2018/19 budgets. That said, a number of income generating opportunities have been explored, principally around a review of parking income and as can be seen at Appendix 2b the proposed savings are significant.
- 6.2 The decision to propose an increase in off road parking fees has not been taken lightly, following a freeze on fees lasting several years, however the increases proposed do nothing more than bring Medway into line with some of the less expensive car parks around Kent and still significantly lower than others, as illustrated in Table 4.

Table 4: Comparison of Off Road Parking Fees

	1 Hour	2 Hours	4 Hours	6+ Hours	Annual
*Medway	£1.00	£1.50	£2.50	£5.20	**£530.00
Gravesend, Thamesgate Shopping Centre	£2.00	£2.00	£2.00	£10.00	N/A
Gravesend, Parrock Street	£0.80	£1.30	£3.00	£6.50	£1,196.00
Maidstone, College Road	£0.90	£2.00	£3.00	£6.00	N/A
Sittingbourne, Albany Road	£1.00	£2.00	£4.00	N/A	N/A
Sittingbourne, Spring Street	£1.00	£2.00	£4.00	£5.00	£860.00
Dartford, Priory Centre	£1.50	£3.00	£10.00	£15.00	N/A
Dartford Station	£6.50	£6.50	£6.50	£6.50	£1,119.00
Sevenoaks, Buckhurst	£1.00	£2.00	£4.00	£4.60	£859.00
Sevenoaks, Sennocke	£1.00	£1.00	£7.00	£7.00	£1,150.00

Source: 'Parkopedia.com'

Refers to weekday charges

Medway proposed charges from 1st April 20

* Excluding Rochester Multi-storey

** Medway resident. £600 for non-Medway re

7. Business Support Department (BSD) (Appendices 1c / 2c)

- 7.1 Support services have borne the brunt of savings proposals over many years and so the scope for significant additional reductions is limited, however some further proposals are reflected in the table at Appendix 2c.

8. Public Health (Appendix 1d / 2d)

- 8.1 As outlined at paragraph 3.8.1 the Public Health Grant will be subject to further cuts over the medium term and for 2017/18 this represents £447,000. In keeping with the precedent set in previous budget rounds and acknowledging the ring-fenced nature of the grant, the reductions in Public Health Grant have been hypothecated and commensurate savings targeted at those services delivering public health outcomes.

9. Other Corporate Savings

- 9.1 Transformation: The Council is currently working on a transformation programme to deliver net savings of circa £7.0million per annum by 2018/19. In agreeing the capital programme last year, the Council approved investment of £6.0 million over a three year period to achieve this transformation. This will be met from prudential borrowing.
- 9.2 Interest and Financing: The £3.0m investment in the CCLA Property Fund continues to deliver revenue returns in excess of the 4.0% target and the proposed budget assumes that additional funds will be invested in this way.
- 9.3 Cabinet has agreed to create a number of new subsidiaries under the Council owned local authority trading company, MCG Ltd. and where immediate savings or reductions in local government subsidy are anticipated these have been reflected in the budget proposals.
- 9.4 The Category Management and Finance teams have commenced a joint review of 'tail-spend' or expenditure not covered under a contract or framework. This spend amounts to around £10.0m in total and it is anticipated that significant savings could be realised, however recognising that only a part year effect will be possible only a modest saving is reflected in the budget.

10. Fees and Charges

- 10.1 The draft budget proposals have been formulated on an assumption that fees and charges would generally increase by 2.5%, however 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 9.

11. General Reserves

- 11.1 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 around 5% of non-schools budget, which equated to circa £10.0 million, however in building the 2016/17 budget, the Council unfortunately had to call on reserves to address the required increase in the NDR appeals provision. Non-earmarked reserves, in the form of the Revenue Balance, the General Reserve and the uncommitted balance of the South Medway Development Fund, are forecast to stand at £8.3 million by 31 March 2017 or 4.3% of the proposed non-schools budget requirement.
- 11.2 The principal risk to be covered by the contingency balance is that of an overspend and it is a testimony to both the Council's internal budgetary control systems and the robustness of the budget setting process, that over a number of successive years the Council has consistently underspent its revenue budget. Members are however asked to note the latest revenue monitoring position, as reported to Cabinet, which forecasts an overspend of around £1.8 million in 2016/17. Directorate management teams continue to identify urgent action to bring expenditure back within budget.

11.3 The other reason for maintaining reasonable reserve balances is to protect against the risk of a catastrophic event. Other parts of the country have suffered as a consequence of flooding and this serves as a prudent reminder of such risks. Nonetheless 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 2016 was £4.7 million including a provision for identified liabilities of £2.0 million accumulated over a number of years with the larger cases taking some time to reach settlement.

12. Capital Programme 2017/18 and beyond

12.1 The capital settlement announcements are often delayed, however the Education Funding Agency (EFA) had previously announced multi-year settlements and Department for Transport (DfT) recently announced grant allocation for 2017/18. In addition to government grant assumptions, the capital programme summarised at Appendix 3 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.

12.2 The proposed capital programme reflects the anticipated carry forward from 2016/17 to meet on-going delivery of the existing programme, together with the new schemes and future funding assumptions for 2017/18 and beyond. Table 5 summarises planned expenditure, providing an analysis of how it will be funded. More detailed analysis is provided at Appendix 3a-3d.

Table 5: The Capital Programme and Funding Sources

Capital Programme	C & A	RCET	HRA	BSD	Total
Expenditure Profile:	£000's	£000's	£000's	£000's	£000's
2017/18 forecast	12,949	35,395	6,082	512	54,938
2018/19 forecast	1679	18,519	0	148	20,346
2019/20 and beyond	0	1,149	0	0	1,149
Revised Capital programme	14,628	55,063	6,082	660	76,433
How Funded					
Borrowing	0	7,832	0	0	7,832
Capital Grants	5,641	35,014	0	6	40,661
Capital Receipts	0	3,358	0	256	3,614
S106 Contributions	8,907	1,981	0	0	10,888
Revenue / Reserves	80	6,878	6,082	398	13,438
Total					
Funding	14,628	55,063	6,082	660	76,433

13. Children and Adults Capital Programme (Appendix 3a)

13.1 The Children and Adults proposed programme represents planned expenditure for the medium term, based upon the current programme and taking into account all known grant funding and confirmed developer contributions. This funding is enough

to provide sufficient primary school places in the short to medium term. Having said that, demand for places continues to increase and there will subsequently be a need for more secondary school places too. This gap will have to be met by bidding against additional grant funding and last year the EFA announced its intention to work with local authorities to create 500 new free schools to meet the increasing need for school places.

- 13.2 The proposed capital programme is summarised at Appendix 3a and the directorate's main priority continues to be the provision of sufficient primary school places in Chatham, Gillingham and Strood and a major SEN scheme to relocate Abbey Court from Rainham and expand the provision. Funded primarily from Basic Needs Grant allocations up to 2018/19, together with significant confirmed developer contributions, the major schemes planned for the medium term include the Hundred of Hoo Primary School and expansions at both Saxon Way and Bligh Primary Schools.
- 13.3 Schools Condition Programme
It is anticipated that the 2016/17 condition programme will be committed this year and it has been assumed that following further academy transfers, Medway will only receive £1.0 million of Capital Maintenance Grant in 2017/18. This will similarly be fully allocated to the schools condition programme, once the figure has been confirmed.
- 14. Regeneration, Culture, Environment and Transformation Capital Programme (Appendix 3b)**
- 14.1 The integrated transport component of the Local Transport Plan Grant for 2017/18 was confirmed as £1.589 million. 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.
- 14.2 The highways capital maintenance component is £2.263 million for 2017/18. This will fund the maintenance of carriageways, footways, bridges, highway drainage and traffic signals and is further supplemented by additional funding from capital receipts. A further £660,000 has also been allocated to Medway through the National Productivity Fund announced in the Autumn Statement.
- 14.3 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 it is assumed that Medway will continue to receive £1.691 million through the 'Better Care Fund'.
- 14.4 Capital funding for the Housing Revenue Account (HRA) is discussed in more detail in the HRA report elsewhere on the agenda.
- 14.5 Rochester Riverside
Total spend of £330,000 on project fees and £96,000 for salaries is forecast in 2016/17. Expenditure of circa £1.396 million related to the management of this project is projected for the period 2017/18 to 2027/28. Council is recommended to approve a further £1.822 million, in addition to the £622,814 incurred in 2015/16, to be funded from the capital receipts anticipated in stages throughout the duration of this project.

14.6 Eastgate House
On 24 January 2013, Council approved £2,120,000 for the addition to the Council's Capital Programme Stage 2 of the Eastgate House project. This included £1,281,000 of Heritage Lottery Fund (HLF) grant. In July 2015, the approved contractor, Fairhurst Wards Abbots Ltd (FWA), entered voluntary liquidation and subsequently a renewed works contract was awarded to Buxton Building Contractors Limited (Buxton) on 15 January 2016.

14.7 Although an application to HLF for an increase in grant yielded a further £139,500 the additional costs associated with FWA entering administration, the award of the contract to Buxton and other costs outside the scope of this contract resulted in a forecast additional budget requirement in 2016/17 of £164,000 as reported to Cabinet on 7 February 2017. Council are asked to approve an addition to the programme to be funded from capital receipts.

15. Business Support Department Capital Programme (Appendix 3c)

15.1 The proposed Business Support capital programme principally represents the continuation of the existing approvals and following the restructure, the Transformation Programme now sits within RCET.

16. Capital Receipts

16.1 In addition to Government grants 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 6 below, there is limited capacity for utilising this source of funding, however capital receipts of £1.5 million have been made available to continue to support investment in the Council's highways.

16.2 Table 6 shows the movement in capital receipt balances, after funding the existing approved capital programme, together with the £1.5 million highways commitment referred to above.

Table 5. Movement in Capital Receipts

	General Fund Receipts	Housing Receipts	Total Receipts
	£000's	£000's	£000's
Balance at 1 April 2016	(525)	0	(525)
Anticipated Receipts 2016/17	(2,891)	(481)	(3,372)
Applied to Capital Programme 2016/17	3,491	378	3,869
Estimated Balance at 1 April 2017	75	(103)	(28)
Anticipated Receipts 2017/18	(1,546)	(480)	(2,026)
Applied to Capital Programme 2017/18	1,896	0	1,896
Estimated Balance at 1 April 2018	425	(583)	(158)
Anticipated Receipts 2018/19	(2,048)	(480)	(2,528)
Applied to Capital Programme 2018/19	1,500	0	1,500
Estimated Balance at 1 April 2019	(123)	(1,063)	(1,186)

17. Housing Revenue Account

- 17.1 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.
- 17.2 Business Support Overview and Scrutiny Committee on 31 January 2017 received a report that details the HRA revenue and capital budget proposals. Furthermore a detailed report was seen by Cabinet on 7 February. The main points of these reports are covered by the following recommendations:
- 17.3 A proposed rent decrease of 1% for the housing stock as set out in Appendix 4 (based upon 52 collection weeks);
- 17.4 A rent increase of 5% for garages;
- 17.5 That the current policy of charging higher rent where a tenant has a taxable income per annum of £60,000 be retained and no change to the threshold;
- 17.6 That the service charges and increases as set out in Appendix 5 to the report for 2017/18 be approved;
- 17.7 That the revenue budget for the HRA Service for 2017/18 as set out in Appendix 6a to the report be approved;
- 17.8 That the future provision for the repayment debt be based on annuity based payment as opposed to minimum revenue payment of 2% on the HRA opening outstanding debt;
- 17.9 To use remaining allowable balance of 1-4-1 capital receipts (for the capital receipts received during 2017/18 from Right to Buy (RTB) sales) to be used to fund towards the 2017/18 HRA planned capital programme;
- 17.10 That Members approve the revised 30 year HRA Business Plan model as attached at Appendix 6b to this report.

18. Precepting Obligations and the Council Tax leaflet

- 18.1 In order to declare the Council Tax, the precepting requirements of the 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 8.
- 18.2 The PCP agreed a £5.00 (3.286%) increase at their meeting on 2 February 2017, giving a band D of £157.15 and an associated precept of £12,865,713.
- 18.3 The KFRS budget was agreed at their meeting held on 13 February 2017 where an increase in their band D rate of 1.88% was approved with a band D rate of £73.35 and an associated precept of £6,005,091.
- 18.4 The Parish Council precepts and the consequent additions to the general level of Council Tax are detailed at Appendix 7. In total the Parish precepts amount to

£408,396 and add an average of £4.99 to the Medway band D rate compared to £5.03 in 2015/16 – a 0.8% reduction.

19. Schedule of Precept Dates

- 19.1 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 2017/18 the dates are as follows:

24 April 2017	22 May 2017
22 June 2017	24 July 2017
22 August 2017	22 September 2017
23 October 2017	22 November 2017
21 December 2017	22 January 2018
22 February 2018	22 March 2018

20. Council Tax Setting

- 20.1 Cabinet on 7 February 2017 recommended a 4.994% increase in council tax levels. The level of Band D council tax with this increase will be £1,296.56. The total Band D for billing purposes, incorporating the Kent Police and Crime Commissioner and Kent and Medway Fire and Rescue Service precepts will be £1,527.06. Additional requirements for parish areas are shown in Appendix 7 and in the formal Resolution at Appendix 8.

- 20.2 The following table summarises Council spending, external financing and the impact on the council tax for 2017/18:

Table 7: Impact of Expenditure on Council Tax

Medway Council Tax	£000
Directorate spending requirements	293,044
Less:	
Dedicated Schools Grant	(94,251)
Other School Specific Grants	(2,035)
Revenue Support Grant	(18,848)
Business Rate share	(46,302)
New Homes Bonus	(5,367)
Education Services Grant	(1,370)
Other Specific Grants	(1,002)
Public Health Grant	(17,671)
Use of Reserves	(50)
Expenditure to be met from Council Tax	(106,148)
Taxbase	81,869
Council tax at Band D (excluding precepts)	1,296.56

21. Legal Considerations

- 21.1 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.

- 21.2 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.
- 21.3 *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.
- 21.4 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 in an addendum report.
- 21.5 *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 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.
- 21.6 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.
- 21.7 *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.
- 21.8 *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.

- 21.9 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.
- 21.10 *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 would be required. This would necessitate the drafting of an alternative proposal that would meet ministerial requirements to be put to the electorate alongside the 'excessive' proposition. Since this proposed budget is below the 'excessive' threshold this does not apply.
- 21.11 *Housing Revenue Account*: Under Section 76 of the Local Government and 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.
- 21.12 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.
- 21.13 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.
- 21.14 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 2017/18 the latest date for posting the notices is 1 March 2017.
- 21.15 *Staffing issues*: Any possible redundancies are subject to consultation with employees and Trade Unions. The process of redundancies will be in accordance with the Council's organisational change policy and procedure

22. Risk Management

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

- The 2017/18 budget is predicated on the successful outcome of a number of significant savings proposals. Such assumptions can be significantly impacted upon by events, not least the need to consult with stakeholders;
- Further demographic pressures within Children and Adult Services in adult social care and children's services may surface in 2017/18 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 and subsequent years 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;
- As is particularly current, 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.

23. Diversity Impact Assessment

23.1 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.

23.2 An overarching Diversity Impact Assessment is attached as Appendix 10, summarising the results of the Diversity Impact Assessments which have been completed for each of the services affected by the proposed budget changes.

23.3 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 any unintentional and unidentified impact, monitoring will be undertaken and will be reported quarterly.

24. Financial and Constitutional Implications

24.1 The financial implications are contained in the body of the report and in the attached appendices.

24.2 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 23 February 2017.
- The adoption of the budget and the setting of council tax are matters reserved for the Council.

24.3 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.

24.4 These factors have all been considered in formulating the budget proposals, and the Chief Finance Officer considers that the budget is robust.

25. Conclusion

25.1 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.

25.2 The proposed revenue budget requirement of £293.044 million (Appendix 1) represents a balanced budget against the available resources, however the Leader will consider the opportunities this might offer prior to the Council's budget setting meeting.

25.3 Against a backdrop of reducing grant support that is expected to see the Revenue Support Grant disappear completely by the end of this Parliament, the budget as

presented in this report is once again a remarkable achievement, with the onus on protecting front line service delivery.

26. Recommendations

- 26.1 Council are recommended to:
- 26.2 Consider the recommendations of Employment Matters Committee on 1 February 2017 regarding the proposals for a pay award as set out at paragraph 4.5;
- 26.3 Approve the general fund gross, income and net revenue estimates as summarised in Appendix 1 in the sum of £293.044 million;
- 26.4 Approve the proposed capital programme as set out in Appendix 3;
- 26.5 Approve the 2016/17 and future years additions to the capital programme outlined in paragraphs 14.5 to 14.7.
- 26.6 Note the Kent Police and Crime Commissioner's precept requirement;
- 26.7 Note the Kent Fire and Rescue Service precept requirement;
- 26.8 Note the parish council precept requirements of £408,396 as detailed at Appendix 7 of this report;
- 26.9 Agree the schedule of precept instalment dates as set out in section 19 of this report;
- 26.10 Approve the basic rate of Council Tax at band D for 2017/18, before adding the police, fire and parish precepts, at £1,296.56;
- 26.11 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 2017' as set out in Appendix 9;
- 26.12 Agree the recommendations set out at 17.3 to 17.10 in this report with regard to the Housing Revenue Account and detailed in the following appendices:
 - The proposed decrease in rents as set out at Appendix 4;
 - The proposed service charges as set out at Appendix 5;
 - The budget proposed as summarised at Appendix 6a;
 - The 30 year business plan projections at Appendix 6b;
- 26.13 Adopt the formal resolution for the council tax requirement and schedule of council tax charges for 2017/18 as set out in Appendix 8 to this report and to incorporate any amendments arising from the meeting;
- 26.14 Note the findings of the Diversity Impact Assessments as set out at Appendix 10, and the proposal to continue, where necessary, to report through quarterly monitoring any further unidentified or unintentional impact.

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Appendices:

1 and (a) to (d)	Summary of Revenue Budget Requirement by Directorate
2 (a) to (d)	Directorate Revenue Savings Proposals
3 and (a) to (c)	Summary of Proposed Capital Programme by Directorate
4	Proposed HRA Rent Charges
5	Proposed HRA Service Charges
6a	Proposed HRA Budget
6b	HRA 30 Year Business Plan Projections
7	Schedule of Parish Precepts
8 and (a)	Council Tax Resolution and Bandings
9	Schedule of Proposed Fees and Charges
10	Diversity Impact Assessment

Background papers:

Medium Term Financial Plan 2016/20 – Cabinet 27 September 2016
<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=32868>

Draft Capital and Revenue Budget 2017/18 – Cabinet 22 November 2016
<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=33616>

Provisional Local Government Settlement 2017/2018 – Cabinet 17 January 2017
<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=34196>

Capital and Revenue Budgets 2017/18 report to Cabinet 7 February 2017
<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=34639>