

From: Paul Carter, Leader
John Simmonds, Cabinet Member for Finance
Andy Wood, Corporate Director of Finance

To: Cabinet 5th February 2018

Decision No:

Subject: **Budget 2018-19 and Medium Term Financial Plan 2018-20**

Classification: **Unrestricted**

Summary:

The final draft budget proposals were published on 15th January 2018 to support the scrutiny and democratic process through Cabinet Committees, Cabinet and culminating in the annual County Council budget setting meeting on 20th February. This report provides Cabinet with a summary of the key issues in the draft budget and provides an opportunity to receive and consider comments and recommendations from Cabinet Committees. The timing of most committees means this may need to be a verbal update.

The draft budget includes a proposed 2.993% council tax increase for 2018-19 (up to the referendum limit) and a further 2% proposed through the Social Care Levy. The final decision on these will be taken at the County Council meeting. The draft budget represents the Council's response to local budget consultation and impact of the provisional Local Government Finance Settlement, as well as an update to include the latest spending/saving plans and forecasts.

The provisional Local Government Finance Settlement was announced on 19th December 2017. Responses to this settlement had to be submitted by 16th January

Recommendations:

Cabinet is asked to endorse the draft budget taking into account any proposed amendments from Cabinet Committees and any other final changes to the draft Budget and MTFP published on 15th January 2018.

Cabinet is asked to note that final decision on council tax precept will be presented at the County Council meeting on 20th February.

Cabinet Members are asked to bring to this meeting the draft (black combed) 2018-19 Budget Information and 2018-20 Medium Term Financial Plan document published on 15th January 2018.

Cabinet Members are reminded that Section 106 of the Local Government Finance Act 1992 applies to any meeting where consideration is given to a matter relating to, or which might affect, the calculation of council tax.

Any Member of a Local Authority who is liable to pay council tax, and who has any unpaid council tax amount overdue for at least two months, even if there is an arrangement to pay off the arrears, must declare the fact that he/she is in arrears and must not cast their vote on anything related to KCC's Budget or council tax.

1. Introduction

- 1.1 The Local Government Finance Act 1992 requires the Council to consult on and ultimately set a legal budget and council tax precept for the forthcoming financial year, 2018-19. Setting the Council's revenue and capital budgets continues to be exceptionally challenging in the face of further reductions in central government grants and inadequate funding to cover rising costs and increasing demand for council services. The accompanying draft Budget Information and MTFP document (hereafter referred to as the Budget Book) sets out the detailed draft proposals for 2018-19 and indicative estimates for 2019-20.
- 1.2 As a result of the grant reductions and inadequate funding the authority still needs to make substantial savings in order to balance the budget for 2018-19. The additional flexibility in the Local Government Finance Settlement means these savings can now be of a lesser magnitude than those of the last 7 years. Nonetheless, the draft 2018-19 budget is still underpinned by draw down from central and directorate reserves which has a consequential impact on the indicative 2019-20 plan.
- 1.3 The 2018-19 provisional Local Government Finance Settlement announced on 19th December included two key changes from the previous indicative allocations:
 - Increase in the council tax referendum threshold from 2% to 3% for 2018-19 and 2019-20;
 - The announcement of 10 new areas (including Kent and Medway) to pilot 100% business rate retention in 2018-19 in addition to the 5 pilots in 2017-18 and the London pilot announced in the autumn 2017 Budget.
- 1.4 The flexibility announced last year enabling more of the social care council tax levy to be raised earlier is retained (up to 3% in any year as long as it does not exceed 6% over the three year period 2017-20). The additional iBCF announced in March 2017 Budget remains unchanged, as do the other grant reductions as outlined in indicative figures in previous settlements, including the removal of transitional grants. The 2018-19 settlement also included the additional compensation for the indexation of business rates to CPI rather than RPI announced in the autumn 2017 Budget.
- 1.5 KCC's draft Budget Book was published on 15th January. This was a new slimmer single document and included the proposed 2018-19 revenue budget, 2018-20 Medium Term Financial Plan, and capital programme for 2018-21. The revenue plans build on the Autumn Budget Statement to County Council on 19th October which updated the published 2017-20 plan.

- 1.6 There are some grants which have not yet been announced and we have not received the final tax base or estimated collection fund balances from districts. Consequently there could be some further last minute adjustments to present to County Council on 20th February together with any other late changes.
- 1.7 The draft MTFP equation is summarised in table 1 (extract from section 1 – Executive Summary). Full details are set out in section 3 of the Budget Book (Revenue Strategy) and appendices A(i) (high level 2 year revenue plan) and A(ii) (detailed 1 year directorate plans). The absence of detailed government spending plans or indicative settlement beyond 2019-20, as well as potential changes to the local government funding arrangements from 2020, has meant it is not possible to produce a meaningful three year revenue plan.

Table 1 - Revenue Budget Equation	2018-19 £m	2019-20 £m
Spending Demands	66.9	52.9
Government Grant Reductions	46.2	28.2
Total	113.1	81.1
Government Grant Increases	15.2	12.3
Council Tax & Business Rates	44.6	24.2
Savings, Income and Reserves	53.3	44.6
Total	113.1	81.1

- 1.8 Sections 10 and 11 of the Budget Book set out how the 2018-19 proposals affect the proposed revenue budgets for individual key service lines. In a change from recent years these key service lines are aligned with the responsibilities of senior managers and means budgets are in the same format at the start of the year as monitoring reports throughout the year. As part of this revision we have published detailed variation statements on the kent.gov.uk website.
- 1.9 The capital budget is also under significant pressure. The capital programme has increasingly relied on government grant allocations, developer contributions, external funding and capital receipts over recent years. The ongoing shortfall in revenue funding means we need to plan very carefully before we commit to additional borrowing to supplement the capital programme. Nonetheless due to the urgent need for additional capital spending, and shortfalls in government grants and other funding, we have included plans for an additional £100m of borrowing over the three years 2018-21. Section 4 of the Budget Book outlines KCC's capital strategy and section 9 shows the full planned programme.

2. Fiscal Context

- 2.1 The provisional Local Government Finance Settlement continues to be presented as a spending power calculation for each authority setting out the

overall change in funding from central government and council tax that the government anticipates for each authority over the years from 2015-16 to 2019-20. The updated spending power calculation from the 2018-19 provisional is reproduced in table 2.

Table 2 – Spending Power

Kent					
Illustrative Core Spending Power of Local Government;					
	2015-16	2016-17	2017-18	2018-19	2019-20
	£ millions				
Settlement Funding Assessment ²	340.015	283.386	241.948	218.384	194.239
Compensation for under-indexing the business rates multiplier	2.487	2.487	2.259	3.765	5.656
Council Tax of which;	549.034	583.181	620.527	670.924	711.740
<i>Council Tax Requirement excluding parish precepts (including base and levels growth)</i>	549.034	571.976	596.895	627.108	658.866
<i>additional revenue from referendum principle for social care</i>	0.000	11.205	23.632	43.817	52.874
<i>Potential additional Council Tax from £5 referendum principle for all Districts</i>	0.000	0.000	0.000	0.000	0.000
Improved Better Care Fund	0.000	0.000	26.392	35.019	42.380
New Homes Bonus ³	7.325	8.909	7.384	5.782	5.823
New Homes Bonus returned funding	0.555	0.397	0.421	0.000	0.000
Rural Services Delivery Grant	0.000	0.000	0.000	0.000	0.000
Transition Grant	0.000	5.682	5.685	0.000	0.000
The 2017-18 Adult Social Care Support Grant	0.000	0.000	6.192	0.000	0.000
Core Spending Power	899.417	884.042	910.808	933.875	959.838
Change over the Spending Review period (£ millions)					60.421
Change over the Spending Review period (% change)					0.067
Please see the Core Spending Power Explanatory note for details of the assumptions underpinning the elements of Core Spending Power.					
¹ The figures presented in Core Spending Power do not reflect the changes to Settlement Funding Assessment made for pilot authorities. For information about pilots please refer to the Pilots Explanatory Note. For the Settlement Finance Assessment figures after adjustments for pilots please see Key Information for Local Authorities.					
² 2019-20 Settlement Funding Assessment has been modified to include a provisional tariff or top-up adjustment.					
³ New Homes Bonus allocations for 2019-20 are for illustration purposes only. Actual payments will depend on housing delivery and are subject to change.					

2.2 The spending power closely resembles KCC's budget and includes the main sources of funding but does not include any additional retention from business rate growth (including the 100% pilot), collection fund balances, and a small number of other grants. Overall the spending power is now showing a small net increase in spending over the four year settlement (£60.4m, 6.7%). This is an improvement on previous flat cash scenario, albeit most of the improvement is from council tax. However, as already identified in the introduction this increase is nowhere near enough to cover rising costs and increased demand, and thus continues to represent a significant real terms reduction.

2.3 The changes from the previous spending power have been highlighted in table 2 and include:

- The Settlement Funding Assessment (SFA) is slightly reduced due to the lower indexation of retained business rate baseline using CPI from 2018-19 (yellow)
- Compensation for lower business rate indexation provided through a separate grant (green). This includes the grant to compensate for the previous 2% cap on indexation in 2014-15 and 2015-16
- Revised tax base as used for the 2017-18 KCC approved budget (blue)
- Assumed increase up to the higher 3% threshold in 2018-19 and 2019-20 (pink)

- Assumed take-up of the additional social care flexibility based on actual take-up in 2017-18 and assumed take-up of the 3% for all authorities in 2018-19 (amber)
- Roll out of the reform of New Homes Bonus grant from six years to 4 (grey), included updated growth forecasts for 2018-19 and 2019-20

2.4 KCC's 2018-19 budget will not fully reflect the spending power as the County Council will need to agree council tax e.g. the proposal for 2018-19 is to not take up the additional flexibility over the social care levy even though this is assumed in the spending power. KCC's 2018-19 budget will also be based on the local estimate of the tax base which is likely to differ from the spending power. KCC's budget will include the other sources funding identified in paragraph 2.2 that are not included in the spending power. Despite these differences the spending power is a useful tool to make comparisons with other authorities.

2.5 The provisional council tax base notified by districts has increased by 2.16% on 2017-18 due to a combination of factors. As demonstrated in the spending power council tax has an increasingly significant role as the key funding source for the Council's budget. We will produce an analysis of the underlying reasons identifying separately the effect of new households, changes in discounts and exemptions, and collection rates. Section 8 of the Budget Book shows the individual district contributions to the tax base.

2.6 Section 8 of the draft budget book also includes the proposed council tax rates to precept for 2018-19. It is proposed to increase council tax up to the maximum allowed without exceeding the 3% referendum threshold and by the further 2% for the social care levy. The impact of the proposed increases to individual band rates is shown in Table 3. The final decision on council tax for 2018-19 will be presented to County Council on 20th February. The indicative assumptions for 2019-20 are based on 2% increase plus the final 2% social care levy. This approach is consistent with the emphasis on driving out efficiency savings and improved commissioning and procurement, while leaving some headroom as a possible solution to the unidentified gap.

<u>Table 3</u>	2017-18	2018-19 (excl. Social Care Levy)	2018-19 (incl. Social Care Levy)
Band A	£785.88	£809.40	£825.12
Band B	£916.86	£944.30	£962.64
Band C	£1,047.84	£1,079.20	£1,100.16
Band D	£1,178.82	£1,214.10	£1,237.68
Band E	£1,440.78	£1,483.90	£1,512.72
Band F	£1,702.74	£1,753.70	£1,787.76
Band G	£1,964.70	£2,023.50	£2,062.80
Band H	£2,357.64	£2,428.20	£2,475.36

3. Response to the Provisional Settlement

- 3.1 KCC submitted its response on 15th January. The response was agreed with the Cabinet Member for Finance and in it we welcomed the announcement of additional 100% business rate retention in more areas than originally envisaged, and in particular approval of the Kent and Medway pilot. We also welcomed the further commitment to a fundamental Needs-led review of the current funding distribution which underpins both grant distribution and the baseline used for business rate retention (which determines the tariffs and top-ups for the redistribution of funds). We have consistently challenged that previous distribution favoured some areas compared to others and over a long period of time has led to unjustifiable differences in council tax levels.
- 3.2 The response reiterated our previous criticism of the changes made to grant distributions from 2016-17, which we still believe doubly penalised some authorities. Furthermore, we continue to voice our disappointment that the Transitional Grant which was made available to mitigate the impact of these changes for the worst affected authorities is being removed for 2018-19. We believe this grant must be maintained until the Needs-led review has been completed and implemented.
- 3.3 We expressed our concern that the government has chosen to address the deficiencies in the funding settlement through raising the council tax referendum threshold. We still maintain that the system requires adequate and sufficient recognition through the grant regime and redistribution of business rates. Finally we restated our concerns about the inadequacy of funding for social care, as well as responding to the specific questions posed.
- 3.4 We anticipate the final settlement will be announced in early February, hopefully before the County Council meeting on 20th February.

4. Revenue Budget and Medium Term Financial Plan Proposals

- 4.1 The 2018-19 draft budget includes £55.5m of additional spending demands (realignment of existing budgets plus forecasts for future demand and cost increases) and £11.4m to replace the use of one-offs on the 2017/18 base budget. This £66.9m of spending demands together with £46.2m of government grant reductions (Revenue Support Grant, transitional grants and New Homes Bonus) make up the total £113.1m budget gap for 2018-19 as illustrated in table 1. These additional spending demands are shown in more detail in appendix A(ii) of the Budget Book.
- 4.2 The spending demands include a substantial provision of £12m held unallocated for a range of emerging issues where the full impact is still subject to further evaluation and/or it is still uncertain whether all the issues will need to be reflected in 2018-19 budgets. This provision covers issues such as further potential demand for social care placements, energy price volatility, impact of recent judgements on sleep-in payments, etc. In total we estimate these could amount to between £6m to £18m and thus £12m represents the mid-range.

- 4.3 The 2018-19 draft budget includes savings and income proposals of £53.3m. This is less than previously predicted and is possible following the additional flexibility in the provisional settlement (100% business rate pilot and higher council tax referendum threshold) combined with a higher than forecast council tax base and in year collection fund balance.
- 4.4 The main savings plans which have been revised downwards are from transformation programmes and policy savings, including a significant revision to the options which were under consideration for subsidised buses. This revision will allow enhanced focus on those services which enable children to get to/from school and which provide access to essential services for isolated communities. Efficiency savings, income generation and financing items have all increased a little.
- 4.5 The proposed financing savings includes a significant sum from recalculation of the Minimum Revenue Provision (MRP) to cover the Council's capital finance requirement without making any changes to the MRP policy set out in appendix C of the Budget Book. This MRP statement is one of the statutory statements which the County Council must approve alongside the budget and council tax proposals for 2018-19 (the others being the Treasury Management Strategy in section % and Prudential Indicators in appendix B). The financing savings also include an additional £5.1m drawdown from the Council's central reserves and £6.3m from directorate reserves. As in previous plans, draw down from reserves creates a consequential pressure in future years as this is only a one-off solution.
- 4.6 The provisional 2019-20 plan is presented at a high level for the whole council in appendix A(i). As identified in paragraph 3.5 this includes £15m additional pressure to replace one-offs in the 2018-19 draft budget, including the drawdown from central and directorate reserves and the flexibility to use capital receipts to fund revenue costs of service transformation. The 2019-20 plan includes forecasts for further spending demands and the full year effect of existing savings plans.
- 4.7 The 2019-20 funding is based on the indicative 2019-20 figures in the 2018-19 provisional settlement. This assumes the 100% business rate pilot is a one-off in 2018-19, and assumes 1% forecast growth in the tax base and provisional 2% increase in council tax plus the final 2% social care levy as outlined in paragraph 2.6.
- 4.8 The 2019/20 plan has a total of £10.2m of unidentified savings, this is not uncommon and represents a lower target than we have had unidentified in the recent past.

5. Budget Consultation

- 5.1 Consultation on the Council's revenue budget and council tax proposals was launched on 12th October to coincide with the publication of the Autumn Budget

Report to County Council. This consultation sought views on council tax and KCC's budget strategy. The consultation was web based supported by a social media campaign. This represented an innovation on previous years aimed at increasing engagement at lower cost. This was achieved with a much higher volume of web page views (particularly from external users) and increased number of responses.

- 5.2 A summary of budget consultation is included in paragraphs 3.31 to 3.35 of the Budget Book (pages 56 to 57) and comprehensive report on consultation activity and responses is published on the Council's website (see link in background documents).

6. Capital Programme

- 6.1 The Budget Book includes the Council's proposed capital investment programme for 2018-21. The programme is derived from the Council's capital strategy set out in section 4 of the Budget Book. This strategy seeks to balance the need to invest in improving assets with affordability, and in particular having regard to the long-term impact on the revenue budget from taking up additional prudential borrowing to fund projects. Each £10m of borrowing costs around £0.8m per annum in debt servicing costs for the next 25 years.
- 6.2 The planned capital spending over the next 3 years (2018-21) is £794.7m. This includes the following major areas of investments:
- School maintenance, improvements and expansions £341.7m
 - Roads and infrastructure £261m
 - Grants and advances £44.2m
 - IT systems £14.4m
 - Equipment and vehicles £0.1m
 - Land and buildings £130.8m
 - Capital investment in transformation costs £2.5m
- 6.3 For the forthcoming programme we set an overall limit that additional borrowing should not be more than £100m over the next 3 years. This was based on assessment of overall affordability against forecast capital demands. This has enabled a number of new projects to be included in the programme including providing additional school places to supplement central government basic need funding, essential investment in the Council's buildings and road infrastructure to ensure these continue to be safe to use, investment in additional extra care capacity for social care clients and forward funding a number of projects to promote economic development.
- 6.4 The capital programme is funded from a number of sources in addition to prudential borrowing. This includes central government grants for schools, roads and economic development, developer contributions, and receipts from the sale of surplus assets. The provision of school places remains the biggest risk to the capital programme assumes we will be able to agree additional

central government grant to support the establishment of new schools and expansion of existing schools.

7. Finalising the Budget

- 7.1 It is almost inevitable that there will be some further changes before the budget and council tax is presented to County Council for approval on 20th February. At the very minimum this draft is based on provisional council tax base estimates from districts, and KCC's estimate for the local share of business rates and collection fund balances. It is almost certain that these estimates will change for the final approval. We also need to leave scope to deal with any late issues which may arise, including recommendations from Cabinet Committees.
- 7.2 At this stage we plan to deal with any changes to the published draft through the report to County Council rather than re-issuing the draft budget. However, depending on the number and complexity of the late changes this may be reviewed. There may need to be some further minor variations which are necessary after County Council has approved the budget for the publication of the final Budget Book in March. We will endeavour to keep these to a minimum and ensure they do not materially affect the budget but the Council approval will need to seek delegated authority to make such changes.
- 7.3 In addition to the £12m provision for unresolved spending pressures there are a number of other amounts which have been held unallocated in the draft Budget Book published on 15th January. This includes some additional spending pressures as well as some savings proposals and was necessary where it was not possible to finalise the allocation of these amounts in time for the printing deadlines. Some of these have been held centrally under financing items (page 144 line 103) and others held unallocated within directorates (page 136 line 2, page 137 lines 21 and 34, page 138 line 38, page 140 line 66).

8. Recommendations

Recommendations:

- a) Cabinet is asked to endorse the draft budget taking into account any proposed amendments from Cabinet Committees and any other final changes to the draft Budget and MTFP published on 15th January 2018.
- b) Cabinet is asked to note that final decision on council tax precept will be presented to the County Council meeting on 20th February.

9. Background Documents

- 9.1 KCC's Budget webpage
<http://www.kent.gov.uk/about-the-council/finance-and-budget/our-budget>
- 9.2 KCC's approved 2017-18 Budget and 2017-20 Medium Term Financial Plan
http://www.kent.gov.uk/_data/assets/pdf_file/0006/66534/budget-book-2017-18.pdf
<http://www.kent.gov.uk/about-the-council/strategies-and-policies/corporate-policies/medium-term-financial-plan>
- 9.3 Autumn Budget Report to County Council 19th October 2017
<https://democracy.kent.gov.uk/documents/s79227/Item%207%20-%20Autumn%20Budget%20Statement.pdf>
- 9.4 KCC Budget Consultation launched 12th October 2017
<https://consultations.kent.gov.uk/consult.ti/BudgetConsultation2018/consultationHome>
- 9.5 Chancellor's Autumn Budget 2017 22nd November 2017
<https://www.gov.uk/government/topical-events/autumn-budget-2017>
- 9.6 Office for Budget Responsibility fiscal and economic outlook 22nd November 2017
<http://obr.uk/efo/economic-fiscal-outlook-november-2017/>
- 9.7 Provisional Local Government Finance Settlement 19th December 2017
<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2018-to-2019>
- 9.8 KCC Draft Budget Book 15th January 2018
http://www.kent.gov.uk/_data/assets/pdf_file/0005/78170/Draft-BB-and-MTFP-Black-Combed-Version-10012018-FINAL.pdf
http://www.kent.gov.uk/_data/assets/pdf_file/0006/78171/Budget-Exec-Summary.pdf

10. Contact details

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