

Cabinet Meeting	
Meeting Date	12 December 2018
Report Title	Budget 2019/20 and Medium Term Financial Plan
Cabinet Member	Cllr Dewar-Whalley, Cabinet Member for Finance & Performance
SMT Lead	Nick Vickers, Chief Financial Officer
Head of Service	Nick Vickers, Chief Financial Officer
Lead Officer	Phil Wilson, Financial Services Manager
Key Decision	Yes
Classification	Open
Recommendations	<ol style="list-style-type: none"> 1. To endorse the draft 2019/20 revenue budget, and 2. To endorse the Medium Term Financial Plan.

1 Purpose of Report and Executive Summary

- 1.1 This report sets out the draft 2019/20 revenue budget and the draft Medium Term Financial Plan.
- 1.2 The Council has had a clear strategy for dealing with the long term reductions in funding; costs have been tightly controlled but not at the price of blanket service reductions, income streams that the Council can control are maximised but taking affordability for residents into account and one-off funds are used to improve service provision to residents. The draft budget put forward maintains these themes.
- 1.3 The 2019/20 Local Government Finance Settlement will be the last under the current funding regime for local government. The settlement will not be known before this report is published but it is expected to be on 6 December so a verbal update will be given on any important changes.
- 1.4 The whole basis of local government funding will change in a quite unprecedented way from 2020/21 onwards. The combination of the full localisation of business rates, the Fair Funding implementation and the impact of the 2019 Spending Review introduces a huge degree of uncertainty into the future funding of the Council. We cannot model these changes at this time so our Medium Term Financial Plan will be a combination of factors where we have a high degree of certainty, such as Council Tax, and areas where we will roll forward existing assumptions but in the near certain knowledge that they will change, such as Business Rates and New Homes Bonus.
- 1.5 The contents of this report will form the basis of the formal scrutiny of the proposals on 23 January.

2 Background

Local Government Finance

2.1 2019/20 is the last year of the Four Year Financial Settlement introduced in 2016/17 and covering Revenue Support Grant, business rate tariff, Rural Services Delivery Grant and Transition Grant.

2.2 The key announcements in the Chancellor of the Exchequer's budget on 29 October were:

- Day-to-day departmental spending is projected to increase by an average of 1.2 per cent a year in real terms from 2019/20 until 2023/24,
- Confirmation of the above-inflation increases for the NHS announced by Teresa May in June,
- £650 million for adult social care in 2019/20, comprising a continuation of the previously-announced £240 million "winter pressures" funding into 2019/20, plus a one-off payment of £410 million in 2019/20,
- £420 million in 2018/19 to help deal with potholes and other urgent road repairs,
- £400 million of in-year capital funding to help schools provide for "little extras",
- Abolition of the Housing Revenue Account cap that limits borrowing for local authority house building, and
- An additional £55 million in 2018/19 for the Disabled Facilities Grant to provide home aids for disabled children and adults.

2.3 Of these proposals only the latter two directly impact upon lower tier councils. As a Council that has transferred its housing stock, the Housing Revenue cap on borrowing does not apply to this Council. The additional Disabled Facilities Grant is welcomed and the large increases in recent years has enabled the Council to reduce backlogs and provide a much higher level of assistance to residents in need.

2.4 Reference has already been made to the main 2020/21 changes which in more detail are:

- (1) Full localisation of business rates - the Council is currently participating in one of 16 pilots for the partial localisation of business rates. For 2020/21 there will be full localisation. There are two main issues with this. Firstly, it will be accompanied by the devolution of additional services from Central Government in all likelihood to upper tier councils. Secondly, there is the key issue of the first reset of each council's base position since 1 April 2013. The most recent indications from the Ministry of Housing,

Communities and Local Government (MHCLG) are that no resets, full resets and rolling resets have now been ruled-out. Partial or phased/lagged resets will be used instead. If MHCLG do indeed decide to go in this direction for the baseline reset this has massive distributional consequences, and for councils who are currently well above baseline, it means that they can now expect that a reset will only take some of this growth away from them. It also means that there will be less to redistribute to other councils. This is extremely important for this Council which potentially will not lose all of its above average growth in business rates.

(2) Fair Funding Review- this major review will determine the baseline for business rate retention, therefore influences tariffs and top-ups which make up a significant element of redistribution. It will also continue to include elements for relative needs and relative resources. To some extent fair funding is a misnomer as this does quickly become an argument between different tiers of councils over how funding should be allocated, in particular between Inner London Councils and County Councils.

2.5 There are strong indications that New Homes Bonus (NHB) will be dropped as a funding stream from 2020/21 onwards. That is potentially a major problem for this Council given the amount of NHB the Council receives and the fact that it is used to support the base budget.

2.6 Overall there are a number of conflicting forces which will impact on where the Council stands financially from 2020/21. Positives are the extent of business rate growth and the potential for retaining some of this growth. However, the negatives are the concern over whether Fair Funding will recognise the high needs of a lower tier south east council, our low Council Tax level and Council tax base and the potential loss of New Homes Bonus.

Business Rates

2.7 From 1 April 2013 business rates were part localised. Given the large growth in business rates in the borough this has been hugely positive for the Council's finances.

2.8 For three years prior to 2018/19 the Council participated in a business rates pool with KCC, 10 other borough/district councils and the Fire Authority. The pool enabled business rates which would otherwise be passed to Central Government to be retained in the county. Under the arrangement the borough/district, KCC and a joint fund received 30% each and 10% went in to a reserve. For this Council the direct financial benefit was around £1.3m and the shared fund is the same amount. The shared fund has been allocated to the Sheppey Lower road improvements (£250k), the Visitor Economy Strategy (£250k) and M2 Junction 5 improvements (£800k).

2.9 As has previously been reported for 2018/19 the Government invited bids from groups of councils for the full localisation of business rates and the Kent councils including KCC and Medway Council successfully put together a bid anchored on promoting economic growth across the county. The bid needed

to include all councils and the financing split meant that those councils with the largest growth had to give up some of that growth to councils with less growth. Most of the additional funding will be retained by the council where the income accrues but there is also a shared growth fund on a regional basis which for this council is North Kent. The Council is proposing to use this funding to develop incubator business units in Faversham. Early indications are that the Council will retain an additional £750k from the pilot of which £350k was taken in to the base.

- 2.10 The 2018/19 pilot was for one year only and in July the Government invited bids for 2019/20 pilots but on the basis of 75% retention. Local Government finance commentators believe that the move to 75% was as a result of the decision to pull back on Negative Revenue Support Grant which affected 168 Councils including 9 in Kent and which would have raised £153m. All the feedback from MHCLG is that the Kent bid for 2018/19 was a strong one and a new bid was agreed by the Leaders in October. The main changes being an increase in the proportion of funding retained by upper tier councils and less shared growth fund money. For this Council a successful bid should retain an additional £400-500k.
- 2.11 Finally, for 2018/19 the actual level of business rates is below forecast largely due to the phased opening of one very large new distribution warehouse and our model assumed a full operation earlier.

Council Tax

- 2.12 The 2019/20 budget and the Medium Term Financial Plan assumes at this stage an increase of 3%.

Housing

- 2.13 For councils which have transferred their stock the main focus in terms of housing is the management of homelessness and the management of inspection services on private landlords. Except for councils with very large levels of reserves, the scope for direct intervention in the local housing market typically through arms length companies is very limited. However, even though resources for this are limited, the Council is actively exploring options for cost effective direct investment for use as temporary accommodation.
- 2.14 In the detailed budget papers, there is a small additional budget pressure on homelessness. This area has received a considerable amount of member and officer attention in recent years and is subject to review at the current time by independent housing consultants. Given the limited financial reserves and the high cost of acquiring properties directly we need to examine a wide range of solutions to the current pressures.

Revenues & Benefits

2.15 The escalation of full Universal Credit (UC) roll-out along with the reduction in the DWP administration grant prompted a review to explore alternative service delivery options in order that we can align the salary budget with the grants received. The proposed structure will require us to reduce our current staffing capacity by approximately 13 FTE inclusive of one Manager; this figure is also inclusive of the three vacant posts that we already hold on the establishment. The unit managers have worked closely with Human Resources to minimise the adverse impact at an individual level. Efficiency savings proposed under a new structure have been identified by carrying out individual reviews on each service area and where there are individual roles. Savings will be achieved by remodelling key processes to improve the flow and reducing waste and duplication. Savings that will be achieved as a result of this restructure will be £403k. Service key performance indicators are currently good and will be closely monitored to ensure that performance levels are not adversely affected.

Contractual Price Inflation

2.16 The Council's major contracts are subject to price inflation (or deflation) provisions. The main contracts have the following provisions:

Contract	Inflation Provision
Refuse/Street cleaning	Average Weighted Earnings (AWE) 40%, Consumer Price Index (CPI) 40%, and Diesel fuel index 20%;
Grounds maintenance	Retail Price Index excluding mortgage interest payments (RPIX)
Leisure	Retail Price Index
Public Conveniences	AWE 55%, CPI 35%, and Diesel fuel index 10%.

Staff Pay

2.17 The staff pay increase, to which members' allowances increases are linked, is subject to negotiation locally. The current budget provision is for a 2% increase plus staff increments where applicable.

Capital Strategy

2.18 For the first time the Council will be required to submit a Capital Strategy to Council alongside the budget report and the treasury strategy. This reflects concern within Government at council activity in the commercial property market for investment rather than regeneration purposes. This Council's approach to capital investment has reflected the dual requirements of return and regeneration locally.

2.19 The Capital Strategy and Programme will be presented to Cabinet and Council in February.

3 Proposals

- 3.1 Given the timing of this report, this is an interim step in the development of fully balanced budget proposals.
- 3.2 The updated Medium Term Financial Plan is attached in Appendix I. It currently shows a gap to be closed for a balanced position of £503k.
- 3.3 Variations over £5,000 from the 2018/19 base budget are set out in Appendix II. These are shown against the following categories:

Heading	Explanation
Growth Items	These are items where the Council does have discretion
Unavoidable Cost Pressures	These are items where due to legal or contractual requirements there is largely no choice over incurring the expenditure
Loss of Income	Loss of income currently within the base budget
Service savings	Cashable cost savings identified by services
Additional Income	Increases in income over the current base

4 Alternative Options

- 4.1 These are Cabinet's budget proposals as at 12 December 2018 and reflect extensive work undertaken since the summer on options to work towards a balanced budget position. They will be subject to review by Scrutiny Committee and will be submitted to cabinet and Council in February 2019.

5 Consultation Undertaken or Proposed

- 5.1 Formal consultation with the business community will be undertaken.

6 Implications

Issue	Implications
Corporate Plan	The budget proposals support the achievement of the Council's corporate priorities.

Issue	Implications
Financial, Resource and Property	The report sets out the Council's resourcing position.
Legal, Statutory and Procurement	The Council is required to set a Council tax and a balanced budget.
Crime and Disorder	Any potential implications will be addressed by service managers in their budget proposals.
Environment and Sustainability	Any potential implications will be addressed by service managers in their budget proposals.
Health and Wellbeing	Any potential implications will be addressed by service managers in their budget proposals.
Risk Management and Health and Safety	Any potential implications will be addressed by service managers in their budget proposals.
Equality and Diversity	Any potential implications will be addressed by service managers in their budget proposals.
Privacy and Data Protection	Any potential implications will be addressed by service managers in their budget proposals.

7 Appendices

7.1 The following documents are to be published with this report and form part of the report:

- Appendix I: Medium Term Financial Plan
- Appendix II: Budget Variations

8 Background Papers

None

Medium Term Financial Plan (MTFP)

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Base Budget	17,924	17,924	17,924	17,924
Growth items	0	692	668	669
Unavoidable cost pressures	0	58	80	91
Loss of income	0	714	680	680
Additional income	0	(1,030)	(823)	(1,422)
Committed price increases	0	326	521	688
Lower Medway Internal Drainage Board	803	817	838	859
<u>Salary Related:</u>				
Pay Award (2%)	0	230	464	704
Other Pay Increases	0	78	125	150
Contribution to/(from) reserves	(11)	(11)	(11)	(11)
Revenue Support Grant (assuming Kent pilot continues into 2019/20 for 75% retention)	0	0	0	0
Business Rates assumes 75% Retention from 19/20 (Kent Pilot) then nationally thereafter. No assumption made for Baseline reset	(8,441)	(8,105)	(8,334)	(8,576)
Contribution from Business Rates Reserve	0	(250)	0	0
Council Tax - maximum increase every year	(7,913)	(8,270)	(8,644)	(9,037)
New Homes Bonus (assumes continuation of scheme from 2020/21)	(2,046)	(1,847)	(1,530)	(1,413)
Savings Required	316	1,326	1,958	1,306
Service savings	0	(823)	(1,045)	(1,073)
Requirement for balanced position	0	(503)	(913)	(233)
Committed Savings	0	(1,326)	(1,958)	(1,306)
Contribution (to) from General Fund	316	0	0	0
Balance of Usable Reserves at 31 March	(17,933)	(16,588)	(16,188)	(15,752)

Budget Variations

Head of Service	Medium Term Financial Plan (MTFP) Category	Description	2019/20 over 2018/19 £
Adams	Growth items	Vaccinations for staff (hepatitis)	5,000
Adams	Growth items	Princes Street Retail Park operational running costs	10,000
Adams	Additional income - increase in existing fees and charges	Rent Properties	(15,850)
Adams		Total	(850)
Beattie	Growth items	Air Quality Project Officer	50,000
Beattie	Growth items	Air Quality Project Officer contribution from the General Reserve	(50,000)
Beattie	Unavoidable cost pressures	Mid Kent Environmental Health - increase in shared service budget	9,980
Beattie		Total	9,980
Bescoby	Growth items	Budget for Members induction as a result of the May 2019 Election.	2,000
Bescoby	Growth items	Borough and Parish Elections - Hire of Premises	17,000
Bescoby	Growth items	Borough and Parish Elections - Fees and Services	15,000
Bescoby	Growth items	Borough and Parish Elections - Poll Clerks	18,000
Bescoby	Growth items	Borough and Parish Elections - Counters and Clerical	18,000
Bescoby	Growth items	Borough and Parish Elections - Presiding Officer	18,000
Bescoby	Growth items	Borough and Parish Elections - Poll Cards	12,000
Bescoby	Growth items	Borough and Parish Elections - Postage	20,000
Bescoby	Growth items	Funding of 2019/20 elections from reserves	(120,000)
Bescoby	Growth items	Electoral Registration - Maintenance of scanners for electoral registration and postal votes.	5,000
Bescoby	Growth items	Electoral Registration - Online response service and external printing.	15,000
Bescoby	Additional income - new charges raised	Estimate of recovery of costs from running parish and town council elections in May 2019	(15,000)
Bescoby		Total	5,000

Budget Variations

Head of Service	Medium Term Financial Plan (MTFP) Category	Description	2019/20 over 2018/19 £
Cassell	Growth items	Partnership charges for car parking service.	34,300
Cassell	Growth items	Client and Amenity Reorganisation of team resource as per transformation project. Recognition that some seasonal resource is needed with increasing number of beach huts (see service savings).	12,500
Cassell	Service savings	Client and Amenity Reorganisation of team resource as per transformation project (see growth)	(34,100)
Cassell	Growth items	Seafront Equipment Purchase (Funded by grant - see additional income)	29,000
Cassell	Additional income - increase in existing fees and charges	Seafront grants to fund equipment (see growth item)	(29,000)
Cassell	Growth items	Increased annual contribution to Faversham Swimming pool	20,000
Cassell	Growth items	Contracts - Serco Leisure Operations	59,140
Cassell	Service savings	Contracts - Swale Community Leisure	(211,110)
Cassell	Growth items	Swale Open Spaces grounds maintenance. Funds for Faversham Rec maintenance.	12,000
Cassell	Growth items	Swale Cemeteries grounds maintenance - Heritage repair costs	1,790
Cassell	Loss of income	Swale Play Areas - contracts	3,000
Cassell	Loss of income	Swale Open Spaces - contracts	30,000
Cassell	Growth items	Car park maintenance increase (1): to meet service demands and health and safety for car parks (see additional income).	15,000
Cassell	Growth items	Car park maintenance increase (1): to meet service demands due to vandalism of equipment in Swale Car Parks (see additional income).	3,360
Cassell	Additional income - increase in existing fees and charges	Car park maintenance increase (1): to meet budget increase in maintenance for car parks (see growth)	(18,360)

Budget Variations

Head of Service	Medium Term Financial Plan (MTFP) Category	Description	2019/20 over 2018/19 £
Cassell	Growth items	Car parks increase (2): road lining: (see additional income)	10,000
Cassell	Growth items	Car parks increase (2): parking adjudication fees (see additional income)	7,660
Cassell	Additional income - increase in existing fees and charges	Car parks increase (2): funding from ring-fenced fund (see growth items).	(17,660)
Cassell	Growth items	Swale Car Parks - licence fees. Increased use of cashless payment parking option. Offset by increased income (see additional income).	32,120
Cassell	Unavoidable cost pressures	Footway lighting KCC contract. Current KCC Lighting contract with Districts to end in 2018/19, will lead to increased maintenance costs.	4,000
Cassell	Unavoidable cost pressures	Partnership car parking service - increase in staff budget	1,350
Cassell	Loss of income	Car Parking: Car Parks - Penalty Charge Notices (see additional income)	45,230
Cassell	Additional income - increase in existing fees and charges	Car Parking: On Street Car Parking - Penalty Charge Notices (see loss of income)	(45,230)
Cassell	Loss of income	Swale Car Parks - Overpayments loss due to change in VAT treatment.	60,000
Cassell	Additional income - increase in existing fees and charges	Swale Car Parks - fees and charges	(193,680)
Cassell		Total	(168,690)
Clarke	Unavoidable cost pressures	Mid Kent Audit - Increase in MKS Audit Shared Services budget	3,920
Clarke		Total	3,920
Clifford	Loss of income	Sheerness Gateway - staff cost recovery (see service savings)	4,260
Clifford	Growth items	Sheerness Gateway - contracts (see savings)	1,280
Clifford	Service savings	Sheerness Gateway - salaries (see loss of income)	(6,960)
Clifford		Total	(1,420)

Budget Variations

Head of Service	Medium Term Financial Plan (MTFP) Category	Description	2019/20 over 2018/19 £
Freeman	Growth items	Spatial Planning - Salaries	54,280
Freeman	Growth items	Heritage Conservation and Design - Salaries	36,170
Freeman	Growth items	Heritage Conservation and Design - Project costs for agency/contract staff	25,000
Freeman	Growth items	Planning market supplements	14,000
Freeman	Growth items	MK Planning Support to meet requirements for increase in Planning applications	50,000
Freeman	Service savings	MK charges for Planning review of running costs	(10,000)
Freeman	Additional income - increase in existing fees and charges	Development Management - Planning fees	(216,000)
Freeman	Additional income - increase in existing fees and charges	Development Management - Pre-application planning advice	(30,000)
Freeman	Service savings	Building Control - Contract	(15,000)
Freeman		Total	(91,550)
Hudson	Loss of income	Temporary Accommodation - fees and charges adjustment to more accurately reflect benefit income (see savings)	199,810
Hudson	Service savings	Temporary Accommodation - B & B Landlord payments (see loss of income)	(111,200)
Hudson	Loss of income	Temporary Accommodation - homelessness contribution to rent costs	5,900
Hudson	Additional income - increase in existing fees and charges	Temporary Accommodation - Homeless - Flexible Homeless Support Grant	(82,680)
Hudson	Service savings	Temporary Accommodation - Refund of Housing Benefit	(12,980)
Hudson	Growth items	Increased contract CCTV Partnership cost for monitoring & maintenance service due to monitoring changes for the other partners in the Partnership.	8,000
Hudson	Loss of income	Stay Put private work income	2,200
Hudson		Total	9,050

Budget Variations

Head of Service	Medium Term Financial Plan (MTFP) Category	Description	2019/20 over 2018/19 £
Narebor	Growth items	New MKLS staffing structure. Cost increase offset by additional income, increase in legal fees, and increase in MKLS partnership income	73,730
Narebor	Additional income - increase in existing fees and charges	Increase in legal fees - Property Vatable	(2,920)
Narebor	Additional income - increase in existing fees and charges	Increase in legal fees - Property Exempt	(6,930)
Narebor	Additional income - increase in existing fees and charges	Increase in legal fees - Planning S106	(11,530)
Narebor	Additional income - increase in existing fees and charges	MKLS contributions from partners	(52,350)
Narebor	Growth items	Legal market supplements: this will be offset by additional income for contributions from partners towards this cost	54,000
Narebor	Additional income - increase in existing fees and charges	Legal market supplements: share of additional cost borne by Maidstone and Tunbridge Wells Borough Councils	(38,000)
Narebor		Total	16,000
Sandher	Unavoidable cost pressures	Mid Kent HR/Payroll service - increase in shared services budget	5,140
Sandher		Total	5,140
Sutcliffe	Growth items	Swale BC Publications - developing and printing	4,000
Sutcliffe	Growth items	Swale BC Publications - Postage	1,000
Sutcliffe		Total	5,000

Budget Variations

Head of Service	Medium Term Financial Plan (MTFP) Category	Description	2019/20 over 2018/19 £
Vickers	Service savings	Revenues Service: Salary savings arising from restructuring of the Benefits service. This will be offset by the reduction in the Government admin grant for the Benefits services.	(333,990)
Vickers	Loss of income	Revenues Service: Reduction in the Benefits and Council Tax Admin Grant, This is offset by salary savings on Council Tax and Benefits	336,530
Vickers	Service savings	Revenues Service: Salary savings from the Council Tax service. This is offset by the reduction in the Government Council Tax admin grant.	(68,680)
Vickers	Growth items	Revenues Service: Council Tax posts which previously have been funded from reserves are included in the Council's base budget. This will be offset by Council Tax salary savings.	66,140
Sub Total Revenues Service Restructuring			0
Vickers	Growth items	Revenues Service: Benefit Equipment Maintenance	1,550
Vickers	Service savings	Forecast of the Council's share of surplus on Council Tax Collection Fund at end of 2018/19	(26,340)
Vickers	Unavoidable cost pressures	Corporate Costs: Pension commitments from last revaluation	88,370
Vickers	Unavoidable cost pressures	Corporate Costs: Pension commitments from last revaluation funded from reserves	(88,370)
Vickers	Unavoidable cost pressures	Financial Services - Insurance	8,070
Vickers	Unavoidable cost pressures	Mid Kent Fraud Partnership - increase in shared service budget	660
Vickers	Unavoidable cost pressures	Mid Kent Services Graduate - increase in shared services budget	760
Vickers	Unavoidable cost pressures	Mid Kent Services Director - increase in shared services budget	720
Vickers	Loss of income	Licensing: Loss of income for gambling licences.	18,280
Vickers	Service savings	Financial Services: Reduction in cost of pension enhancements	(8,350)

Budget Variations

Head of Service	Medium Term Financial Plan (MTFP) Category	Description	2019/20 over 2018/19 £
Vickers	Service savings	Financial Services: Minimum Revenue Provision (MRP) for Leisure capital project	100,000
Vickers	Service savings	Financial Services: Interest Payable for Serco Leisure Finance Lease (see MRP for Serco Finance Lease and Leisure Capital Project)	(21,900)
Vickers	Service savings	Financial Services: Minimum Revenue Provision (MRP) for Serco Leisure Finance Lease (see Interest Payable for Serco Finance Lease and MRP for Leisure Capital Project)	(43,000)
Vickers	Service savings	Financial Services: MRP for Multi Storey Car Park (MSCP) which is operational in 2019/20	92,080
Vickers	Service savings	Financial Services: MRP for Retail Park which is operational in 2019/20	138,200
Vickers	Service savings	MRP for MSCP and Retail Park funded from reserves	(230,280)
Vickers	Additional income - new charges raised	Retail Park Rental Income	(240,000)
Vickers	Service savings	Financial Services: MRP for funding of historic capital projects	1,300
Vickers		Total	(208,250)
Woodward	Growth items	Customer Services Centre Software Assurance licence which is a Mitel support charge.	11,000
Woodward	Unavoidable cost pressures	Mid Kent ICT and GIS service - increase in shared services budget	9,540
Woodward		Total	20,540
	Grand Total		(396,130)
Minor Changes			7,270
Committed Price Increases			325,400
Total Budget Changes for Medium Term Financial Plan (MTFP)			(63,460)