

COUNCIL

22 FEBRUARY 2018

CAPITAL AND REVENUE BUDGETS 2018/19

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 2018/19. In accordance with the Constitution, Council is required to approve the capital and revenue budgets, rent increases and council tax for 2018/19.

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 Strategy (MTFS) was considered by Cabinet on 26 September 2017 and identified a potential revenue shortfall of some £4.101million in 2018/19 rising to £17.715million by 2021/22. On 21 November 2017 Cabinet considered the draft capital and revenue budget. Unfortunately with this meeting coming in advance of the Autumn Statement, it was not possible to provide any update on the resource assumptions underpinning the MTFS or the measures being taken to balance the budget.
- 2.2 In accordance with the Council's constitution, overview and scrutiny committees were invited to comment on the draft budget proposals, represented by the directorate budget requirements within the appendices and a high level narrative explaining the action being considered by the Administration to close the 'gap'.

3 Revenue Funding

3.1 Core Spending Power

- 3.1.1 The local government settlement is underpinned by the Core Spending Power calculation, which is not in itself a statement of the actual resources available to the Council. It is simply a mechanism used by Government to illustrate the potential funds available to local authorities. In practice, the budget will be based upon the Council's own estimate of local tax yields. Medway Council's Core Spending Power is summarised in Table 1.

Table 1: Core Spending Power calculation for the period to 2019/20

	2017/18 £m	2018/19 £m	2019/20 £m
Adjusted Revenue Support Grant	18.504	0.000	6.053
NDR Baseline Funding Level	45.026	58.685	47.407
Settlement Funding Assessment	63.529	58.685	53.460
Council Tax excl. Parishes	106.148	114.362	119.724
Section 31 Compensation for Under-Indexing	0.676	1.063	1.448
Improved Better Care Fund	3.962	5.152	6.095
Illustrative New Homes Bonus	5.365	2.512	2.442
Transition Grant	0.344	0.000	0.000
Adult Social Care Support Grant	1.002	0.624	0.000
Core Spending Power	181.028	182.397	183.168

3.2 The Local Government Finance Settlement

- 3.2.1 The Minister for Local Government announced the provisional financial settlement to the House of Commons on 19 December 2017. As Medway Council is within the 97% of all local authorities that opted to accept the Government's offer of a four year settlement in 2015, the headline level of grant funding allocated in each of the four years from 2016/17 to 2019/20 is guaranteed. The Secretary of State did, however, make two announcements as part of the provisional settlement, which impact on Medway Council's proposed revenue budget.
- 3.2.2 Firstly, he announced that the referendum limit for Council Tax will be increased from 2% to 3%. This means that, should Medway Council chose to avail itself of this additional flexibility, it could increase Council Tax by a further 1% over and above the 4.994% assumed in the MTFS.
- 3.2.3 Secondly, he announced that Medway's joint submission to pilot 100% business rate retention, in a pooled arrangement with Kent County Council, Kent Fire and Rescue Service and the twelve lower tier Kent authorities, was one of only ten successful bids.
- 3.2.4 The final settlement published on 6 February 2018 essentially confirmed the position presented in the provisional settlement, however there was one significant addition. The Minister announced a further £150 million of Adult Social Care Support Grant, targeted at ensuring the sustainability of local care markets. This equates to an additional £623,700 for Medway.

3.3 Council Tax

- 3.3.1 In accordance with the Council delegation, on 30 January 2018 the Chief Finance Officer, in consultation with the Leader agreed the Council Tax base for 2018/19 at 83,435.21 band D equivalents. This represents an increase of 792 band D equivalent against the tax base reflected in the Draft Budget assumptions.
- 3.3.2 In the provisional settlement, the Secretary of State announced a 1.0% increase in the referendum limit applicable to local authorities and fire authorities. This additional flexibility is worth £1.072million to Medway Council and the budget proposes that the Council avails itself of this flexibility. Also, it is proposed that the Council continues to apply the so-called “social care precept”, increasing Council Tax by an additional 3.0% per annum in 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%.
- 3.3.3 The 2018/19 budget proposed by Cabinet is based upon the Council raising Council Tax almost up to the 3.0% referendum limit together with the “social care precept”, representing a total increase of 5.994%.
- 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 22 February 2018. Whilst the final rate payable by tax payers is dependent on the Council’s spending plans, it is also be affected by:
- The Council Tax base of 83,435.21 agreed on 30 January;
 - The parish precepts;
 - The Police and Crime Commissioners (PCC) precept; The PCC Panel for Kent met on 8 February and agreed a £12.00 (7.6%) increase producing a Band D rate of £169.15;
 - The Kent Fire and Rescue Service (KFRS) precept; KFRS agreed a 2.95% increase on 13 February, producing a Band D rate of £75.51.

3.4 100% Business Rates Retention

- 3.4.1 As explained in the Provisional Settlement report to Cabinet on 16 January, Medway and the Kent local authorities were successful in applying to become a 100% business rates pilot in 2018/19. Under the terms of these new pilots, local authorities will retain 100% of all rates collected, but will no longer receive Revenue Support Grant (RSG). The **baseline** additional rates retained will be used to offset the loss of grant and the balance will be returned to Government in the form of an adjusted tariff.
- 3.4.2 For Medway, this means retaining 100% of the rates collected, losing £12.3 million of RSG and moving from a position of receiving a £4.5 million top-up grant to having to pay a £26.6 million tariff. In terms of the baseline, this should have a fiscally neutral effect, however the benefit to local authorities in the pilot comes from being able to retain the other 50% of business rates growth achieved above baseline since 2013.
- 3.4.3 An important facet of the pilot is that Medway will join the Kent business rates pool for the first time and there are a number of variables affecting the additional resources that the pilot scheme could yield, including collection rate assumptions

and appeals provisions across thirteen separate collection funds. The actual implications for 2018/19 revenue budgets won't be known until the NDR1 forms have been collated and the distribution methodology applied. This work has not yet been concluded, however the pilot is expected to represent in excess of £25 million in additional revenue for Kent and Medway local authorities in 2018/19. It is intended to use this to fund initiatives designed to generate future business rates growth.

3.4.4 Whilst the initial offer for the new pilot areas was for one year only, it remains to be seen if pilot status will be allowed to continue for 2019/20. This would be sensible given the Government's plans to introduce the 75% scheme from 2020/21.

3.5 **New Homes Bonus**

3.5.1 The final 2018/19 allocations have now been announced. There has been no change to the deadweight threshold (at 0.4%) or the eligibility of properties qualifying for the funding, however there has been a modest increase in the number of eligible properties in Medway.

3.6 **Cessation of the Education Services Grant**

3.6.1 The non-ringfenced Education Services Grant (ESG) was introduced in 2013/14 to fund services related to education, such as admissions, school improvement and education welfare. In 2016 the decision was made to roll the grant into Dedicated Schools Grant (DSG), but phased over two years and from 2018/19 all of the activity formerly funded by the ESG will have to be met from the DSG.

3.6.2 Fortunately, provision exists to retain £66 per pupil from the schools block to fund this activity and in January 2018 the Schools Forum agreed to this claw back, estimated at £517,637 for 2018/19.

3.7 **Dedicated Schools Grant (DSG) and Other Schools Related Grants**

3.7.1 Schools related expenditure is essentially funded through the schools block of the Dedicated Schools Grant (DSG); however the local authority continues to be impacted by academy conversions. Whilst this reduction in funding theoretically accompanies the transfer of responsibilities away from the Council, it does have an impact on the funds available for core functions in support of maintained schools, such as admissions and school improvement activity. Based on the planned trajectory of academy conversions, schools related grant is forecast to reduce dramatically over the next four years, as illustrated in Table 2.

3.7.2 Pupil Premium Grant (PPG) is paid to schools separately as a 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. This grant is essentially passed straight to schools.

3.7.3 There are only two local authority maintained schools with sixth forms in Medway – one secondary and a special school – and the Sixth Form Grant is passed straight to these schools.

Table 2: Projected schools related grants for the period to 2021/22

	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m
DSG - Retained Schools Block	0.690	0.714	0.732	0.750	0.768
DSG - Schools Block	48.018	41.489	21.103	0.000	0.000
DSG - High Needs	26.062	26.328	26.328	26.328	26.328
DSG - Early Years	16.167	17.781	17.781	17.781	17.781
Pupil Premium Grant	3.923	3.994	1.830	0.747	0.747
Sixth Form Grant	0.482	0.482	0.482	0.482	0.482
Education Services Grant	1.370	0.000	0.000	0.000	0.000
Total Grant	96.713	90.788	68.256	46.088	46.106

3.8 Improved Better Care Fund

3.8.1 Last year the Government allocated a further £2.0billion, increasing the Improved Better Care Fund to fund social care pressures. This gave Medway Council an additional £3.9million in 2017/18, increasing to £5.1million in 2018/19, however there are conditions attached to this funding. The grant must be pooled, the Clinical Commissioning Group (CCG) consulted and the extra funds used to meet adult social care needs, reduce pressures on the NHS, specifically delayed discharges, and stabilise the social care provider market. The proposed budget seeks to address all of these requirements.

3.9 Public Health Grant

3.9.1 Public Health Grant allocations have been confirmed for 2018/19 and 2019/20 and are in line with the MTFs assumptions. The directorate have identified savings proposals to bring spending in line with the reduction in grant.

4. Revenue Budget Requirement 2018/19

4.1 The strategic priorities for Medway as set out in the Council Plan are considered elsewhere in this agenda, however the MTFs 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;
- Maximising 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;
- Finding the best digital innovation and using it to meet residents' needs;
- 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 £4.1million 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 £7.83 per hour for all colleagues (excluding apprentices) who are over 25 years of age on 1 April 2018, 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 31 January, Employment Matters Committee recommended to Full Council that £829,000 is allocated to pay rises, to be distributed as follows:
- 0.60% paid as a general cost of living increase;
 - 0.40% paid in accordance with the performance arrangements as detailed under MedPay.
- 4.6 Commencing in the Summer, during formulation of the MTFs, 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 2018/19 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-2c providing more detail regarding individual savings proposals. Table 3 summarises the assumptions made and measures taken to balance the budget.

Table 3: Balancing the 2018/19 Revenue Budget

	£,000	£,000
Medium Term Financial Strategy (Cabinet 26/09/17):		
Budget Requirement		291,409
Initial Resource Assumptions		(287,308)
Forecast Deficit in 2017/18		4,102
Revised Funding Assumptions:		
DSG Clawback	(518)	
Council Tax: Impact of 1% increase in referendum limit	(1,072)	
Council Tax: Revised tax base assumptions	(1,088)	
Revised New Homes Bonus assumptions	(244)	
Adult Social Care Support Grant	(624)	
		(3,545)
Changes to Budget Requirement:		
C&A - Savings excluding Transformation	(1,082)	
C&A - Expenditure against the ASC Support Grant	624	
C&A - Impact of the Transforming Care Programme	200	
RCET - Savings excluding Transformation	(1,123)	
RCET - Reduce Leisure Services Income Target	250	
RCET - Additional ICT investment	200	
BSD - Savings excluding Transformation	(169)	
BSD - Reduce Category Management Income Target	200	
BSD - Additional investment in buildings	500	
Public Health Directorate Savings	(224)	
Adjustments to Levies	67	
		(556)
2018/19 Proposed Budget (Surplus) / Deficit		0

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

- 5.1 In addition to availing itself of the flexibility offered by the 'social care precept' the Council's budget proposals also reflect the Improved Better Care Fund (iBCF) which increases by £1.189million to a total grant of £5.152million in 2018/19.
- 5.2 In spite of demographic pressures within Adult Social Care and provision for price increases reflected in the MTFS, this budget reflects a net reduction in the service budget required compared to 2017/18, without impacting service standards. This highlights the significance of the Adult Social Care Improvement Programme and its contribution to the transformation savings.
- 5.3 The transforming care programme being pursued by the NHS, to move people with severe mental health needs out of long stay hospitals and into community based services, will have implications for the Council and the proposed budget has been adjusted for a net pressure of around £200,000 in 2018/19.
- 5.4 The additional £623,700 Adult Social Care Support Grant will be used to address emerging demographic pressures within the Directorate.
- 5.5 Children's Social Care has been engaged in a long term drive to reduce the rate of social care cases; this combined with the full year effect of savings opportunities taken during 2017/18 and the delivery of a new Independent Fostering Agency framework along with a range of other measures has reduced the budget requirement by £1.567million.
- 5.6 The introduction of national funding formulae to calculate the local authorities Dedicated Schools Grant (DSG) allocation, together with the continued move towards full academisation, has seen a net reduction to the Council's total DSG allocation after funding for academies has been removed. Proposed savings in response to the removal of other education grants and the capping of centrally retained expenditure are identified in Appendix 2a.
- 5.7 Furthermore, significant work is being undertaken to manage the cost of SEN placements in order to protect some centrally retained services.

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

- 6.1 Since Cabinet on 21 November the Regeneration, Culture, Environment and Transformation directorate have been working on proposals to address the budget deficit, and this budget reflects a further £3.004million of savings. These primarily relate to plans to deliver £1.924million of transformation savings and opportunities to generate additional income, primarily in the delivery of Parking Services.
- 6.2 At least £1.6million of the transformation savings will come from Customer Contact and Administration. These savings will be achieved as more services are provided online, reducing the number of telephone calls coming in to the Council. Processes will also be redesigned and automated to reduce the administrative requirements and take advantage of digital and technological solutions. This proposed budget reflects additional investment in ICT of £600,000 per annum.

- 6.3 Two years ago the Council agreed an ambitious plan to reduce the net expenditure within Leisure Services by £1.0million. The final £350,000 in the form of a 'stretch' income target was expected to be delivered in 2018/19, however the rise of budget gyms over recent years has had a dramatic impact on the market and it is proposed to reduce the income target by £250,000.

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

- 7.1 The contribution made by the Business Support Department to closing the budget gap broadly falls into two categories. Through the budget setting process, a robust review of MTFs pressures was conducted and certain assumptions reduced. In parallel to this exercise work was undertaken to formulate detailed plans to deliver the department's share of the corporate transformation target. This includes reductions in printing and postage costs through greater digital working and a project to improve debt recovery processes across the Council.
- 7.2 The budget proposals agreed by Cabinet on 6 February incorporate a budget for building repairs and maintenance of £1.0 million per annum, in response to the need to invest more in the Council's operational property portfolio.
- 7.3 Finally, the budget addresses over ambitious assumptions around the level of category management time rechargeable to the capital programme, as the team's focus turns to delivering an extensive programme of revenue savings. This represents a £200,000 increase in net revenue budget.

8. Public Health (Appendix 1d)

- 8.1 As outlined at paragraph 3.9.1 the Public Health Grant will be subject to further cuts over the medium term and for 2018/19 this represents £454,000. 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.
- 8.2 The Public Health directorate has also been required to contribute towards the corporate transformation savings target and the grant released by this will be redeployed to deliver public health outcomes across all Council services.

9. Other Corporate Savings

- 9.1 Transformation: With £2.0million of transformation savings already incorporated in directorate base budgets, these budget proposals are underpinned by plans for a further £5.0million, which have been reflected in directorate budgets for next year.
- 9.2 Interest and Financing: The proposed 2018/19 treasury management budget remains broadly consistent with the assumptions in the MTFs, reflecting the returns from the £23.0million invested in property funds, the revised minimum provision for the repayment of debt and the impact of the proposed capital programme on cash flow.

9.3 Alternative Delivery Models: In seeking to deliver services more efficiently and embrace more commercial ways of working, the Council has established a number of new delivery vehicles, including Medway Norse, Medway Commercial Group and the Medway Development Company. Over the medium to longer term, these organisations are expected to generate significant financial benefits for the Council, however only modest savings are anticipated in the 2018/19 budget proposals.

10. Fees and Charges

10.1 The draft budget proposals have been formulated on an assumption that fees and charges would generally increase by 3.0%, 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 7.

11. General Reserves

11.1 One of the key aims of the MTFS is to produce a sustainable budget without recourse to the use of reserves. Non-earmarked reserves, in the form of the Revenue Balance, the General Reserve and the uncommitted balance of the South Medway Development Fund, stood at £7.1million on 31 March 2017 or 3.6% of the proposed non-schools budget requirement.

11.2 The principal risk to be covered by the contingency balance is that of an overspend, however in his audit report for the year ended 31 March 2017, the external auditor commented that '*sufficient reserves and balances are available to support the council's services in the medium term, should there be under performance against savings plans.*' Members are however asked to note the latest revenue monitoring position reported to Cabinet on 6 February, which forecast a £653,000 overspend in 2017/18. 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. 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 £1.25million and claims above this met by the insurers and the aggregate of liability claims in a similar vein at £2.9million. The balance on the Insurance Fund at 31 March 2017 had increased to £5.1million, including a provision for identified liabilities of £2.7million accumulated over a number of years with the larger cases taking some time to reach settlement.

12. Capital Programme 2018/19 and beyond

12.1 The capital settlement announcements are often delayed, however Basic Need allocations tend to be announced two years in advance. The Department for Transport (DfT) grant allocations for 2018/19 reflected in this budget are however indicative. 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 2017/18 to meet on-going delivery of the existing programme, together with the new schemes and future funding assumptions for 2018/19 and beyond. Table 4 summarises planned expenditure, providing an analysis of how it will be funded. More detailed analysis is provided at Appendix 3a-3c.

Table 4: The Capital Programme and Funding Sources

Capital Programme	C & A	RCET	HRA	BSD	Member Priorities	Total
Expenditure Profile:	£000's	£000's	£000's	£000's	£000's	£000's
2018/19 forecast	9,288	36,310	7,916	20159	141	73,814
2019/20 forecast	1690	9,708	4697	0	0	16,095
2020/21 and beyond	0	5,869	4688	0	0	10,557
Capital programme	10,978	51,887	17,301	20,159	141	100,466
How Funded						
Prudential Borrowing	0	6,118	0	20,000	0	26,118
Borrowing in Advance of External Funding	0	4,092	0	0	0	4,092
Capital Grants	10,311	38,781	2018	5	0	51,115
Capital Receipts	0	2,000	300	154	141	2,595
Developer Contributions	667	496	0	0	0	1,163
Revenue / Reserves	0	400	14,983	0	0	15,383
Total Funding	10,978	51,887	17,301	20,159	141	100,466

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. During 2017 the Government announced that five new free schools would be delivered in Medway to meet the continuing demand for places; this will comprise three primary schools and two secondary schools.
- 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 across Medway. Funded primarily from Basic Needs Grant allocations up to 2020, together with significant confirmed developer contributions, the major schemes planned for the medium term include expansions at St Mary's Island and Riverside Primary Schools.
- 13.3 It is anticipated that the 2018/19 Schools Condition Programme will be committed this year and it has been assumed that following further academy transfers, Medway will only receive around £1.0 million of Capital Maintenance Grant. 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 A significant proportion of the Council's Capital Programme for 2018/19 and beyond reflects the continuation of the ambitious regeneration programme with around £27.0million committed to four key sites, Rochester Riverside, Chatham Waterfront, Strood Riverside and the Innovation Park Medway, over the medium term.
- 14.2 The integrated transport component of the Local Transport Plan Grant for 2018/19 has not yet been confirmed so the budgeted figure of £1.589million is indicative. 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.
- 14.3 The highways capital maintenance component is £2.048million for 2018/19 and the Potholes funding announced for 2018/19 are also both indicative figures at this stage. These will fund the maintenance of carriageways, footways, bridges, highway drainage and traffic signals and is further supplemented by additional funding from capital receipts.
- 14.4 Disabled Facilities Grants (DFG) enable elderly or disabled people to remain in their own home through the provision of adaptations to their property and Medway will receive £2.018million through the 'Better Care Fund'.

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

- 15.1 The proposed Business Support capital programme principally represents the allocation of £20.0million for direct property investments alongside the continuation of the existing approvals.

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 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.

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 30 January 2018 received a report that details the HRA revenue and capital budget proposals. Furthermore a detailed report was seen by Cabinet on 6 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 4a (based upon 52 collection weeks).

- 17.4 The baseline garage rent for Council tenants be increased by £1 from £6.73 to £7.73 with effect from 2 April 2018 per week;
- 17.5 A rent increase for all garage tenure types of 5% will be applied with effect from 2 April 2018 per week;
- 17.6 With effect from 2 April 2018 it is proposed that all new void garage lettings will be charged the same baseline rent regardless of residential tenure type (this will be £9.41 per week) for 2018/19;
- 17.7 To approve the service charges and increases as set out in Appendix 4b to the report for 2018/19;
- 17.8 To approve the revenue budget for the HRA Service for 2018/19 as per Appendix 4c to the report;
- 17.9 To approve the provision for the repayment of debt based on annuity based payment on the HRA outstanding debt to be £0.313 million for 2018/19;
- 17.10 To approve the proposed three year Planned Maintenance Capital Programme as set out in Appendix 3b of the report;
- 17.11 To approve the use of £1.0 million for a small third phase of new build, to be funded 30% from right to buy receipts and 70% from revenue reserves as set out in the capital programme at Appendix 3b of the report;
- 17.12 To approve the revised 30 year HRA Business Plan model as attached at Appendix 4d to the 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 6.
- 18.2 The Police and Crime Panel agreed a £12.00 (7.6%) increase at their meeting on 8 February 2018, giving a band D of £169.15 and an associated precept of £14,258,711.
- 18.3 The KFRS budget was agreed at their meeting held on 13 February 2018 where a Council Tax increase of 2.95% was approved with a band D rate of £75.51 and an associated precept of £6,368,173.
- 18.4 The Parish Council precepts and the consequent additions to the general level of Council Tax are detailed at Appendix 5. In total the Parish precepts amount to £454,790 and add an average of £5.45 to the Medway band D rate.

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 2018/19 are as follows:

23 April 2018	22 May 2018
22 June 2018	23 July 2018
22 August 2018	24 September 2018
22 October 2018	22 November 2018
20 December 2018	22 January 2019
22 February 2019	22 March 2019

20. Council Tax Setting

- 20.1 Cabinet on 6 February 2018 recommended a 5.994% increase in Council Tax levels. The level of Band D Council Tax with this increase will be £1,374.28. 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 £1,618.94. Additional requirements for parish areas are shown in Appendix 5 and in the formal Resolution at Appendix 6.

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 set out in Appendix 8.

- 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 2018/19 the latest date for posting the notices (first class) is 9 March 2018.

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 2018/19 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 2018/19 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 in other local authorities;
 - Extreme weather may increase the demand for highway maintenance and put pressure on other front line services.

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 8, 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 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 22 February 2018. 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 MTFS. 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 £290.677 million (Appendix 1) represents a balanced budget without recourse to general reserves.

26. Recommendations

- 26.1 Council are recommended to:
- 26.2 Consider the recommendations of Employment Matters Committee on 31 January 2018 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 £290.677 million;
- 26.4 Approve the proposed capital programme as set out in Appendix 3 and paragraphs 12 to 16 in this report;
- 26.5 Note the Kent Police and Crime Commissioner's precept requirement;
- 26.6 Note the Kent Fire and Rescue Service precept requirement;
- 26.7 Note the parish council precept requirements of £454,790 as detailed at Appendix 5 of this report;
- 26.8 Agree the schedule of precept instalment dates as set out in section 19 of this report;
- 26.9 Approve the basic rate of Council Tax at band D for 2018/19, before adding the police, fire and parish precepts, at £1,374.28;
- 26.10 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 2018' as set out in Appendix 7;
- 26.11 Agree the recommendations set out at 17.3 to 17.12 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 4a;
 - The proposed service charges as set out at Appendix 4b;
 - The budget proposed as summarised at Appendix 4c;
 - The 30 year business plan projections at Appendix 4d;
- 26.12 Adopt the formal resolution for the Council Tax requirement and schedule of Council Tax charges for 2018/19 as set out in Appendix 6 to this report and to incorporate any amendments arising from the meeting;

26.13 Note the findings of the Diversity Impact Assessments as set out at Appendix 8, 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 (c)	Directorate Revenue Savings Proposals
3 and (a) to (c)	Summary of Proposed Capital Programme by Directorate
4a	Proposed HRA Rent Charges
4b	Proposed HRA Service Charges
4c	Proposed HRA Budget
4d	30 Year HRA Business Plan Projections
5	Schedule of Parish Precepts
6 and (a)	Council Tax Resolution and Bandings
7	Schedule of Proposed Fees and Charges
8	Diversity Impact Assessment

Background papers:

Medium Term Financial Strategy 2016/20 – Cabinet 26 September 2017
<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=38043>

Draft Capital and Revenue Budget 2018/19 – Cabinet 21 November 2017
<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=38821>

Provisional Local Government Settlement 2017/2018 – Cabinet 16 January 2018
<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=39661>

Capital and Revenue Budgets 2018/19 report to Cabinet 6 February 2018
<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=39999>