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Ask for:
Date: 18 May 2017

Dear Member

COUNTY COUNCIL - THURSDAY, 25 MAY 2017 – ITEM 12

I am now able to enclose, for consideration at next Thursday, 25 May 2017 meeting of the County Council, the following report that was unavailable when the agenda was printed.

Agenda Item No

12

Revised Budget 2017-18 and Medium Term Financial Plan 2017-20

(Pages 3 - 14)

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Lynch', is written over a faint, light-colored signature line.

John Lynch
Head of Democratic Services

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From: Paul Carter, Leader of the Council
John Simmonds, Cabinet Member for Finance
Graham Gibbens, Cabinet Member for Adult Social Care

To: County Council – 25 May 2017

Subject: Revised Budget 2017-18 and Medium Term Financial Plan
2017-20

Classification: Unrestricted

Summary: This report sets out the material changes necessary to the 2017-18 Budget approved by County Council on 9 February 2017 following the announcements in the Chancellor's 2017 Spring Budget. These announcements result in such a significant and material change to the budget that it is appropriate to seek full Council approval. The previous approval gave the Corporate Director for Finance and Procurement delegated authority to agree minor changes to deal with outstanding technical issues prior to publication of the final Budget Book (blue combed) in March. However, the significance of the 2017 Spring Budget announcements goes well beyond to notion of technical issues.

Members are asked to bring to this meeting the final (blue combed) 2017-18 Budget Book and 2017-20 Medium Term Financial Plan (MTFP) documents published on 31 March 2017 to the meeting. These documents include the additional £26m of social care funding announced in the 2017 Spring Budget but no spending plans for this money. The blue combed document also includes the technical changes made under delegated powers.

Members are reminded that Section 106 of the Local Government Finance Act 1992 applies to any meeting where consideration is given to matters 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 they are in arrears and must not cast their vote on anything related to KCC's Budget or Council Tax.

Whilst it is unlikely that this meeting will consider the calculation of council tax, it is still pertinent to remind Members of this legal obligation.

1. Introduction

1.1. County Council approved the 2017-18 budget at its meeting on 9 February 2017. This budget was based on the provisional local government finance settlement announced on 15 December 2016¹; the final notified council tax base and collection fund balances from districts; the estimated local share

¹ The final settlement was announced on 20th February and did not include any changes from the provisional settlement other than very minor redistribution of New Homes Bonus grant

of business rates and collection fund balances (on the basis we had not received final notification from all districts in time for council papers); and a combination of notified or estimated amounts for other grants. All of which make up the funding of the net budget requirement.

- 1.2. The approved budget included three amendments agreed at the meeting. These amendments had no impact on the overall budget requirement but had the effect of increasing spending on highway maintenance, local member grants, and Kent Support and Assistance Services through reducing reserves and the Minimum Revenue Provision (MRP) for capital financing.
- 1.3. The 2017 Spring Budget on 7 March 2017 included two announcements which have a significant impact on the approved budget:
 - An additional £2.02bn grant towards social care spending over the period 2017-20 (£1.01bn in 2017-18)
 - Three measures to mitigate the impact of business rate revaluation including additional protection for business losing entitlement for small business rate relief, £1,000 discount for public houses with rateable value of less than £100,000, and a discretionary relief scheme to be agreed by local councils
- 1.4. By far the most significant of these measures is the additional funding for adult social care. This will be paid as Department for Communities and Local Government (DCLG) grant. This will complement the previously announced Improved Better Care Fund (iBCF) which was already included in the 2017-20 settlement. The additional money will come as iBCF (new).
- 1.5. There are three purposes for the grant. These are as follows :
 - Meeting adult social care needs
 - Reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready
 - Ensuring that the local social care provider market is supported.
- 1.6. The announcement of iBCF (new) has an impact on the following recommendations agreed by County Council on 9 February 2017:
 - Net revenue budget requirement of £906.959m for 2017-18
 - The directorate revenue and capital budget proposals as set out in draft Budget Book published on 10 January 2017 as amended by the latest updates
- 1.7. The Spring Budget announcements do not have any impact on the other recommendations relating to the capital budget, treasury management strategy, prudential indicators, MRP, budget management, or council tax. The council tax recommendation is based on the amount needed to fund the net budget requirement and included an increase below the level which would require a referendum and an additional 2% social care precept (in addition to the 2% raised in 2016-17). The approved budget

did not use the additional power to raise up to 3% through the social care precept (but no more than 6% over the three years) permitted under the 2017-20 local government finance settlement.

- 1.8. The blue combed budget book and MTFP published on 31 March 2017 included the additional social care grant; final business rate share and collection fund balance, and revised New Homes Bonus². Collectively these increase the net budget requirement by £26.018m to £932.977m. The additional social care spending was shown as a new line (line 1) in the A to Z revenue budget, pending allocation to individual service lines. This paper focuses on the additional adult social care funding, further changes in business rates, and updated policy for Commercial Services reserves and dividend to KCC as it impacts on the revenue budget.

2. Additional Social Care Grant

- 2.1. The additional grant amounts to £52.282m for KCC over the three years 2017-20 (£26.091m in 2017-18). This equates to approx. 2.6% of the total additional funding nationally. The 2017-18 funding represents a substantial increase to the £363.636m budget for adult social care approved by County Council on 9 February 2017. The impact of the additional social care grant on the spending power for all authorities and KCC is reflected in tables 1 and 2 below. These compare to chart 2.7 and extract 3.2 in the blue combed MTFP document which still show the spending power from the provisional settlement.

Table 1

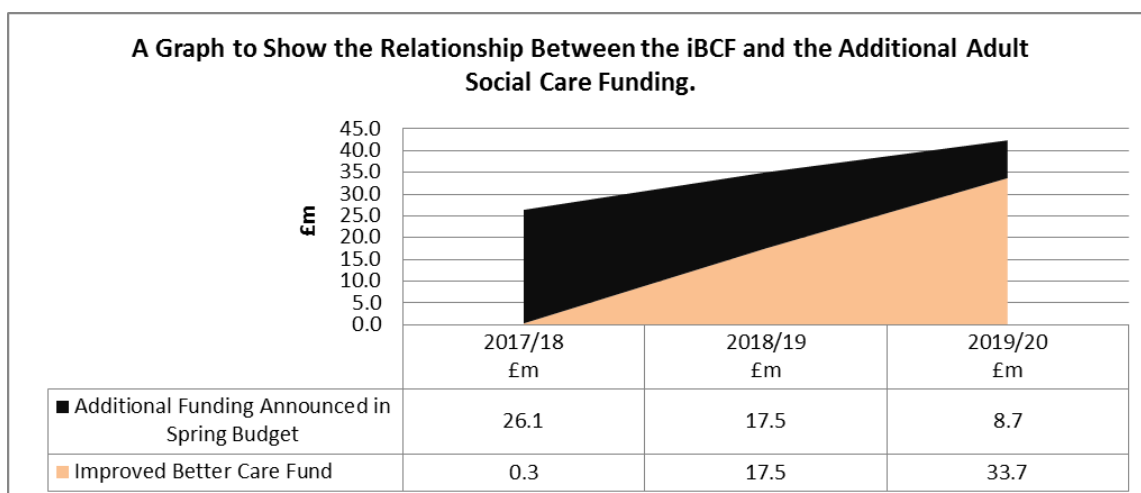
England					
Illustrative Core Spending Power of Local Government;					
	2015-16	2016-17	2017-18	2018-19	2019-20
	£ millions	£ millions	£ millions	£ millions	£ millions
Settlement Funding Assessment ²	21,249.9	18,601.5	16,632.4	15,598.8	14,584.3
Council Tax of which;	22,035.9	23,247.3	24,623.2	26,082.1	27,629.0
<i>Council Tax Requirement excluding parish precepts (including base and levels growth)</i>	22,035.9	22,858.5	23,789.7	24,760.7	25,773.5
<i>Potential additional revenue from referendum principle for social care</i>	0.0	381.8	814.2	1,289.6	1,811.5
<i>Potential additional Council Tax from £5 referendum principle for all Districts</i>	0.0	7.0	19.4	31.7	44.0
Improved Better Care Fund	0.0	0.0	1,115.0	1,499.0	1,837.0
New Homes Bonus ³	1,200.0	1,485.0	1,251.9	938.0	900.0
Rural Services Delivery Grant	15.5	80.5	65.0	50.0	65.0
Transition Grant	0.0	150.0	150.0	0.0	0.0
The 2017-18 Adult Social Care Support Grant	0.0	0.0	241.1	0.0	0.0
Core Spending Power	44,501.3	43,564.2	44,078.6	44,167.8	45,015.3
Change over the Spending Review period (£ millions)					514.0
Change over the Spending Review period (% change)					1.2%

Table 2

² The final notification of business rates and adjustment to New Homes Bonus grant amount to a £0.073m reduction to the net budget and have been reflected as reduced contribution to general reserves (from £3.994m to £3.921m) as permitted under the minor technical issues delegated power granted to the Corporate Director for Finance and Procurement

Illustrative Core Spending Power of Local Government;					
	2015-16	2016-17	2017-18	2018-19	2019-20
	£ millions	£ millions	£ millions	£ millions	£ millions
Settlement Funding Assessment ²	340.015	283.386	241.948	218.757	197.047
Council Tax of which;	549.034	583.181	617.995	654.906	694.040
<i>Council Tax Requirement excluding parish precepts (including base and levels growth)</i>	549.034	571.976	594.465	617.855	642.184
<i>Potential additional revenue from referendum principle for social care</i>	0.000	11.205	23.530	37.051	51.856
<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	7.886	9.306	7.805	5.643	5.415
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	896.935	881.555	906.017	914.325	938.881
Change over the Spending Review period (£ millions)					41.946
Change over the Spending Review period (% change)					4.7%

2.2. The additional adult social care grant will be paid as iBCF (new). The iBCF (old) was already built into KCC's medium term financial plan. The iBCF (new) announcement does not mean the Council has an additional £26.1m to spend in 2017-18, a further £17.5m in 2018-19 and a further £8.7m in 2019-20. It means we have an additional £26.1m available in 2017-18, which reduces to £17.5m more than the current MTFP for 2018-19 and reduces further to £8.7m more than the MTFP for 2019-20. This is demonstrated in graph 1 below.



2.3. The nature of the additional grant announcement means it is essential that not all of the additional spending in 2017-18 is ongoing recurring expenditure in 2018-19, 2019-20 and beyond. If this were the case it would increase the gap already identified in the latter years of the MTFP. This would not be acceptable at this stage in the financial planning cycle. Alternatively, and pending the final grant conditions, the Council could look to smooth the allocation by only spending a recurring £17.4m in 2017-18 and hold the balance in reserve to support 2019-20.

2.4. Market stability is already a key strand of the Adult Social Care work programme and the planned spending from the additional grant will complement the £6.8m in the existing approved budget for market stabilisation (although there will be no need to account for this KCC contribution through BCF). The new funding will complement KCC's

intention to target those areas of the market under the greatest pressure through additional price increases, over and above contractual increases³.

Delayed Transfers of Care

- 2.5. The NHS and KCC are required to take account of the High Impact Change (HIC) model which describes the interventions advocated by the Department of Health and the Association of Directors of Adult Social Services, that can support local health and care systems reduce delayed transfers of care. These have been used to shape how funding can be targeted.
- 2.6. This list of proposed interventions' contains areas of targeted spend that will ensure there is a review of the initiatives and the impact across each of the client groups. These include interventions such as increasing the number of qualified staff in some of the Integrated Discharge Teams working in the Acute Hospital Trusts to enable assessments and transfers in to social care to happen more quickly. There are also activities to be discussed such as Home First, Discharge to Assess or enabling seven day services across the whole economy. All of these proposals must be fully considered. The full list for consideration is:
- Early Discharge Planning
 - Systems to monitor patient flow
 - Multi-disciplinary teams including colleagues from the Voluntary Sector
 - Home First initiatives
 - Enablement services
 - Seven day service
 - Trusted assessors
 - Focus on choice
 - Enhancing health in care home
- 2.7. The NHS Clinical Commissioning Groups' lead officers have already started to review these areas and suggested further discussions at the A&E Delivery Boards to further consider the viability and prioritisation of the proposals, and how quickly they could be implemented. These discussions are currently ongoing to ensure that all stakeholder views are considered.
- 2.8. Any actions which result in changes to individual A to Z budget lines will be clearly reported through budget monitoring and where key decisions are appropriate, the formal decision making process will be followed before implementation.

³ These contractual increases include National Living Wage (NLW), National Minimum Wage (NMW) and inflation, and amount to £7.267m in total

Market sustainability

- 2.9. Many of the proposals listed in 2.6 are dependent upon expanding and vibrant domiciliary, residential and nursing markets. Investing in the sectors and working creatively and collaboratively with providers is foremost in the KCC approach.
- 2.10. KCC has been recently engaging with the sector with renewed vigour and at scale, as reflected in two events held in May with trade associations and providers. The events were with both domiciliary care providers and residential care providers. These events were well attended by the sector and both The Leader of the Council and the Cabinet Member for Adult Social Care attended alongside KCC officers. The discussion at these events was highly collaborative covering both short and long term opportunities and initiatives. The care market welcomed this engagement to jointly explore solutions and how KCC and the sector can work together to remove blockages impeding the workforce and get extra capacity into front line services.
- 2.11. KCC is committed as a result to leading the exploration of solutions in the following areas including but not limited to (not in order of importance).
- Collective buying arrangements such as for equipment and technology for care workers.
 - Raising the profile and professional standing of the care profession including their training and development and career opportunities and progression as well as staff retention.
 - Working with local universities to explore innovative ways for the workforce to access to the care profession.
 - Work with the NHS so that the sector can increase its capacity to provide more step down facilities and services.

KCC will convene further events in July for the sectors to discuss the next steps in exploring the options in addition to the ongoing engagement.

- 2.12. As with DTOC it is too early to identify precise amounts to be allocated to market stabilisation. The detail will emerge and be reported through budget monitoring, and where necessary material sums will be subject to key decisions before being implemented.

Social Care Spending Pressures & Savings

- 2.13. A new pressure in 2017-18 has emerged due to NHS Transforming Care, which in the absence of a specific transfer of funds from health authorities would add to social care costs. In 2017-18 the full year effect could be £2.5m, and this pressure needs to be clearly worked through with NHS colleagues to establish transfer of funding arrangements. At this stage there is a lack of certainty as to whether any funding will be made

available by NHS England and consequently, if this is not forthcoming, these transfers would have to be funded within the additional grant.

2.14. It needs to be recognised that KCC's existing budget for social care, approved in February 2017, was based upon a combination of funding additional spending pressures e.g. price increases and demographic growth, along with a programme of transformation and efficiency savings necessary to balance the budget within the resources available from central government and council tax. Some of these planned savings may need reviewing in light of the revised financial climate we are now in with the additional grant, especially where these would now be entirely counter-productive to the aims the Council is seeking to achieve through the two fold strategy outlined in this paper.

Council Tax Precept

2.15. County Council agreed in February to levy the additional 2% social care council tax precept in 2017-18. This raised a total of £11.9m through the council tax precept, directly contributing towards the £27.9m of additional adult social care spending demands identified in the approved 2017-18 budget⁴. This increased the social care precept on a band C property from £19.36 in 2016-17 to £39.52 in 2017-18, as proposed in the Autumn Budget consultation. Consultation responses supported this increase and the additional spending demands funded from this precept have not changed despite the additional grant announcement. It is clear from the grant conditions that the government expects it to be used to support further additional spending over and above that already built into the approved budget. Therefore, the grant cannot be used as a substitute for the social care precept.

2.16. The planning assumptions in the MTFP include further 2% increases in the social care precept in the following two years, taking the total increases to the permitted 6% over three years. As with all assumptions in the MTFP these are subject to revision and the council tax charge, including the social care precept for 2018-19, will need to be agreed as part of the final 2018-19 budget in February 2018.

Further Development of the Strategy

2.17. Engagement is a crucial component in finalising the priority list of interventions to target the additional resource accordingly. Letters have been received from the CCG Accountable Officers and Providers regarding the actions and approach for this funding. Discussions have taken place at the Accountable Officers and Social Care and Health Directorate Management Team on 5 April 2017 and 3 May 2017 and the Accountable Officers are broadly supportive of the direction, with assurance that the prioritisation list will be taken through the A&E Delivery Boards as part of this process. Similarly NHS Providers confirmed they are

⁴ The spending demands include realignment of base budget, contractual prices, market sustainability, demography and legislative

content and in broad agreement with the direction of travel, at a meeting held on 12 May 2017.

3. Business Rates Relief

- 3.1. The other change to the budget detailed in this paper is the changes announced to business rate relief although this will have a much less significant impact on the budget. The changes to protect the loss of small business rate relief following revaluation and the £1,000 discount for public houses with a rateable value (RV) below £100,000 should have no impact on the County Council's net budget. The additional relief and discount will reduce the Council's share of local business rate yield, but the spring 2017 Budget confirmed that councils will be fully compensated for the loss of income. This will come via a separate grant.
- 3.2. Most small businesses will already be better off under the new relief arrangements which came into effect in April 2017. The only businesses which can be worse off are those where the revaluation has taken the RV to above the £12,000/£15,000 thresholds for small business rate relief. The additional measure announced in the Spring 2017 Budget limits the loss for such businesses (and the loss of rural rate relief for qualifying businesses) to £600 per year due to the revaluation.
- 3.3. The extension of small business rate relief protection (as described in paragraph 3.2 above) and the new £1,000 discount for public houses will be granted by billing authorities under discretionary powers. Billing authorities will be compensated for the additional relief and discount in full. This will reduce the County Council's 9% share of business rates under the 50% retention arrangements and the Council will be compensated by the appropriate share of grant, thus no impact on the net budget.
- 3.4. The new discretionary relief scheme for businesses most adversely affected by the revaluation could have an impact on the net budget. Following the Spring Budget announcement the government launched consultation on the proposed relief schemes on 9 March 2017. This consultation proposed that the additional funding announced in the Spring Budget would be distributed to local authorities according to a formula based on the number of properties with an RV of £200,000 or less facing more than a 12.5% increase in their business rates following the revaluation (before reliefs). This formula provides the 12 Kent districts with 1.99% of the total funds available.
- 3.5. Individual authorities would be responsible for designing their own local discretionary relief schemes within the funding allocated. Grant would be paid to billing and precepting authorities based on the estimated impact of reliefs under these local schemes. However, grant would be capped to the value of the formula allocation, the capped allocations for 2017-18 for Kent authorities are set in table 1 below. In such circumstances those authorities which offered more generous reliefs would have to fund the difference. This aspect of the arrangements could have an impact on the County Council's budget where the cost of the additional relief exceeds the additional grant.

Table 1	Share of National Total	Kent Share £000s	District Share £000	County Share £000s	Fire Share £000s
Ashford	0.20%	175	140	32	4
Canterbury	0.24%	212	170	38	4
Dartford	0.13%	115	92	21	2
Dover	0.13%	116	93	21	2
Gravesham	0.10%	87	69	16	2
Maidstone	0.16%	144	115	26	3
Sevenoaks	0.16%	142	113	26	3
Shepway	0.12%	106	85	19	2
Swale	0.20%	173	138	31	3
Thanet	0.19%	165	132	30	3
Tonbridge & Malling	0.19%	169	135	30	3
Tunbridge Wells	0.15%	134	107	24	3
Total	1.99%	1,738	1,390	313	35

3.6. In two tier areas it will be a condition of grant that the billing authorities consult precepting authorities about local schemes. The possible impact on the County Council's budget will not be known until this consultation has been published. It is anticipated the impact will be minimal.

4. Commercial Services Dividend and Reserves

4.1. The Commercial Services Board and the Shareholder Board have agreed a revised policy in relation to determining the dividend paid to KCC and the amount held in Commercial Services reserves. This will limit the amount of drawdown from reserves to contribute to the dividend to ensure that Commercial Services have an adequate reserve to deal with uncertain market conditions. At this stage in the year it cannot be predicted with any certainty the impact this revised policy will have on the 2017-18 dividend but any anticipated variations will be reported in budget monitoring and reflected in the 2018-19 budget and Medium Term Financial Plan as these are developed.

5. Conclusion

5.1. By far the most material change to the approved budget is the announcement of additional grant for social care. The improved Better Care Fund and the ability to raise a social care council tax precept were announced in the 2015 Spending Review. At that time the Council challenged Government that this funding was not sufficient to tackle the mounting problems for adult social care and that the back-loading of the iBCF into the later years of the four year settlement for 2016-20 needed to be reconsidered and brought forward.

5.2. The 2017-20 local government settlement provided some additional resources for adult social care through a one-off transitional grant and the

ability to levy up to an extra 1% additional social care council tax precept (provided no more than 6% was levied over the three years). However, this was still not sufficient. The further additional grant announced in the Spring 2017 Budget goes a lot further towards the sort of additional funding the Council has been seeking for social care.

- 5.3. It is now essential that we develop a strategy which enables this resource, together with the £6.8m market sustainability already included in the Council's approved budget, to be used in those areas where it will be most effective and hits the right spots. This report has focused on progress to date in developing this strategy and how it will be reflected in budget monitoring, and where further key decisions may be necessary, to support member scrutiny of the use of these funds.

Recommendations:

The County Council is asked to agree the following:

- (a) Revised net budget requirement of £932.977m (a change of £26.018m)
- (b) The overarching adult social care strategy outlined in this report arising from the additional £26.091m grant and the £6.8m market sustainability fund
- (c) Delegate the final decision on precise spending plans under this strategy to the Cabinet Member for Adult Social Care and Corporate Directors within the limits included in financial regulations, and through the established governance arrangements

The County Council is asked to note the following:

- (d) The £0.073m impact on the net budget requirement following minor technical changes following the final notification of business rate share and collection fund balance and New Homes Bonus grant
- (e) £0.073m reduction in the £3.994m contribution to general reserves in the approved budget
- (f) Potential impact on the local share of business rate tax base following the changes announced in the 2017 Spring Budget and additional compensation grant. These cannot be quantified until local discretionary relief schemes have been approved
- (g) The revised policy in relation to KCC dividends and Commercial Services reserves

Background Documents

KCC approved budget 2017/18

<https://democracy.kent.gov.uk/documents/s75066/Item%203%20-%20Budget%20and%20Medium%20Term%20Plan%20plus%20appendices.pdf>

<http://www.kent.gov.uk/about-the-council/have-your-say/budget-201718>

Chancellor's spring 2017 Budget

<https://www.gov.uk/government/topical-events/spring-budget-2017>

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