

CABINET

6 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 this is to be submitted to Council on 22 February 2018, 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 management team, to propose a capital and revenue budget having first consulted the overview and scrutiny committees. Council has the ultimate responsibility for determining the budget and setting the council tax.
- 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'. These comments have been included at Appendix 1 (to follow).

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	0.580	0.966	1.451
Improved Better Care Fund	3.962	5.152	6.095
Illustrative New Homes Bonus	5.365	2.512	2.446
Transition Grant	0.344	0.000	0.000
Adult Social Care Support Grant	1.002	0.000	0.000
Core Spending Power	180.931	181.676	183.176

3.2 The Provisional 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 and has already been reflected in the Medium Term Financial Strategy. 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.

3.3 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 plus 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 will be dependent on the level of spending, it will also be affected by:
- The council tax base of 83,435.21 agreed on 30 January;
 - The parish precepts;
 - The Police and Crime Panel for Kent meet on 8 February and their proposal is for a £12.00 (7.6%) increase that would produce a Band D rate of £169.15.
 - A Kent Fire and Rescue Service (KFRS) budget meeting will be held on 13 February where a 2.95% increase will be considered. This, if agreed, would produce a KFRS 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. 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 £27.3 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. Across the Kent and Medway area this is expected to represent in excess of £18 million in additional revenue in 2018/19.
- 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.

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 2018/19 allocations have now been announced (previously these figures were only indicative) and reflect increased figures for Medway. 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.

3.6 Dedicated Schools Grant (DSG) and Other Schools Related Grants

3.6.1 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.

3.6.2 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.

3.6.3 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

3.7 Cessation of the Education Services Grant

3.7.1 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 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.

3.7.2 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.

3.8 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 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 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.

- 4.5 Appendix 2 summarises the proposed budget requirement against the funding assumptions, with appendices 2a-2d representing the directorate summaries and appendices 3a-3d providing more detail regarding individual savings proposals and the impact on staff.
- 4.6 At the time of writing this report, there is still a deficit of £114,700 to resolve and officers continue to work with portfolio holders on a number of proposals to close this gap.

5. Children and Adult Services (Appendices 2a / 3a)

- 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 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.
- 5.5 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 3a.

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

- 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.

- 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 2c / 3c)

- 7.1 The contribution made by the Business Support Department to closing the budget gap broadly fall 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 proposed budget builds on the MTFs assumptions, increasing the additional investment in ICT to £600,000 reflecting a shift to 'software as a service'.
- 7.3 This budget also increases` the Building Repairs and Maintenance Fund to £1.0 million per annum, in response to the need to invest more in the Council's operational property portfolio. This is evidenced by a comprehensive suite of condition surveys commissioned to identify the requirement for the next 20 years.
- 7.4 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 pressure on the revenue budget.

8. Public Health (Appendix 2d)

- 8.1 As outlined at paragraph 3.8.1 the Public Health Grant will be subject to further cuts over the medium term and for 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.

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 6.

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, are forecast to stand at £7.1million by 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 and it is a testimony to both the Council's internal budgetary control systems and the robustness of the budget setting process, that over a number of successive years the Council has consistently underspent its revenue budget. Members are however asked to note the latest revenue monitoring position elsewhere on this agenda, which forecasts an overspend of around £653,000 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 4 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 3 summarises planned expenditure, providing an analysis of how it will be funded. More detailed analysis is provided at Appendix 4a-4d.

Table 3: 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	20,159	141	73,814
2019/20 forecast	1,690	9,708	4,697	0	0	16,095
2020/21 and beyond	0	5,869	4,688	0	0	10,557
Revised 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	2,018	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	10,978	51,887	17,301	20,159	141	100,466

13. Children and Adults Capital Programme (Appendix 4a)

- 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 4a 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 4b)

- 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'.
- 14.5 Capital funding for the Housing Revenue Account (HRA) is discussed in more detail in the HRA report elsewhere on the agenda.

15. Business Support Department Capital Programme (Appendix 4c)

- 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 and a follow up to that report features elsewhere on this agenda.

17.3 The summarised Housing Revenue Account is attached at Appendix 5 and the capital component is included in Appendix 4.

18. Legal Considerations

- 18.1 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.
- 18.2 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.
- 18.3 *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.
- 18.4 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 has been included as an addendum report.
- 18.5 *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.
- 18.6 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.

- 18.7 *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.
- 18.8 *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.
- 18.9 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.
- 18.10 *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.
- 18.11 *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.
- 18.12 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.
- 18.13 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.

18.14 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

19. Risk Management

19.1 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;
- The very significant changes in the welfare benefits regime that occurred in 2013/14 and subsequent years will continue to impact and indications from Government are that the pressure created in this area will continue to be felt in the coming years;
- Extreme weather may increase the demand for highway maintenance and put pressure on other front line services;
- There is no allowance at this stage for discretionary service improvement priorities and any such proposals will require the identification of additional resource.

20. Diversity Impact Assessment

20.1 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.

20.2 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 22 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.

- 20.3 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.

21. Financial and Constitutional Implications

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

- 21.2 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.

22. Conclusion

- 22.1 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.

- 22.2 The proposed revenue budget requirement of £290.052 million (Appendix 2) exceeds the estimated available resources by £49,100, however options are being considered to address this prior to the Council's budget setting meeting. Particular areas being targeted to close this gap include:

- Reviewing the impact of the significant work undertaken to manage the cost of SEN placements, in order to create capacity to protect centrally retained services for schools and young people;
- Reviewing the detailed condition surveys with a view to reprofiling required expenditure on building repairs and maintenance over a longer timeframe;
- Exploring the potential for further centralisation of ICT expenditure.

- 22.3 Against a backdrop of reducing grant support that is expected to see the Revenue Support Grant disappear completely by the end of this Parliament, the budget as presented in this report is once again a remarkable achievement, with the onus on protecting front line service delivery.

23. Recommendations

- 23.1 That Cabinet considers the recommendations from overview and scrutiny committees as summarised in Appendix 1 of this report;
- 23.2 That Cabinet recommends to Council that the net revenue budget summarised at Appendix 2, amounting to £290.003 million, should be adopted and that this be funded by a 5.994% increase in Council Tax for 2018/19 with the equivalent Band D figure at £1,374.28. Final proposals to address the £114,700 deficit will be reported to Council on 22 February 2018;
- 23.3 That Cabinet recommends to Council the capital budget proposals, as set out in Appendix 4;
- 23.4 That Cabinet recommends to Council the fees and charges set out at Appendix 6 to this report;
- 23.5 That 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 22 February 2018.

24. Suggested Reasons for Decision

- 24.1 The constitution requires that Cabinet's budget proposals must be forwarded to Council for consideration and approval.
- 24.2 The Council is required by statute to set a budget and council tax levels by 11 March each year.

Appendices (Supplementary Agenda No.1):

- | | |
|------------------|---|
| 1 | Record of individual overview and scrutiny committee meetings (to follow) |
| 2 and (a) to (d) | Summary of Revenue Budget Requirement by Directorate |
| 3 (a) to (c) | Directorate Revenue Savings Proposals |
| 4 and (a) to (c) | Summary of Proposed Capital Programme by Directorate |
| 5 | Housing Revenue Account |
| 6 | Schedule of Proposed Fees and Charges |

Background papers:

Medium Term Financial Strategy 2017-22 – 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 2018/19 – Cabinet 16 January 2018
<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=39661>