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To: Growth, Economic Development and Communities Cabinet Committee – 17 January 2020

Subject: Draft Capital Programme 2020-23 and Revenue Budget 2020-21

Classification: Unrestricted

Summary:

The Draft Budget proposals for 2020-21 were published on 6th January 2020 to support the scrutiny and democratic process through Cabinet Committees, Cabinet and culminating in the annual County Council budget setting meeting on 13th February 2020. The Draft Budget takes account of the response to the consultation and engagement campaign.

This report provides Growth, Economic Development and Communities Cabinet Committee with an opportunity to comment on the Draft Budget proposals and make recommendations to Cabinet Members as part of this process.

Members are asked to bring to this meeting the draft (black combed) 2020-21 Budget Book document published on 6th January 2020 as information from this document is not repeated in this report.

Recommendations:

Members of the Growth, Economic Development and Communities Cabinet Committee are asked to:

- a) NOTE the draft capital and revenue budgets and MTFP, including responses to consultation and the estimate of the government's funding settlement; and
- b) SUGGEST any changes which should be made before the draft is presented to Cabinet on 27th January 2020 and full County Council on 13th February 2020.

1. Introduction

- 1.1 The Local Government Finance Act 1992 and KCC Constitution requires the Council to consult on and ultimately set a legal budget and Council Tax precept for the forthcoming financial year, 2020-21.

The accompanying Draft Budget book sets out the detailed proposals. This document is designed as a reference document and includes a number of sections/appendices. This report is produced as a guide to help navigate the document.

- 1.2 The democratic process through Cabinet Committees, Cabinet, and ultimately full County Council is the culmination of the budget setting process, which takes almost a year to evolve beginning almost immediately after the budget is approved in February.

This starts with the forecasts for the subsequent year(s) in the MTFP at the same time as the approved budget for the forthcoming year, including the indicative central government settlement. These are based on estimates and subject to regular revision and refinement.

- 1.3 In previous years an interim update of the MTFP has been provided to County Council through the Autumn Budget Statement report. This year an Autumn Budget Statement report was not produced primarily due to the degree of uncertainty following the one-year Spending Review and lack of detail around the local government finance settlement. A multi-year plan for 2021-22 and beyond has not been produced given the settlement is for one year only.

- 1.4 On 16th October 2019 the formal budget consultation was launched as required under the Council's Constitution to set a legal budget and Council Tax. The Draft Budget published in January for the final democratic process is based on funding assumptions derived from the Spending Round and technical consultation on the provisional local government finance settlement. It is also based on provisional Council Tax and business rate tax bases from districts.

There is no indication when the local government finance settlement will be announced, and districts have until 31st January to finalise their tax base estimates. The Draft Budget also includes the proposed response to the consultation, estimates of spending demand and cost pressures and local spending priorities.

- 1.5 The Budget will be presented to County Council on 13th February 2020 for approval and the final Budget Book will be published in March.

2. Fiscal and Economic Context

- 2.1 The national fiscal and economic context is an important consideration for the Council in setting the Budget. This context does not just determine the amount received through central government grants, but also sets out how local government spending fits in within the totality of public spending. This latter aspect essentially sets the government's expectations of how much local authorities would raise through local taxation.

- 2.2 The Chancellor announced on 4th September 2019 the government's spending plans for 2020-21 which are hereon referred to as the

Spending Round (SR2019). SR2019 included additional spending compared to the previous plans.

The stated aim of SR2019 is to provide stability and certainty in funding in 2020-21 to enable government departments and devolved administrations to focus on delivering Brexit. The Chancellor has confirmed that a multi-year Spending Review will follow in 2020 although the exact timing of this has not been confirmed.

- 2.3 SR2019 was originally set within the current fiscal targets: keeping the structural deficit below 2 per cent of GDP in 2020-21 together with total debt falling as a percentage of GDP, and structural deficit to be eliminated and converted to a surplus by the middle of the decade.

The Chancellor would normally be expected to make his annual Budget statement during the autumn in response to forecasts from the Office for Budget Responsibility (OBR) of performance against the targets. The Budget would have included any tax changes necessary to finance spending plans within the targets. In October the Chancellor postponed the Budget statement scheduled for 6th November.

In November he announced the introduction of revised fiscal targets:

- Balance current spending (i.e. excluding capital spending) in three years' time
- Investment limited to 3% of GDP
- Borrowing plans to be reviewed if total debt interest exceeds 6% of tax revenues.

- 2.4 SR2019 was based on a "rollover" concept with the continuation of a number of grants received in 2019-20. The grants continuing are listed in table 1 below with estimates for both the national and KCC amounts in 2020-21:

Table 1 – List of 2019-20 grants which are continuing in 2020-21

Description of grant or fund	2019-20		2020-21 Estimate	
	National Amount £'m	KCC Amount £'m	National Amount £'m	KCC Amount £'m
Revenue Support Grant ¹	2,284	9.5	2,323	9.6
Business Rate Top-up ¹	-	136.2	-	138.5
Business Rate Baseline ¹	12,276	48.7	12,484	49.5
New Homes Bonus Grant	918	6.4	918	6.4
Social Care Support	410	10.5	410	10.5
Business Rate Compensation for under indexation of the multiplier ²	424	6.1	424	6.1

¹ Uplifted by 1.7% uplift to business rate multiplier based on September CPI and adjusted to include notional RSG for business rate retention pilot authorities

² Notified after final settlement

Business Rate Compensation for other reliefs ²	1,373	4.9	1,373	3.9
Improved Better Care Fund ³	1,837	42.4	2,077	48.5
Winter Pressure Grant	240	6.2		
New Social Care grants			1,000	23.8

- 2.5 SR2019 included an additional £1bn nationally to support Adult and Children's Social Care pressures. The technical consultation proposed that this would be allocated according to the adult social care relative needs formula (RNF) with up to 15% adjusted to reflect ability to raise council tax. For KCC, this equates to £23.8m share of the £1bn total.
- 2.6 SR2019 also confirmed that the Government intends to set the Council Tax referendum threshold for 2020-21 at 2% (this level is subject to final decision by Parliament). In addition, councils with responsibility for adult social care can choose to levy up to a further 2% increase on council tax under the social care precept.
- 2.7 Finally, the SR confirmed that the £2 billion funding provided to government departments for Brexit will be continued in 2020-21, although at this stage it is not known how much KCC will receive.
- 2.8 There are no indicative spending plans/local government settlement, or Council Tax referendum limits for 2021-22 and beyond, meaning the future funding envelope remains incredibly uncertain. These will not be known until after the outcome of the full Spending Review, which was originally anticipated sometime during 2020 but might be delayed. A further rollover for 2021-22 settlement is one of many possibilities.
- 2.9 Further details are still awaited on whether the new government will proceed with the proposed 75% business rate retention arrangements, and the reforms following the Fair Funding review. These are likely to have a significant impact on future year's settlements and the Council's MTFP, this uncertainty makes forward financial planning very imprecise.
- 2.10 In light of the uncertainty, a one-year only plan has been published.

Appendix A in the draft Budget Book provides detail of individual growth pressures and savings. Different scenarios of funding for future years will continue to be modelled so that the potential impact from each scenario is understood.

3. Revenue Budget Strategy and Proposals

- 3.1 The Council's revenue expenditure is what is spent on the provision of day to day services e.g. care for the elderly/vulnerable adults, supporting children in care, maintaining and managing the road network, library services, etc.

³ Includes winter monies in 2020-21

It includes the cost of salaries for staff employed by the Council, contracts for services commissioned by the Council, the costs of servicing debt incurred to support the capital programmes, and other goods and services consumed by the Council.

Revenue spending priorities are determined according to the Council's statutory responsibilities and local priorities as set out in the MTFP, which is the financial expression of the vision set out in the Strategic Statement.

3.2 The Draft Budget book includes the following sections in relation to the revenue budget proposals:

- Section 3 – Revenue Budget - Summary
- Section 4 – Revenue Budget - Key Service Analysis
- Appendix A – Detailed Revenue Plan by Directorate
- Appendix B – Budget Risk Register

The revenue budget sections set out the planned spending on services, the revenue plans in the appendices show the main reasons for year on year changes.

3.3 In order to meet the legal requirement to set a balanced budget, the Corporate Director of Finance must be satisfied that it is based on robust estimates and includes adequate provision for reserves to cover risks and uncertainties. The Draft Budget is increasing by £68m, from £986.4m in 2019-20 to £1,054.3m in 2020-21, although this requires the remaining gap of £1.9m to be resolved.

3.4 The Draft Budget includes provision for £83.1m of additional spending demands (changes to existing budgets plus forecasts for future demand and cost increases) and £21.1m to replace the use of one-off funding/savings in the 2019-20 approved budget.

3.5 These spending demands include the decision to change budgets based on current activity/costs, future known unavoidable cost increases (including contractual price increases, legislative changes and financing capital programme), forecasts for future eventualities (including estimated demand, non-specific price increases and contract retender), and local policy choices (including investment in services, and Kent pay scheme).

The Draft Budget also includes £6.0m of growth for spending priorities that support the new Strategic Statement.

3.6 The 2020-21 Draft Budget includes savings and income proposals of £34.3m. The vast majority of these arise from the full year effect of existing savings plans, or the roll out of existing charging policies.

3.7 The revenue budget can be summarised in the following equation. This equation assumes the Council agrees the proposed Council Tax precept

increases up to but not exceeding the assumed 2% referendum limit and the 2% social care levy.

Spending and Savings			
			£000s
Realignment			10,453.4
Reduction in Grant Income			1,400.0
Pay			7,693.0
Prices/Inflation			20,284.4
Demand/Demography & Legislative			21,238.5
Service Improvements			22,001.4
Sub Total - Pressures			83,070.7
Replace use of one-off solutions used in 2019-20			21,115.2
Savings and Income			-34,283.6
			69,902.3
Funding			
	Spending Round £000s	Other £000s	Total £000s
Council Tax	37,185.0	-4,975.0	32,210.0
Business Rates	827.5	154.9	982.4
Government Grants			
- Business Rate Top Up and RSG	2,476.9		2,476.9
- Other grants	23,836.0	8,463.6	32,299.6
	64,325.4	3,643.5	67,968.9
Current Budget Gap			1,933.4

The remit of the Growth, Environment and Transport (GET) directorate spans two Cabinet Committees and, consistent with prior years, the MTFP is shown at directorate level only.

However, Section 6 of this report sets out the main revenue spending demands and savings/income proposals of both the GET directorate, as a whole, as well as highlighting key entries pertinent solely to this committee.

- 3.8 The 2020-21 MTFP plan is presented in appendix A. This represents the most realistic estimate of future funding following SR2019 (including estimated distribution through the local government finance settlement) and provisional tax base estimates/assumed council tax increases. The plans also include forecasts for future spending pressures and replacing the one-off funding/savings used to balance the previous year's budget.

4. Budget Consultation

- 4.1 As described in paragraph 1.4, the consultation on the Council's revenue budget and Council Tax proposals was launched on 16th October and closed on 25th November. This consultation sought views on a general Council Tax increase, the social care levy and KCC's spending priorities.

The consultation was web based supported by a social media campaign. This approach was in line with last year, which helped to achieve increased engagement at lower cost, and a total of 1,360 responses were received (compared to 1,717 responses last year). Furthermore, there were fewer numbers who started a response but did not complete the survey (552 compared to 698 last year).

- 4.2 The campaign also aimed to increase public understanding of the Council's budget and the financial challenge arising from rising demand for/cost of providing council services, the need to find cost savings whilst at the same time protecting valued services, and impact on Council Tax. Further evaluation of the extent to which these aims were achieved will be undertaken.

- 4.3 The finance team have worked in collaboration with colleagues responsible for updating the Strategic Statement. A number of engagement events took place between September and November 2019 with residents, businesses, voluntary sector organisations, parish councils, young people and staff.

At these events, information on KCC's current spending plans were provided, and the financial challenges faced next year. Their views on what is important to them and their views on spending priorities have been captured and fed into the budget consultation process.

- 4.4 Overall there was an increased proportion of respondents supporting council tax increases than in last year's consultation, but still lower than historical levels of support in previous years.

In relation to spending priorities, respondents highlighted Adult Social Care for Older People, Education & Youth Services and Public Protection as their three highest priorities. The three lowest spending priority areas were Community Services, Libraries Registration and Archives and Social Support within Adult Social Care.

- 4.5 A detailed report on the information and insight gained from the consultation and engagement strategy is available in the background documents section of this report and on the Council's website.

5. Capital Programme

- 5.1 Capital expenditure is spent on the purchase or enhancement of physical assets, where the benefit will last longer than the year in which it is incurred e.g. school buildings, roads, economic development schemes, IT

systems, etc. It includes the cost of purchasing land, construction costs, professional fees, plant and equipment and grants to third parties.

As with revenue, capital spending plans are determined according to the Council's statutory responsibilities and local priorities as set out in the MTFP, with the ultimate aim of delivering the vision set out in the Strategic Statement.

- 5.2 Capital spending has to be affordable, as the cost of interest on borrowing and setting aside sufficient provision to cover the initial investment funded by loans over the lifetime of the asset, are borne as revenue costs each year over a very long period. This affordability would also apply to invest to save schemes which need to have a reasonable payback period.
- 5.3 Sections 1 and 2 of the Draft Budget Book set out the proposed 2020-23 programme and associated financing requirements. The summary (section 1) provides a high-level overview for the whole Council, and the individual directorate pages (section 2) provides more detail of rolling programmes and individual projects.

As with the Revenue MTFP, Section 6 of this report highlights any key additions, or changes to, the Capital MTFP programme in relation to the GET directorate.

- 5.4 The capital strategy has been revised for the 2020-23 budget and one of the principles is to have a longer-term capital programme over a ten-year period, within which statutory responsibilities and strategic priorities are paramount. It is particularly important to provide some stability for services in a year with a one-year funding settlement from Government. The timing of capital projects and programmes has also been reviewed to ensure capital plans and delivery are as realistic as possible.
- 5.5 Some additional capital spending has been deemed appropriate to meet statutory responsibilities, for invest to save projects or to enable continuation of other key capital ambitions. A total of £120m additional borrowing (across KCC) will be used to fund this spend over the three-year period 2020-23. The revenue consequences of this capital spending have been included in the budget.

6. Headline Directorate Proposals

- 6.1 The proposed net revenue budget for the Growth, Environment and Transport (GET) directorate for 2020-21 is £177.9m. This represents a net increase of £5.5m, with the 2019-20 budget currently set at £172.4m.
- 6.2 New spending demands (pressures) of £8.1m are proposed and these can be further analysed between:
- Price: £2.892m,
 - Demography: £0.672m
 - Legislative: -£0.038m

- Realignment: £1.107m
- Service Strategies and Improvements: £3.469m

6.3 The vast majority of these pressures fall under the remit of a different Cabinet Committee, however, significant pressures relating to this committee include:

- Coroners – Pathologist fees £277k. An uplift in the fee given a national dearth of Pathologists working Coroners' cases.
- Income realignment – Libraries, Registration and Archives (LRA) and Economic Development (ED) have adjusted their income targets for specific services of £130k.
- Coroners – staffing and new Area Coroner provision £166k. Due to increased caseloads, a new Area Coroner was appointed in 2019.
- Tackling Crime – Knife Crime and Serious & Organised Crime £71k. Two new posts/pilots have been created to analyse and support these priority areas.
- Resilience – standby rota costs £71k. This is to adequately remunerate staff/tactical managers who are on standby as part of emergency response.

Enforcement – creation of new post and legal support £99k. This post will look to analyse the current methodologies across GET in terms of enforcement, with a view to a consistent and targeted approach.

6.4 New savings and income proposals of £3.056m are proposed and these can be further analysed between:

- Efficiency: £1.636m
- Income: £588k
- Transformation: £88k
- Policy: £0.75m

6.5 As with the spending demands, a significant proportion of these savings and income fall within the remit of another cabinet committee. However, the notable entries for this committee include:

- LRA Ambition – full year impact of £500k. The total saving, last financial year and this, will equate to £960K and is primarily delivered from the review of library opening hours. The service has now identified additional efficiencies, which means savings from the strategy now total £1m.
- Turner – reduction in grant and estimated impact of car parking income, combined £150k. The full year effect (£70k) of the £200k

grant reduction (over two years) is added to the potential surplus of the new car park.

- Staffing – across a number of services £250k. Staffing efficiencies are proposed in Sports, Economic Development and various services within the Environment, Protection and Enforcement division.
- Income – review of targets £80k. The income targets for both Coroners (given Medway pay a proportion of cost) and Registration have been increased based on future expectation of revenues generated.
- Dividends – from East Kent Opportunities joint venture £300k. This relates to the forecast dividend from this property venture whereby industrial units are built and sold on, with surplus funds shared between partners.

6.6 The GET directorate has a significant and ambitious capital programme in excess of £1bn including “later years” e.g. beyond the 3-year 2020-23 timeframe. The 3-year programme (including spend to date) amounts to £713m and the majority of which falls under the remit of another cabinet committee.

The significant changes pertinent to this committee, include:

- Digital Autopsy (Coroners) – this innovative scheme was included in the capital programme in 2019-20 at a figure of £1.2m. The proposed costs of this scheme has increased to £3m on the basis of an enlarged modular design that could, in the future, accommodate a KCC Public Mortuary.

The increase in costs has also led to a significant increase in the level of savings that could be generated from the scheme, as well as resisting future unfunded pressures.

- Public Mortuary (Coroners) – a notional high level sum of £3m is included in ‘future years’ e.g. outside of the capital programme 2020-23. These costs will be further refined and updated once the Digital Autopsy scheme (including body storage, communal facilities and space to accommodation a digital scanning machine) is delivered.
- Turner – whilst there was an entry in the previous capital programme, the scope of works (including an extension) have been refined and a new £2m project, funded by KCC £1.5m and Arts Council England (ACE) £0.5m, is due to be delivered over the next two years.
- No Use Empty (NUE) – whilst this is not being funded through the capital programme, the ability to divert up to £12m of KCC funds is

being investigated in order establish a new element to the NUE suite of schemes that will concentrate on derelict and vacant sites. This will cover its costs, deliver a small return as well as generate new council tax receipts.

- Various schemes – the above list covers the new/amended schemes during the next three years, however existing schemes under the remit of this committee include: Tunbridge Wells Cultural hub (the Amelia), Southborough Hub, Herne Bay library, Kent & Medway Business Fund, Marsh Million, Inward Investment (3i), Broadband and the Open Golf.

7. Recommendations

Recommendations:

Members of the Growth, Economic Development and Communities Cabinet Committee are asked to:

- a) NOTE the draft capital and revenue budgets and MTFP, including responses to consultation and the estimate of the government's funding settlement; and
- b) SUGGEST any changes which should be made before the draft is presented to Cabinet on 27th January 2020 and full County Council on 13th February 2020.

8. Background Documents

8.1 KCC's Budget webpage

<https://www.kent.gov.uk/about-the-council/finance-and-budget>

8.2 KCC's approved 2019-20 Budget and 2019-21 Medium Term Financial Plan

https://www.kent.gov.uk/_data/assets/pdf_file/0006/93390/Budget-Book-2019-20.pdf

8.3 KCC Budget Consultation launched 16th October 2019

<https://www.kent.gov.uk/about-the-council/finance-and-budget/our-budget>

8.4 HM Treasury Spending Round 2019 document

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/829177/Spending_Round_2019_web.pdf

8.5 KCC report on 2019 Budget Consultation

https://www.kent.gov.uk/_data/assets/pdf_file/0012/103530/Summary-and-analysis-of-budget-consultation-responses.pdf

8.6 KCC Draft Budget book 2nd January 2020

<https://www.kent.gov.uk/about-the-council/finance-and-budget/our-budget>

9. Contact details

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