

CABINET

2 FEBRUARY 2021

CAPITAL AND REVENUE BUDGETS 2021/22

Portfolio Holder: Councillor Alan Jarrett, Leader of the Council

Report from: Phil Watts, Chief Finance Officer

Author: Katey Durkin, Head of Finance Strategy

Summary

This report sets out Cabinet's proposals for the capital and revenue budgets for 2021/22. In accordance with the Constitution, this is to be submitted to Full Council on 18 February 2021, the special meeting convened to set the Council Tax.

1. Budget and policy framework

- 1.1. According to the Council's Constitution, it is the responsibility of Cabinet, supported by the Corporate Management Team, to propose a capital and revenue budget having first consulted the overview and scrutiny committees. Full Council has the ultimate responsibility for determining the budget and setting the Council Tax.
- 1.2. In respect of the Housing Revenue Account (HRA) 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 Strategy and Council Plan form 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.
- 1.4. This report has been circulated separately to the main agenda. Therefore, the Cabinet is asked to accept this report as urgent to enable consideration of the matter at the earliest opportunity given that the final budget will be submitted to the next scheduled Council meeting on 18 February 2021.

2. Background

- 2.1. The Medium Term Financial Strategy (MTFS) and Draft Capital and Revenue Budget for 2021/22 were presented to the Cabinet 17 November 2020, and projected a potential revenue shortfall of £11.710million. On 17 December 2020

the government published the provisional local government settlement, with details of the funding announcements and their impact on Medway Council's budget set out in a report considered by the Cabinet on 12 January 2021.

- 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'. These comments have been included at Appendix 1 (to follow).

3. Covid-19 Impact on the 2021/22 Budget

- 3.1. The provisional settlement confirmed the principle that the government would continue to support local authority spending and income pressures arising from the Covid-19 pandemic, as assumed in the MTFS and Draft Budget. The Draft Budget therefore did not reflect any Covid-19 related pressures or income since the quantum of either was not possible to forecast with any reasonable accuracy. During the development of the MTFS, a total of £13.009million of general fund Covid-19 related pressures were identified; these were not included in the forecast gap of £11.710million but were instead reflected in a section called Risk: the Ongoing Financial Impact of Covid-19. Work is ongoing to refine these pressures and replace those reflected in the MTFS with updated forecasts, and the following have been incorporated into the proposed budget:

Table 1: Covid-19 related MTFS pressures

Service area	Pressure included in 2021/22 budget (£m)
Adult Social Care cost of current service	3.187
Regeneration, Culture & Environment income shortfalls	8.989
Business Support income shortfalls and additional Children's Social Care legal costs	0.668
Total	12.844

- 3.2. Children's Services Covid-19 related pressures identified in the MTFS will be absorbed within the circa £7million budget increase delivered through the 2020/21 budget and the further £8.943million gross budget increase identified through the MTFS. Education Services pressures will be transferred to the High Needs reserve and managed through the deficit recovery plan.
- 3.3. In the preparation of the MTFS, Regeneration, Culture and Environment services forecast income pressures of £8.989million with a further £269,000 forecast in Business Support. In the provisional settlement the government confirmed that the sales, fees and charges income compensation scheme will continue into the first quarter of 2021/22 partially mitigating this pressure, as detailed at section 4.30 of this report.

4. Revenue Budget Funding

4.1. Core Spending Power

- 4.2. The local government settlement is underpinned by the Core Spending Power calculation. This calculation makes certain assumptions about the local tax that Medway is able to generate and then aggregates this with the core grant funding available to Medway. Medway Council's Core Spending Power is summarised in Table 2.
- 4.3. The Core Spending Power calculation 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.

Table 2: Core Spending Power

	2020/21 £m	2021/22 £m
Adjusted Revenue Support Grant	6.151	6.185
NDR Baseline Funding Level	48.214	48.214
Settlement Funding Assessment	54.365	54.399
Council Tax excl. Parishes	126.080	136.230
Section 31 Compensation for Under-Indexing	1.932	2.512
Improved Better Care Fund	7.093	7.093
Illustrative New Homes Bonus	1.221	0.986
Social Care Grant	5.492	6.098
Lower Tier Services Grant	0.000	0.364
Core Spending Power	196.183	207.682

4.4. The Provisional Settlement

- 4.5. The government announced the provisional settlement via a written statement on 17 December 2020. In previous years, the content of the provisional settlement has been largely known in advance; based on a technical consultation published after the Chancellor's Autumn Statement, both typically around October each year. This year the Chancellor did not deliver his one-year spending review until 25 November 2020 and there has been no technical consultation in advance of the provisional settlement being published.

4.6. Council Tax

- 4.7. In accordance with the Council delegation, on 12 January 2021 the Chief Finance Officer, in consultation with the Leader, agreed the Council Tax base for 2021/22 at 87,078.73 band D equivalents. This represents a decrease of 618.34 band D equivalents against the tax base reflected in the Draft Budget Assumptions; this is however still an increase of 281.83 compared to the

2020/21 taxbase. This reduction in the taxbase is due to the high level of claims for the Council Tax Reduction Scheme during the year, and results in an £505,000 reduction in the level of income collectable through the Council Tax in 2021/22 compared to the Draft Budget.

- 4.8. The Draft Budget assumed Council Tax would be increased by 2%, however the provisional settlement also gives authorities the flexibility to levy a 3% Adult Social Care precept; this represents £3.849million additional income. In addition the Council's external auditors have noted that the bad debt provision must be increased to reflect the greater risk of non-payment due to Covid-19. The provisional settlement confirmed a new Council Tax Support Grant, estimated at £2.196million, aimed at helping councils deal with the increased cost of providing Local Support for Council Tax, and also to help to reduce tax bills. The settlement also confirmed a new Tax Income Guarantee whereby the government will compensate local authorities for 75% of irrecoverable losses in council tax and business rates income in respect of 2020/21.
- 4.9. 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 Full Council on 18 February 2021. Whilst the final rate will be dependent on the level of spending, it will also be affected by:
- The Council Tax base of 87,078.73 agreed on 12 January;
 - The parish precepts;
 - The Police and Crime Commissioners precept; at the time of writing this is not yet known but will be agreed at the meeting scheduled for 4 February 2021;
 - The Kent Fire and Rescue Service (KFRS) precept; at the time of writing this is not yet known but will be agreed at the meeting currently scheduled for 23 February 2021.

4.10. Retained Business Rates

- 4.11. The widely anticipated review of the Business Rates Retention scheme and plans to reset the baseline from next year have once again been deferred, whilst the government continues to focus on other, more pressing issues. In the meantime the 50% business rate retention scheme will continue in its existing form and Medway remains a top-up authority.

4.12. Collection Fund

- 4.13. As a Billing Authority, Medway Council has a statutory obligation to maintain a separate Collection Fund. All revenues from Council Tax and Business Rates flow into the account, before being distributed between the local authority, the preceptors and the Government. In advance of each financial year the Council is required to forecast the anticipated level of Council Tax and Business Rates income that will be paid to the Collection Fund in the following financial year. Any difference between the estimate and the level of income actually received is reflected in a surplus or deficit position within the Collection Fund. Collection Fund surpluses declared by the billing authority are apportioned to the relevant

precepting bodies and government in the subsequent financial year, and likewise deficits are proportionately charged to the relevant bodies in the following year.

- 4.14. Through their work to audit the Council’s 2019/20 Statement of Accounts, the Council’s external auditors Grant Thornton have concluded that the Council’s bad debt provision in respect of Council Tax is no longer sufficient, based on the trajectory of council tax debt increasing in recent years. They have concluded that we have under provided for bad debt in the collection fund against the outstanding Council Tax. Addressing this under-provision means that the level of Council Tax available to fund revenue expenditure is significantly reduced.

4.15. New Homes Bonus

- 4.16. Nationally, the New Homes Bonus Scheme has an estimated surplus of around £278million which according to the scheme, would be redistributed back to local authorities. Medway’s Draft Budget assumed that this funding would be distributed in 2021/22 with the closure of the scheme. However, the provisional settlement confirmed that this surplus will instead be used to the fund the increased and new grants announced.

4.17. Education Related Grants

- 4.18. The Spending Review 2020 set out that the national schools budget would increase by £2.2billion for 2021/22 compared to 2020/21 including funding to help children catch up on lost learning and supplementary support for free school meals. The Budget projects that Education Related Grants will total £103.863million in 2021/22.
- 4.19. 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.
- 4.20. 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 3: Projected Schools related grants for the period to 2023/24

	2021/22 £m	2022/23 £m	2023/24 £m
DSG – Retained Schools Block	0.818	0.838	0.859
DSG – Schools Block	49.442	50.678	51.945
DSG – High Needs	32.044	32.846	33.667
DSG – Early Years	17.826	18.272	18.728
Pupil Premium Grant	3.250	3.332	3.415
Sixth Form Grant	0.482	0.482	0.482
Total Grant	103.863	106.447	109.096

4.21. In common with other upper tier local authorities, Medway continues to experience significant pressure on services for children with Special Educational Needs and Disabilities (SEND). In 2019/20 this pressure resulted in a significant overspend and the Council transferred £5.460million of High Needs expenditure into the DSG High Needs Reserve, putting the reserve at a total deficit of £9.184million. Continued growth in this area during 2020/21 means that by the end of the current year the high needs element of the DSG reserve is expected to reflect a deficit of £14.620million. The Government has confirmed that DSG deficits must not be covered from general funds, rather they must be recovered from DSG income over time. As such the pressure the General Fund arising from projected growth in SEND expenditure for 2021/22 does not feature in the proposed budget. This deficit will be managed through the Council's deficit recovery plan over the medium term.

4.22. Social Care Related Grants

4.23. In addition to the flexibility to levy an Adult Social Care precept on Council Tax, the provisional settlement also announced an additional £300million for adults and children's social care. £150million of this new grant is, however, funded from the surplus in the national New Homes Bonus fund which the Draft Budget had assumed would be redistributed, as set out above. Furthermore £240million of this grant is subject to equalisation, whereby the government grant allocations attempt to compensate for differences in local needs and taxbases. As a relatively high taxbase authority, this reduces the level of funding Medway will receive through this grant. The 2021/22 allocation indicates that Medway will receive £606,000 more than assumed at the Draft Budget.

4.24. Public Health Grant

4.25. The provisional settlement indicates that local authority spending through the public health grant will also continue to be maintained, therefore Medway's Budget assumes the same level of grant will be received as in 2020/21 at £17.409million.

4.26. Lower Tier Services Grant

4.27. The provisional settlement also announced a new, one-off lower tier services grant, aimed to ensure that no authority will have less funding available in 2021/22 than in the current year. Due to its unitary status, Medway's allocation is £364,000.

4.28. Covid-19 Funding

4.29. The provisional settlement confirmed a fifth tranche of the non-ringfenced Emergency Support Grant is confirmed for 2021/22, with Medway's allocation £7.864million.

4.30. The settlement also confirmed the continuation of the sales, fees and charges income compensation scheme, with authorities able to claim for losses (net of

any savings made in service delivery) sustained in the first quarter of 2021/22. Given that nationally the pandemic has continued to worsen with significant restrictions considered likely well into the new financial year, the proposed budget assumes that scheme will continue to operate until pressures caused by Covid-19 are significantly reduced, and services can therefore resume income generating operations. As such, the proposed budget assumes income pressures in Regeneration, Culture and Environment and Business support totaling £9.657million will be partially mitigated by income received through the scheme of £6.309million.

4.31. The Covid-19 pandemic has had a significant impact on the income of many households across Medway, resulting in a drop in the collection rate and an increase in the number of claims for Local Council Tax support schemes. In recognition of this pressure, the government have announced the following schemes to support local authorities to manage collection fund pressures.

- In respect of a deficit on the collection fund arising from 2020/21, the Council has the ability to spread this deficit and recover it over three years, rather than the usual one;
- A new Tax Income Guarantee scheme, whereby the government will compensate local authorities for 75% of irrecoverable losses in council tax and business rates income in respect of 2020/21.
- A new local council tax support grant aimed helping councils deal with the increased cost of providing Local Support for Council Tax in 2021/22, and also to help to reduce tax bills. Medway's indicative allocation is £2.196million.

5. Revenue Budget Requirement 2021/22

5.1. The Council Strategy sets out the Council's key priorities, the outcomes we expect to achieve and the programmes that will deliver them. The Council Plan is the delivery plan which sets out the measures that will be used to track performance against the Council's key priorities. The annual 'refresh' of the Plan is considered elsewhere on this agenda, but the MTFS and subsequent budget have been prepared to reflect the priorities and corporate ways of working it sets out. The key priorities are:

- People – Supporting Medway's people to realise their potential;
- Place – Medway; a place to be proud of; and
- Growth – Maximising regeneration and economic growth – growth for all.

5.2. The annual refresh of the Plan proposes a new suite of six Values (replacing the three corporate 'ways of working') which will underpin everything we do, guiding our behaviour, decisions and choices in the way we design and deliver our services. These are:

- Financial Resilience;
- Digital Enablement;
- Creativity and Innovation;
- Working together to empower communities;
- Tackle Climate Change, and;

- Child Friendly.
- 5.3. In accordance with the constitutional requirements, the Draft Budget, proposed by Cabinet, was passed to overview and scrutiny committees inviting comments, with comments from these meetings summarised at Appendix 1 to this report (to follow). At that stage the draft budget was some £11.710million in excess of the anticipated resources available, largely driven by demographic pressures manifesting within Adult Social Care and Children's Services.
- 5.4. 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 2021/22 are discussed in more detail in the directorate level commentaries at Section 6, 7 and 8 of this report.
- 5.5. Appendix 2 summarises the proposed budget requirement against the funding assumptions, with appendices 2a-2c representing the directorate summaries and appendices 3a-3c providing more detail regarding individual savings proposals.
- 5.6. At the time of writing this report, there is still a deficit of £2.393million to resolve. If we cannot identify measures to address this deficit, it will need to be met from the Council's reserves.

6. Children and Adults (Appendices 2a / 3a)

- 6.1. The Budget reflects significant increases in Adult Social Care expenditure based on the impact of Covid-19 on placement numbers and provider fees increasing and driving up placement costs.
- 6.2. In response to the inadequate rating from Ofsted's inspection of Children's Services in 2019, the 2020/21 budget represented a significant increase in investment in Children's Social Care of circa £7million. The 2021/22 budget reflects the addition of a further £8.943million to Children's Services reflecting continued demographic growth and price increases, including £2.691million on an invest to save basis to deliver savings of £4.536million in 2021/22.
- 6.3. As outlined at paragraph 4.25 the Public Health Grant in the proposed budget assumes the same level of grant will be received as in 2020/21 at £17.409million

7. Regeneration, Culture and Environment (Appendices 2b / 3b)

- 7.1. The 2020/21 budget addressed a range of inherent pressures around the delivery of some previously very challenging income targets across the Directorate, including those in Leisure, Parking and Registration Services. The impact of ongoing restrictions introduced by the government to manage the Covid-19 pandemic has meant leisure and cultural facilities have remained largely closed, or have been used to support outbreak control activities and

parking usage continues to be low. These impacts are expected to be experienced well into 2021/22. The government's sales, fees and charges income compensation scheme does not mitigate the full impact, as it assumes local authorities will absorb the first 5% of any income shortfall, before paying 75pence of every £1 lost thereafter. While confirmed for the first quarter of 2021/22, it is anticipated that the scheme will continue to operate until such time that restrictions are eased and the services will be able to return to operations generating income directly.

- 7.2. The proposed budget also addresses pressures arising from demographic growth impacting on waste arisings, and from contractual uplifts across the waste and highways services.

8. Business Support Department (Appendices 2c / 3c)

- 8.1. The proposed budget represents a modest increase in the cost of Business Support Services, primarily reflecting the Council's continued investment in ICT to support our digital innovation journey and new ways of working brought about by the Covid-19 pandemic.

9. Pay and Pensions

- 9.1. Whilst the government announced a public sector pay freeze in the Spending Round 2020, the Council's proposed Budget assumes a pay award of 1% for all staff. In November 2020 the government announced statutory increases to both the National Minimum Wage (NMW) and National Living Wage (NLW) to be applied from April 2021. The cost of applying these statutory increases represents an additional £42,000 over the cost assumed in the Draft Budget.

10. Interest and Financing

- 10.1. The proposed 2021/22 Interest and Financing budget is sufficient to support our capital expenditure assumptions, based on the aspirations in the Capital Strategy, while ensuring the availability of sufficient cash-flow to support the day to day operations of the Council.

11. Fees and Charges

- 11.1. The budget proposals have been formulated on an assumption that fees and charges would generally increase by 2.0%, 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 5.

12. General Reserves

- 12.1. One of the key aims of the MTFs is to produce a sustainable budget without recourse to the use of reserves. Over recent years the Council has sought to rebuild reserves and Table 4 illustrates the progress made since March 2018.

Non-earmarked General Fund reserves currently stand at £13.924million or over 5% of the proposed non-schools budget requirement.

Table 4: Movement in Usable Reserves

Type of Reserve	Closing Balance 31/03/2018	Closing Balance 31/03/2019	Closing Balance 31/03/2020
	£m	£m	£m
General Fund Balance	5.000	9.039	13.924
Earmarked General Fund Reserves	11.073	13.907	19.216
Dedicated Schools Grant Reserves	0.452	(4.139)	(9.346)
Schools Balances	1.181	2.004	1.598
Insurance Fund	1.368	1.216	0.960
Housing Revenue Account Reserves	4.924	6.407	6.746
Capital Receipts Reserve	0.331	1.110	5.463
Capital Grants Unapplied	8.249	10.988	18.764
	32.580	40.532	57.326

- 12.2. 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.
- 12.3. The other reason for maintaining reasonable reserve balances is to protect against the financial impact of a major emergency or catastrophic event. There is no doubt, that the Coronavirus pandemic would fall under the category of major emergency. The financial impact of the pandemic on the Council's budget is essentially three-fold.
- The impact of national lock downs and local tier restrictions has resulted in a reduction in the Council's income from services as diverse as car parks, leisure centres and land charges;
 - The effects on the local economy have impacted on business turnover and profits and more directly through loss of earnings for individuals. This in turn has affected the Council's ability to collect revenues from local taxation;
 - Finally, it has resulted in increased demand for public services, not just those related to directly to our response to the pandemic, but also the increased demand for social care, housing services and services for children and young people.
- 12.4. There is no doubt that the Government responded quickly to this emergency and provided Councils with billions of pounds to address the financial implications on local authority finances and to provide support directly to businesses and households, particularly those most vulnerable in our communities, however the longer term effects will continue possibly for years and we will need to consider these in formulating our longer term financial plans. Healthy reserve balances will be a key component in balancing our budgets over the next couple of years.

13. Capital Programme 2021/22 and beyond

- 13.1. The Council's current capital programme represents around £443million of planned expenditure during this year and beyond, incorporating £120million of projects to be delivered by Medway Development Company (MDC) Ltd. and £170million from the Housing Infrastructure Fund. Previously the Council borrowed £45million to acquire the head leases on the Pentagon Centre and Mountbatten House and the regeneration of Chatham as our city centre is fundamental to our ambitions for Medway the place. Education and in particular the creation of a large number of places for children with SEND, remains a significant part of our capital programme, as too is our investment in highways, with LTP grant again being supplemented with capital receipts. Finally, this report asks the Cabinet to agree significant investment in Innovation Park Medway, to be funded from borrowing against future business rates generated by the enterprise zone.
- 13.2. The current programme and how it is funded is summarised in Table 5 below.

Table 5: Current Capital Programme

Funding Source	Children & Adults	RCE	HRA	Business Support	Member Priorities	Total
	£m	£m	£m	£m	£m	£m
Prudential Borrowing	25.731	35.707	14.000	30.013	0.000	105.451
Borrowing in advance of Capital Receipts	0.000	3.266	0.000	110.345	0.000	113.611
Capital Receipts	0.830	2.770	0.084	2.687	0.363	6.735
Capital Grants	4.449	198.728	0.000	1.242	0.000	204.419
RTB Receipts	0.000	0.000	0.009	0.000	0.000	0.009
S106 Contributions	0.525	1.276	0.000	0.000	0.000	1.801
Revenue / Reserves	0.000	0.006	10.964	0.139	0.000	11.109
Total Capital Programme	31.535	241.753	25.056	144.426	0.363	443.134

- 13.3. Additions to the programme for next year are dealt with in the narrative below. New schemes will be funded from a combination of grant, prudential borrowing and capital receipts.
- 13.4. **Flexible Use of Capital Receipts:** The 2015 Spending Round gave local authorities the freedom to use capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings. At its meeting in February 2020, the Council agreed to the use of this flexibility in agreeing its Treasury Strategy for 2020/21 and this flexibility remains in the latest refresh.
- 13.5. At Council on 8 October 2020, the Council agreed to add £3.275million of capital receipts to the capital programme to fund continuation of our transformation programme, including £819,000 to deliver the Children's

Services Improvement Plan.

- 13.6. The Proposed Flexible Use of Capital Receipts Strategy for Medway Council is provided at Appendix 6 and lists the projects where the Council plans to make use of this flexibility, along with the savings and/or service transformation that are anticipated will be delivered. The availability of capital receipts and the impact of applying £3.525million of these receipts to new schemes is forecast in Table 6. This includes £500,000 to conduct feasibility studies and prepare business cases for a range of proposals that don't yet feature in the programme.

Table 6: Projected Capital Receipts

Movement in Capital Receipts	£m
Balance 31/03/2020	3.749
Projected Receipts	5.902
Projected Spend (latest monitoring)	(4.212)
Balance 31/03/2021	5.439
Projected Receipts	0.650
Projected Spend (latest monitoring)	(1.798)
Projected Spend (New Schemes)	(3.525)
Balance 31/03/2022	0.766

- 13.7. **Schools Capital Programme:** The major part of the basic need for school places continues to be delivered by the free schools that the Education and Skills Funding Agency (ESFA) are directly funding. Members will be aware that delays in these projects have placed a burden on the local authority, which had to be met by the addition of £3.0million to fund 'bulge classes'.
- 13.8. In addition to this, the Council has embarked upon a significant programme of investment in local SEND provision, as part of the plan to address the deficit against the High Needs Block of the DSG. This year the Council has allocated £2.5million to create 250 SEND places in mainstream settings, £4.2million to create additional secondary places at Bradfields and a further £12.0million expansion at Abbey Court, also for secondary age pupils. The planned 160 place expansion and relocation of the Inspire Free School on to the Cornwallis Avenue site, is still progressing and is expected to be open in 2023.
- 13.9. The Capital Strategy also made reference to the business case for building a 160 place special school, which would cost in the region of £25-30million. The potential savings from not having to send pupils to expensive out of borough setting is estimated at £3.5million per annum. However, provision for this has not been included in the proposed capital programme and a fuller business case would need to be the subject of a separate report to Cabinet and Council.
- 13.10. Whilst the Council is not expecting any further Basic Need Grant, it should continue to receive Schools Condition and Maintenance Grant funding to fund major condition works at maintained schools and this will be added to next year's programme, under the Chief Finance Officer's delegation, when we have certainty over the figure. Similarly, the Devolved Formula Capital Grant will be

added in due course.

- 13.11. **Highways and Transport Related Capital:** The Department for Transport total capital budget for 2021/22 announced in the 2020 Spending Review increased by £0.6 billion across highways authorities. This will include £1.7 billion in 2021/22 for local roads maintenance and upgrades to tackle potholes, relieve congestion and boost connectivity. The funding is exclusively ring fenced to highways, however, Local Authorities are yet to be notified of their settlements. These will be added to next year's programme, under the Chief Finance Officer's delegation, when final allocations are known. It is again proposed to inject a further £1.5million of capital receipts towards maintaining the highways.
- 13.12. **Housing Revenue Account:** On 16 July 2020, the Council approved the addition of £10million to the HRA capital programme, in order to increase the stock of HRA affordable housing, funded from the borrowing against HRA rents, HRA reserves and Right to Buy capital receipts or grant funding, where available. Officers are actively working to establish a pipeline of sites with the potential purchase of 26 units taking place towards the end of Quarter 3 2020/21.
- 13.13. The HRA Business Plan references a three year planned capital maintenance budget as summarised in Table 7:

Table 7: HRA Capital Requirement

	2021/22 £m	2022/23 £m	2023/24 £m
Planned Maintenance	5.419	5.175	4.617
Disabled Adaptations	0.200	0.200	0.200
Total	5.619	5.375	4.817

- 13.14. **Medway Development Company:** Whilst Rochester Riverside continues to be delivered by our third party partners, plans are underway for the other key waterfront regeneration sites at Chatham and Strood to be delivered by our own company, Medway Development Company Ltd.
- 13.15. **Housing Infrastructure Fund:** The £170million from the successful Housing Infrastructure Fund bid was added to the Council's capital programme in January 2020 and will deliver significant road and rail infrastructure on the Peninsula, as well as improved public realm.
- 13.16. **Innovation Park Medway:** IPM presents an important opportunity to help shape the economic future of the region, attracting investment and growth to the area by bringing forward 3,000 high quality jobs and enabling businesses to realise the benefits offered from operating in an Enterprise Zone. To date the IPM project has been awarded £10.4million funding from the Government's Local Growth Fund (LGF), Growing Places Fund (GPF) and Sector Support Fund, through the South East Local Enterprise Partnership (SELEP). However, realising the Council's vision and maximising the full potential of IPM will require further capital investment to encourage sustained growth in line with the design ambitions set out in the Masterplan, Design Code and LDO.

- 13.17. The capital programme currently includes approval for the following schemes in relation to Rochester Airport and Innovation Park Medway:
- Enabling infrastructure improvements at Rochester Airport, comprising £4.4million of LGF2 funding;
 - Phase 1 enabling infrastructure Northern site, comprising £3.7million of LGF3 funding;
 - Delivery of the Southern site, comprising £650,000 of borrowing from the Growing Place Fund (GPF);
 - Proposed six storey landmark building to be funded from £14.5million of borrowing against future rental income.
- 13.18. The Capital Strategy refers to the need to incur borrowing, alongside a further £1.5million of LGF3b funding, to deliver phase 1 public realm, enabling infrastructure and public realm on phase 2 of the Northern site and highways mitigations and other wider site improvements.
- 13.19. The three schemes set out in the Delivery and Investment Plan have been reviewed in 2020, and the £14.5million gateway building scheme has currently been paused in order to re-appraise the feasibility of the proposed building in light of the ongoing, evolving economic context, driven by Covid-19. The review will consider the changing economic context and its impact on delivery models, demand for space and building form/design. Once the business case for the building has been progressed, a recommendation will be brought to Cabinet for a decision. The report will suggest the best route for delivery, if it is recommended to proceed at this stage.
- 13.20. In addition to the £10.4million of funding made available via the Local Enterprise Partnership, a further £35.4million is required to fully deliver the infrastructure and public realm across the IPM site. This funding will be borrowed over 25 years and will be met from the circa £84.6million of business rates that the site is expected to yield over the same period.
- 13.21. Cost increases to the improvement works at Rochester Airport relate to additional archaeology, ground remediation, foundation approach and structural costs which were unknown at tender stage. Cost increases can also be seen against the infrastructure and public realm schemes in the Delivery and Investment Plan, and the externally funded SELEP schemes, reflecting the further detail established through RIBA stage 4 and responses from utilities companies.
- 13.22. The original phase 1 and phase 2 capital schemes will deliver access roads, pedestrian/cycle paths, utilities, landscaping and public realm throughout the northern site and southern sites (excluding areas occupied by BAE and Woolman's Wood Caravan Site). These site wide enabling works will provide the required access and servicing to plots.
- 13.23. Further items have been added to the overall works package as outlined below. By including these items, the total capital ask represents the expected worst-case scenario for overall scheme costs and ensures the site is delivered as a

whole:

- Boundary fencing between IPM, RAL and BAE;
- Procurement fees;
- Third party fees for surveys;
- Additional parking provision for the southern site / Innovation Centre;
- Runway park buildings, structures, technology, and public art/features;
- Hostile Vehicle Management (ie. bollards);
- Feature lighting;
- Monitor and Manage Mitigation Strategy (as required by Highways England / Kent Highways);
- Delivery of initial car parking across the site, including one multi-storey car park; and
- Relocation of Rochester Airport Ltd. equipment on IPM land.

13.24. Included in the capital proposal is an allocation of £2.65million for offsite highways mitigation. Although delivery of highways mitigation is subject to further detail, to be determined through the Monitor and Manage Mitigation Strategy, this allocation has been made subject to detailed design to mitigate the potential cost. Other routes to funding offsite mitigation are also being explored.

13.25. Prior to delivery of the capital works, approval via the Council's procurement process will be sought at Gateway 1 and Gateway 3 for approval to tender and subsequent approval to appoint, within the proposed budgets. Where possible, officers will seek savings against the costs set out above at tender stage.

13.26. **Future High Streets Fund:** On 19 November 2020, Cabinet agreed to submit a business case for Future High Streets funding. Our original expression of interest requested £13.83million to regenerate Chatham as our City Centre.

13.27. The high level of interest in the sum, meant that bidders have been asked to scale back their proposals, however Medway Council will still receive £9,497,720. This will assist in transforming Chatham High Street into a vibrant hub for future generations and to protect and create jobs.

13.28. Officers will now work with the Ministry of Housing, Communities and Local Government (MHCLG) to finalise our proposals, which could include reconfiguring the first floor of the Pentagon Shopping Centre for community use; delivering a creative and collaborative workspace in the town centre to support the development of Chatham's creative sector; creating an innovation hub to support business start-ups and restoring and redeveloping the vacant St John's Church into a conference and co-working hub to meet growing demand for such space.

13.29. **Investment in Property:** On 12 January 2016, the Council delegated authority to the Chief Legal Officer in consultation with the Leader, the Portfolio Holder for Resources and the Chief Finance Officer to acquire, manage, let and dispose of investment properties. Later, on 12 October 2017, Full Council

added £20.0million to the capital programme, to allow for direct investment in property.

- 13.30. A set of investment criteria was drawn up in consultation with the Leader and Portfolio Holder, with yield (a minimum 7%) and the security of that yield being the criteria carrying the highest weighting.
- 13.31. Since then, the Government has made it clear that it does not support local authorities in a strategy of borrowing to invest for purely commercial reasons. Furthermore, in November 2020, HM Treasury published "*Public Works Loan Board: future lending terms*" the main points of which have been summarised below:
- PWLB rates lowered by 100 basis points for all new Standard Rate and Certainty Rate loans;
 - No plans for novation of debt;
 - As a condition to access PWLB, local authorities will be asked to submit a high level description of capital spending for the next three years.
 - The Chief Finance Officer will be required to confirm that the local authority has no intention to buy investment assets primarily for yield any time in next three years;
 - The PWLB will not lend to any local authority that plans to buy investment assets, primarily for yield, regardless of whether the transaction would notionally be financed from a source other than the PWLB.
- 13.32. It is proposed that the balance of the Property Investment Fund, circa £13.2million, be rebranded to the Regeneration Investment Fund.
- 13.33. **Leisure and Culture:** The Capital Strategy made reference to both the continuation of the community hub programme and the refurbishment of Splashes leisure pool. Neither scheme is expected to proceed at the current time.
- 13.34. **Investment in New Technology:** The Coronavirus pandemic, has compelled the local authority to embrace new ways of working and has served to reinforce the importance of our ICT infrastructure to everything we do.
- 13.35. The Capital Strategy identified some key areas for priority investment and the sums required for next year and beyond. These are summarised as follows:
- The need to replace outdated servers and other network infrastructure, to ensure we continue to maintain compliance requirements, at a cost of circa £600,000 per annum;
 - Investment of £150,000 for replacement of the floor in the data centre, which has collapsed;
 - The pandemic has required the Council to provide laptops or 'tiny PC's' to a significant range of staff to allow them to work from home or in a mobile way. If this is to become part of a 'new normal' and allow the Council to radically review its overall office accommodation footprint, we will need to roll this technology out in some form or another to all our staff. The cost is estimated at between £500,000 and £1.0million. Provision will be needed in future years revenue budgets for a rolling programme of replacement.

Table 8: Summary of Proposed Additions to the Capital Programme in 2020/21

New Capital Scheme	Source of Funding	Allocation £m
Schools Maintenance and Condition	Maintenance Grant	TBC
Devolved Schools Maintenance and Condition	Devolved Formula Capital	TBC
Highways Maintenance	DfT Grant Programme	TBC
Transforming Chatham Town Centre	Future High Streets Fund	9.498
Innovation Park Medway	LGF3b Grant	1.519
Innovation Park Medway	Borrowing (against future business rates)	35.363
HRA Planned Maintenance	HRA Revenue / Reserves	5.419
HRA Disabled Adaptations	HRA Revenue / Reserves	0.200
Highways Infrastructure	Capital Receipts	1.500
Investment in Play Parks	Capital Receipts	0.275
ICT Servers and Infrastructure	Capital Receipts	0.600
Data Centre Floor	Capital Receipts	0.150
End User Devices	Capital Receipts	0.500
Feasibility Studies	Capital Receipts	0.500
Total		55.523

14. Housing Revenue Account

- 14.1. The Council is required under the Local Government and Housing Act 1989 to ensure that the Housing revenue Account (HRA) does not fall into a deficit position.
- 14.2. Business Support Overview and Scrutiny Committee on 28 January 2021 received a report that details the HRA revenue and capital budget proposals and a follow up to that report features elsewhere on this agenda.
- 14.3. The summarised Housing Revenue Account is attached at Appendix 4, with the capital investment requirements included within the current programme at Table 5 and the additions at Table 8.

15. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Demographic Growth	Further demographic pressures may surface across our social care services above those assumed in building the budget.	Close monitoring of demand for service to identify pressures early, robust budget monitoring.	C2 (Significant likelihood, major impact)

Risk	Description	Action to avoid or mitigate risk	Risk rating
Special Educational Needs and Disabilities	Further increases in the number of children requiring support, and in the complexity of needs may surface above those assumed in building the budget.	Close monitoring of demand for service to identify pressures early, robust budget monitoring.	C2 (Significant likelihood, major impact)
Final settlement may be worse for Medway than the Provisional settlement	There remains a slight possibility that following consultation, changes could be made to the settlement that adversely affect the overall position for the Council in terms of Government support.	This is considered a low risk but in the event that it proves to materialise there may be a need to table revised proposals for consideration by Council. Close monitoring of government communications.	D3 (Low likelihood, marginal impact)
Inadequate funding	Funding allocated is inadequate to offset expenditure pressures, and it may not be possible to deliver significant savings required to balance the Council's budget without recourse to reserves.	Officers and Members continue to work closely to identify savings.	C1 (Significant likelihood, critical impact)
Covid-19 pressures exceed government funding	The MTFS and Draft Budget assumed that the government would continue to fund Covid-19 pressures in 2021/22 as it has in 2020/21. Though this assumption has been confirmed in the provisional	Officers and Members continue to work to identify savings to reduce pressures reflected in the draft budget, and continue to lobby the government to fund the Covid-19 related pressures in full.	C2 (Significant likelihood, major impact)

Risk	Description	Action to avoid or mitigate risk	Risk rating
	settlement, there is a risk that the pressures experienced may exceed the Covid-19 related funding made available.		
Capital receipts	The budget assumes a significant proportion of the Capital Programme is funded from capital receipts; if the Council does not achieve the required receipts, some elements of the programme may either need to be curtailed or refinanced.	Close monitoring of the programmes anticipated to deliver capital receipts, and careful management of the delivery of those schemes funded from receipts.	D2 (Low likelihood, major impact)
Medway Development Company activity	A reduction or slowing of the housing market could mean that MDC schemes planned may not generate the revenue income or the capital receipts assumed in the Council's budget.	<p>Skilled and experienced staff within the company and at the Council are focused on the production of high-quality businesses cases, leading to the selection and delivery of schemes that will perform well.</p> <p>Close monitoring of the programme and careful management of the delivery are supported by scrutiny from senior officers and Members.</p>	D2 (Low likelihood, major impact)

Risk	Description	Action to avoid or mitigate risk	Risk rating
Housing Infrastructure Fund	The delivery of the HIF scheme is funded by Homes England, however any overspend must be funded by the Council.	<p>A dedicated team of skilled and experienced staff are focussed on the delivery of the HIF programme.</p> <p>Close monitoring of the programme and careful management of the delivery are supported by scrutiny from senior officers and Members.</p>	C2 (Significant likelihood, major impact)

16. Consultation

- 16.1. The Draft Budget is subject to consultation with Members via Overview & Scrutiny Committees with their comments captured at Appendix 1 to this report.

17. Diversity Impact Assessment

- 17.1. 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.
- 17.2. In accordance with statutory requirements, work is currently ongoing by services to ensure that robust diversity impact assessments have been completed for the budget proposals in advance of Full Council's decision on the 18 February. To manage the potential cumulative effect of proposals, this will include an overarching assessment taking a strategic view of the aggregate impact of reductions in funding, in recognition that some individual proposals on

their own may not be significant but may need to be considered against changes in provision by other Council services.

- 17.3. 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.

18. Financial implications

- 18.1. The financial implications are set out in the body of the report and in the attached appendices.

19. Legal and constitutional implications

- 19.1. 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.
- 19.2. Section 25 of the Local Government Act 2003 requires the Council's Section 151 officer to report to the Council on the robustness of the estimates made and the adequacy of the proposed financial reserves assumed in the budget calculations.
- 19.3. 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.
- 19.4. Council budget: In reaching their decisions, Members and officers must act reasonably, taking into account all relevant considerations and ignoring irrelevant ones. There is a need to ensure that when making budget decisions the result is not one which is irrational in the Wednesbury sense (i.e., one which no reasonable local authority could have made). The Council's overriding duty is to make a lawful budget and this is the touchstone against which other considerations must be tested.
- 19.5. The Council must have regard to its public sector equality duties when making decisions. This includes the requirement to undertake a Diversity Impact Assessment in relation to all significant changes to policies, procedures or practice, and to pay 'due regard' to the need to eliminate discrimination and

promote equality with regards to race, disability and gender. This is further dealt with in Section 16 of this report.

- 19.6. Legal Obligations: Local authorities provide services pursuant to statutory duties (a mandatory requirement to provide services), and statutory powers, (where the Council has a discretion whether or not to provide services). Where the Council has a legal duty then it still has 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.
- 19.7. 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.
- 19.8. 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.
- 19.9. 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.
- 19.10. 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.
- 19.11. 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.

- 19.12. 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.
- 19.13. 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.
- 19.14. 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.
- 19.15. 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 2020/21 the latest date for posting the notices (first class) is 28 February 2021.
- 19.16. The Council's constitution contains the budget and policy framework rules. The relevant extracts from the constitution are summarised 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 18 February 2021. The adoption of the budget and the setting of Council Tax are matters reserved for the Council.

20. Conclusion

- 20.1. The budget has been formulated to accord with the principles set out in the MTFs and Capital Strategy. In addition, budgets have been proposed to deliver the aspirations of the Council Plan and preserve those services that are

important to residents.

- 20.2. The proposed revenue budget requirement of £350.009million (Appendix 2) exceeds the estimated available resources by £2.393million. If we cannot identify measures to address this deficit, it will need to be met from the Council's reserves.

21. Section 25 Statement:

- 21.1. Section 25 of the Local Government Act 2003 requires that an Authority's Chief Financial Officer reports to Full Council when it is considering its Budget and setting its Council Tax for the forthcoming financial year, confirming the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals.
- 21.2. The budget proposals are based on extensive analysis and assurance from members of the Council's senior leadership team and their finance support staff. Portfolio Holders have worked with their respective Directors throughout the budget setting process. Overview and Scrutiny Committees have been consulted on the proposals as set out in the Draft Budget. The latest estimates, including those informed by the Provisional Settlement, are detailed throughout this report.
- 21.3. The Council's reserves position is set out in detail at Section 12 of this report.
- 21.4. As the Section 151 Officer, I feel confident in confirming the robustness of the assumptions underpinning this proposed budget and the adequacy of general reserves available to the Council.

22. Recommendations

- 22.1. Cabinet considers the recommendations from overview and scrutiny committees as summarised in Appendix 1 to this report (to follow);
- 22.2. Cabinet recommends to Council that the net revenue budget summarised at Appendix 2, should be set at £350.009million, and that this should be funded by a 4.994% increase in Council Tax for 2021/22 with the equivalent Band D figure at £1501.31.
- 22.3. Cabinet recommends to Council the capital budget proposals, as set out in Table 7 and Table 8.
- 22.4. Cabinet recommends to Council the fees and charges set out at Appendix 5 to this report;
- 22.5. Cabinet recommends to Council the Flexible Use of Capital Receipts Strategy set out at Appendix 6 to this report;
- 22.6. The Chief Finance Officer be requested to calculate the formal requirements under Sections 30 to 36 of the Local Government Finance Act 1992 for

resolution by Special Council on 18 February 2021.

23. Suggested Reasons for Decision

23.1. The Constitution required that Cabinet's budget proposals must be referred to Council for consideration and approval.

23.2. The Council is required by statute to set a budget and Council Tax Levels by 11 March each year.

Lead officer contact

Katey Durkin, Head of Finance Strategy, Gun Wharf, 01634 332355,
katey.durkin@medway.gov.uk

Appendices

- 1 Report back from other Overview and Scrutiny Committees on Draft Budget Proposals (to follow)
- 2 and (a)-(c) Summary of Revenue Budget Requirement by Directorate
- 3 (a) to (c) Directorate Revenue Savings Proposals
- 4 Housing Revenue Account Budget
- 5 Schedule of Proposed Fees and Charges
- 6 Flexible Use of Capital Receipts Strategy

Background papers

[Provisional Local Government Financial Settlement report to Cabinet 12 January 2021](#)

[Background papers Medium Term Financial Strategy 2020-2023 report to Cabinet 17 November 2020](#)

[Draft Capital and Revenue Budget 2021/22 report to Cabinet on 17 November 2020](#)