

Budget Scrutiny presentation slides from Scrutiny Committee meeting 15 January 2019

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2019-20 Draft Budget

Scrutiny Committee 15 January 2019

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Provisional Local Government Finance Settlement 13th December

Affecting KCC

- Kent business rate pool reinstated (pilot not approved)
- Additional social care allocations in Autumn Budget confirmed
- £180m extra to all authorities from excess business rate levies
- NHB grants updated for latest tax base
- Final adjustments for 2017 BR revaluation
- Council tax referendum principles unchanged
- Consultation on Fair Funding and Business Rate retention

No affect for KCC

- 15 new Business Rate retention pilots (incl. 2 reapproved from 2018-19)
- London and 2017-18 Devo Deal areas reapproved
- £153m extra to remove negative RSG from 168 authorities
- £16m extra for Rural Services Grant
- £20m extra in New Homes Bonus to retain 0.4% threshold

2019-20 Budget Gap - Evolution

- Per 2018-20 Published MTFP - £15m
- Per Autumn Budget - £16.4m
- Now - £0

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What's Changed For 2019-20?

18-20 MTFP → 19-22 MTFP

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	18-20 MTFP £m	19-22 Draft MTFP £m	difference £m
Pressures	46.1	72.4	26.3
Loss of Government Funding	32.1	28.1	-4.0
Total Solution Required	78.2	100.5	22.3
Savings Identified	-34.3	-42.8	-8.5
Savings Unidentified	-15.0	0.0	15.0
Additional Council Tax & Business Rates	-17.5	-35.9	-18.4
Government Grant Increase	-11.4	-21.8	-10.4
Total	-78.2	-100.5	-22.3

Proposed Council Tax rate Increase	3.99%	4.99%
Council Tax Base Increase	1.00%	1.50%

2019-20 latest budget equation

FINANCIAL CHALLENGE			SOLUTION		
	£'000	£'000		£'000	£'000
• Spending Demands		59,527.5	• Council Tax		40,355.1
- realignment	-9,491.4		• Business Rates		-4,482.4
- unavoidable	31,249.6		• Savings		42,855.3
- contingent sums	28,967.5		- Identified	32,005.3	
- local decisions	8,801.8		- Use of reserves	10,850.0	
• One-offs 2018-19		12,858.6	- Unidentified	0.0	
• Grant Reductions		28,153.0	• Grant Increases		21,811.1
		100,539.1			100,539.1

Council Tax & Business Rates

	%	£m	
Tax Base Increase	1.500%	10.0	} £40.4m
Increase in Referendum Level	2.996%	20.2	
Social Care Levy	1.992%	13.5	
Council Tax Collection Fund		-3.3	} -£4.5m
Business Rates		-4.5	
			<u>£35.9m</u>

2019-20 Underlying Assumptions

- Council Tax
 - 2% Social Care Precept
 - just under 3% general (up to referendum limit)
 - 1.5% growth in taxbase
 - £7m collection fund balance
- Business Rates – includes Pool but not Pilot
- Prices
 - CPI 2.4%; RPIX 3.2% & RPI 3.3%
 - Gas 9.4%; Electricity 10.9%; streetlights 10.5%
 - Fares 4.0% (home to school, young persons card, 16+)
- National Living Wage £8.21; National Minimum Wage £7.70

2019-20 Underlying Assumptions cont'd

- Reserves
 - £10.8m use of corporate reserves
 - £3.4m use of directorate reserves
- New Revenue Grants
 - £6.2m Adult Social Care Winter Grant (matched by increased spending)
 - £10.5m Social Care Support Grant
 - £2.8m share of national Business Rates Levy Account surplus
 - £0.6m New Homes Bonus
 - £0.1m Business Rates baseline
- Capital forward funding from ESFA for Basic Need enabling a reduction in revenue prudential borrowing costs

Savings

- Balance of the equation after pressures, loss of grant and council tax increases is that we need £42.8m of savings to balance the books
- Pages 61-63 set out the specific projects that are proposed in order to deliver that £42.8m
- Financing savings of £13.3m delivered, and therefore will become Blue (B) rated in our BRAG rating
- First draft of the full BRAG status being worked on, but from the budget build process.....

BRAG Ratings Summary (£m)

2018-19 - £48.2m (£m)

£0.2

£8.1

£17.4

£22.5

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2019-20 - £42.9m (£m)

£0.5

£20.5

£10.2

£11.7



0.7%
£0.3 m



12.3%
-£7.2 m



19.4%
-£10.8 m



31.0%
£12.4 m

Reserves

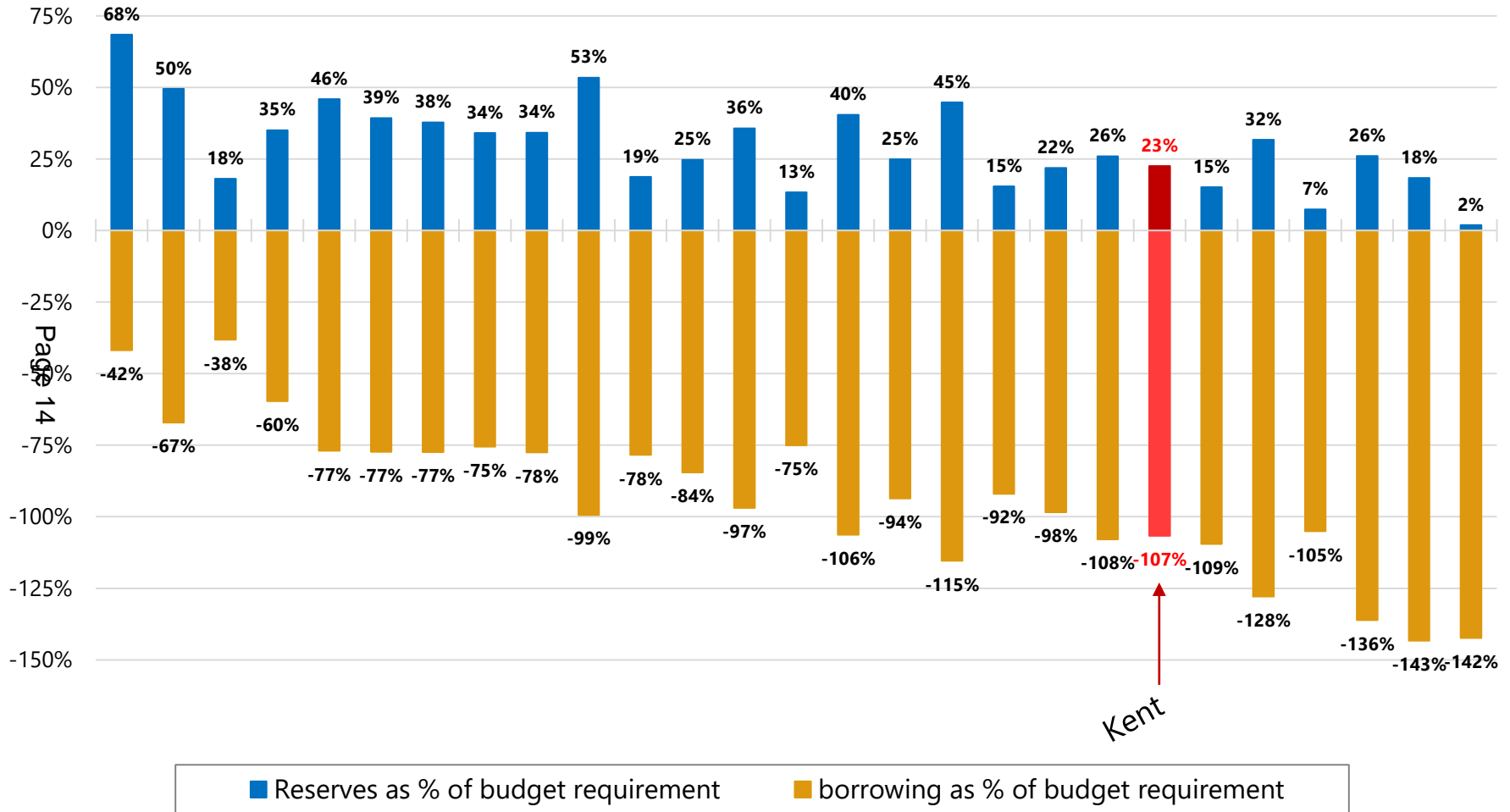
As at 31 March 2018 our Statement of Accounts show usable revenue reserves of **£199.3m** (£162.4m earmarked, £36.9m general)

The 2018-19 budget assumed the net use of reserves of **£9m**, so the balance at 31 March 2019 is expected to be **£190.3m** (£153.4m earmarked, £36.9m general)

The draft 2019-20 proposals assume a net draw-down of reserves of **£14.4m** (*including base contributions & drawdowns*), leaving a proposed balance at 31 March 2020 of **£175.9m** (£139.0m earmarked, £36.9m general)

Reserves and Debt

**2017-18 Reserves (excl Schools) as a % of 2017-18 Net Revenue Expenditure (per RO) v
2017-18 Total Borrowing as a % of 2017-18 Net Revenue Expenditure**



Highest Key Budget Risks

Key budget risks which are **not provided for within the draft MTFP**:

- **High Needs Demand** (£10m)
- **Asylum** (c. £2.1m based on latest monitoring)
- **Current Year Overspend**
- **Inflation and/or demand** higher than estimated
- **BREXIT** adds unfunded pressures (capital and revenue) – possible government grant but we would not want to isolate spending solely related to Brexit and would also need to support core budget

If any of these materialise they would require further revenue savings to compensate



Latest 2020-21 Budget Equation

FINANCIAL CHALLENGE			SOLUTION		
	£'000	£'000		£'000	£'000
• Spending Demands		40,298.0	• Council Tax		14,373.7
• Previous years one-offs		21,975.9	• Business Rates		-1,973.6
• Grant Reductions		18,384.1	• Savings		65,533.7
- RSG	4,743.5		- Identified	5,023.2	
- Social Care Support	10,530.9		- Use of reserves	0.0	
- Other (LSSG)	3,109.7		- Unidentified	60,510.5	
			• Grant Increases		2,724.2
			- BR Top Up	2,724.2	
		80,658.0			80,658.0

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£60.5m budget gap in 2020-21

This assumes a balanced position for 2019-20.
If any of the 2019-20 high risk savings are removed and replaced with one-off solutions then this gap will increase.

Latest 2021-22 Budget Equation

FINANCIAL CHALLENGE			SOLUTION		
	£'000	£'000		£'000	£'000
• Spending Demands		43,688.1	• Council Tax		22,025.7
• Previous years one-offs		1,000.0	• Business Rates		1,046.9
• Grant Reductions		4,743.6	• Savings		23,580.4
- RSG	4,743.6		- Identified	3,696.1	
			- Use of reserves	0.0	
			- Unidentified	19,884.3	
			• Grant Increases		2,778.7
			- BR Top Up	2,778.7	
		49,431.7			49,431.7

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£19.9m budget gap in 2021-22

This assumes we agree a permanent base budget solution to the £60.5m 2020-21 gap, if not the gap in 2021-22 will increase up to £80.4m

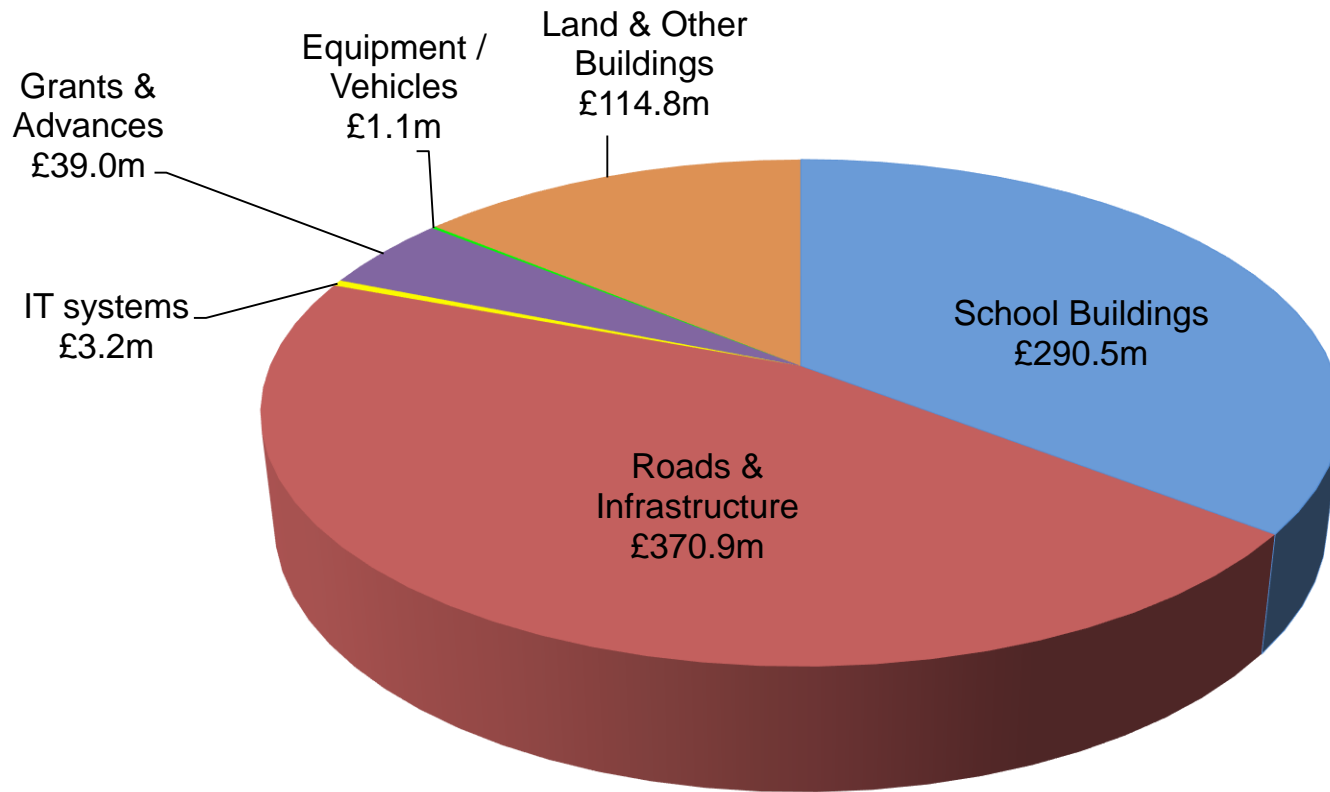
Opportunities

- 2019-20
 - Little scope for further changes in the settlement other than to challenge BR pilot
 - Council tax base/collection fund maxed out
 - Limited scope to review fees and charges
 - Risk of using reserves
 - Scope for short-term base budget savings exhausted?
- 2020-21 and beyond
 - Spending Review
 - Fair Funding review
 - Additional business rate growth retention
 - Further base budget saving opportunities

Capital Budget

Capital Investment Plans 2019-22

- Capital Investment Plans for 2019-22 total £819.5m
- This is broken down to be spent on:



Financial Impact

	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000
<u>Impact on Borrowing</u>					
Reductions	-1,002	-7,330	-9,050	0	
Additions		24,717	24,483	32,695	
Net Impact	-1,002	17,387	15,433	32,695	
Impact on Borrowing Costs	-20	230	1,400	2,800	4,500
Impact re Education Grant Forward Funding	-23,500	-9,000		27,000	
Net Impact on Borrowing	-24,502	8,387	15,433	59,695	
Impact on Borrowing Costs of ESFA Forward Funding	-410	-1,800	-2,300	-1,800	-380
Net Revenue impact on Borrowing Costs	-430	-1,570	-900	1,000	4,120

Risks

- Timing of receipt of Developer Contributions
- Delays in delivery of Capital receipts
- Commissioning Plan – Basic Need pressure
- Increase in revenue pressure of over £4m from 2022-23 onwards
- Building a debt mountain – over £100m debt costs per annum
- Potential for abortive costs – impact on revenue
- Potential for cost overruns – impact on capital programme

More information can be found.....

The following documents are available via the following web link

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

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- Draft Budget Book
- Draft Revenue budget variation statements
- Budget campaign and consultation report

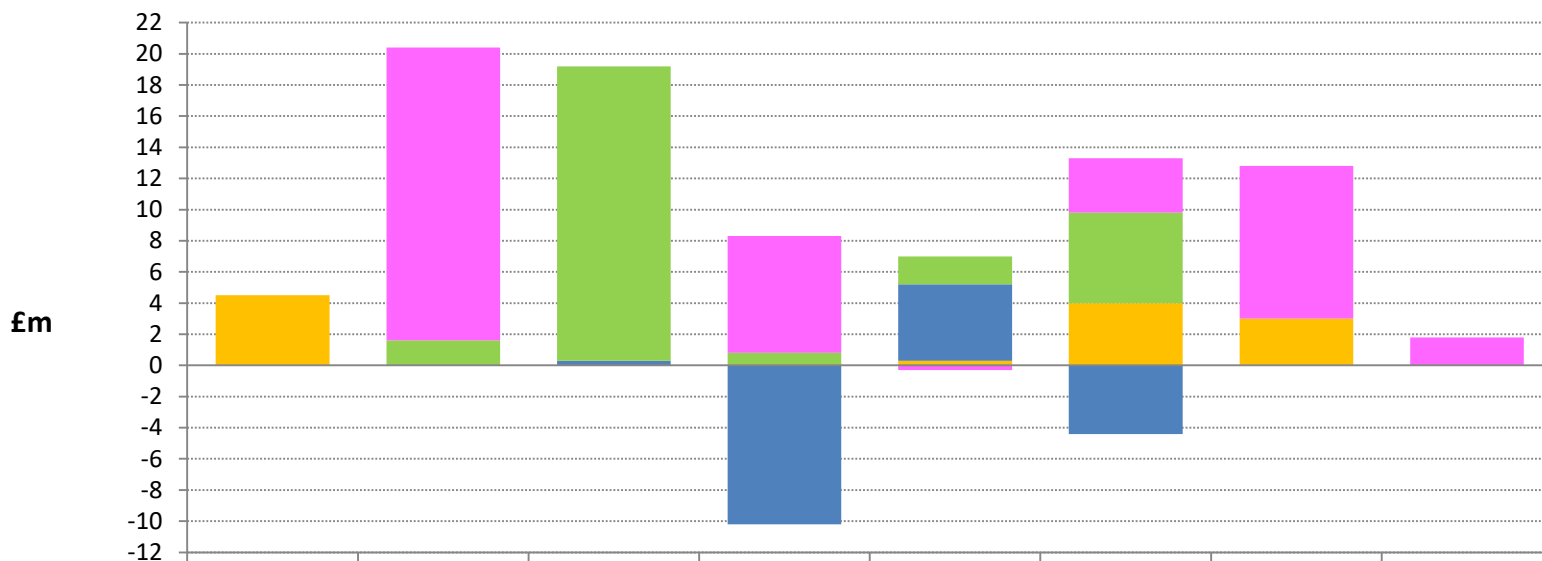




FOR INFORMATION

2019-20 Pressures

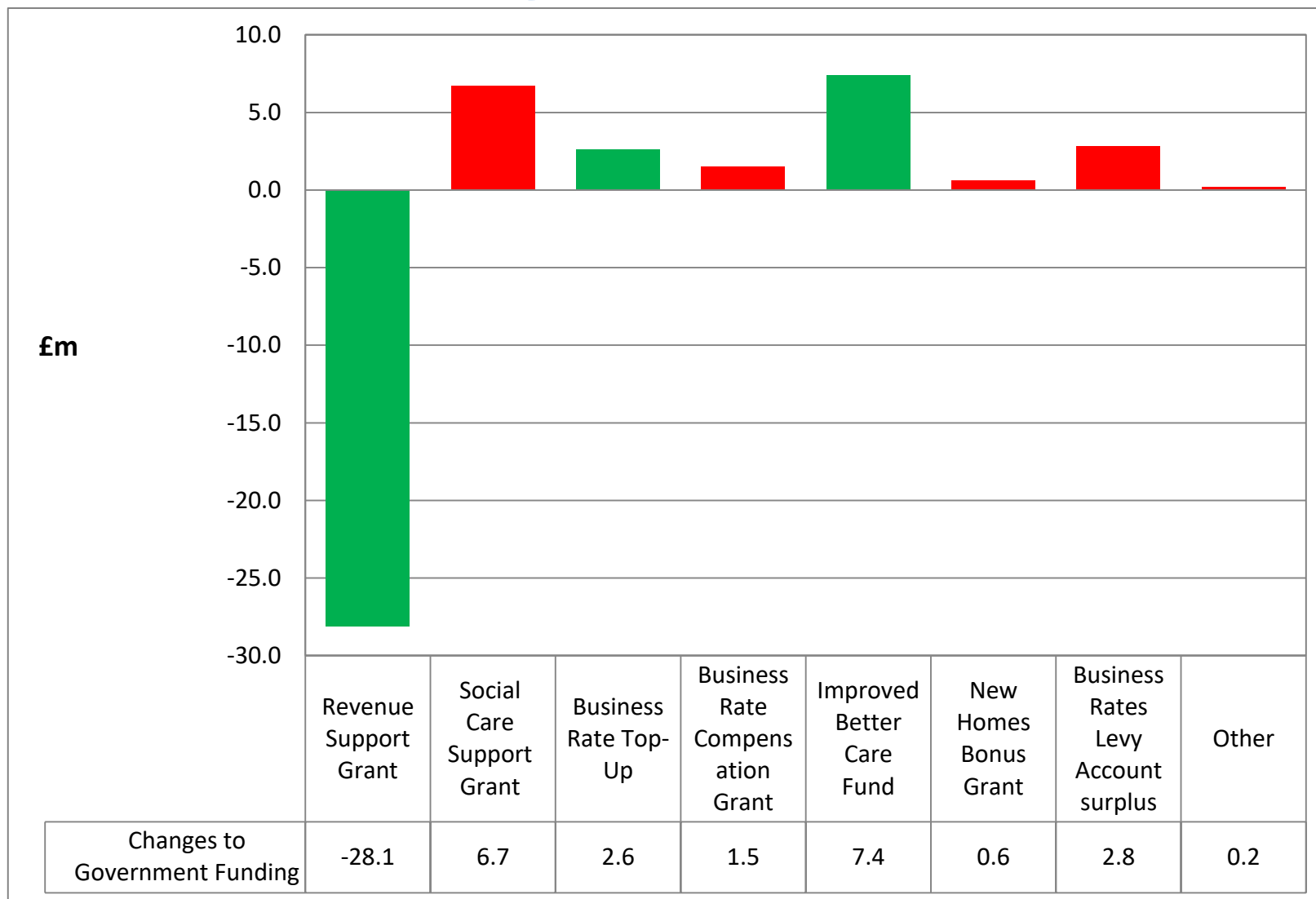
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Total Pressure: £72.4m

2019-20 Net Changes to Government Funding

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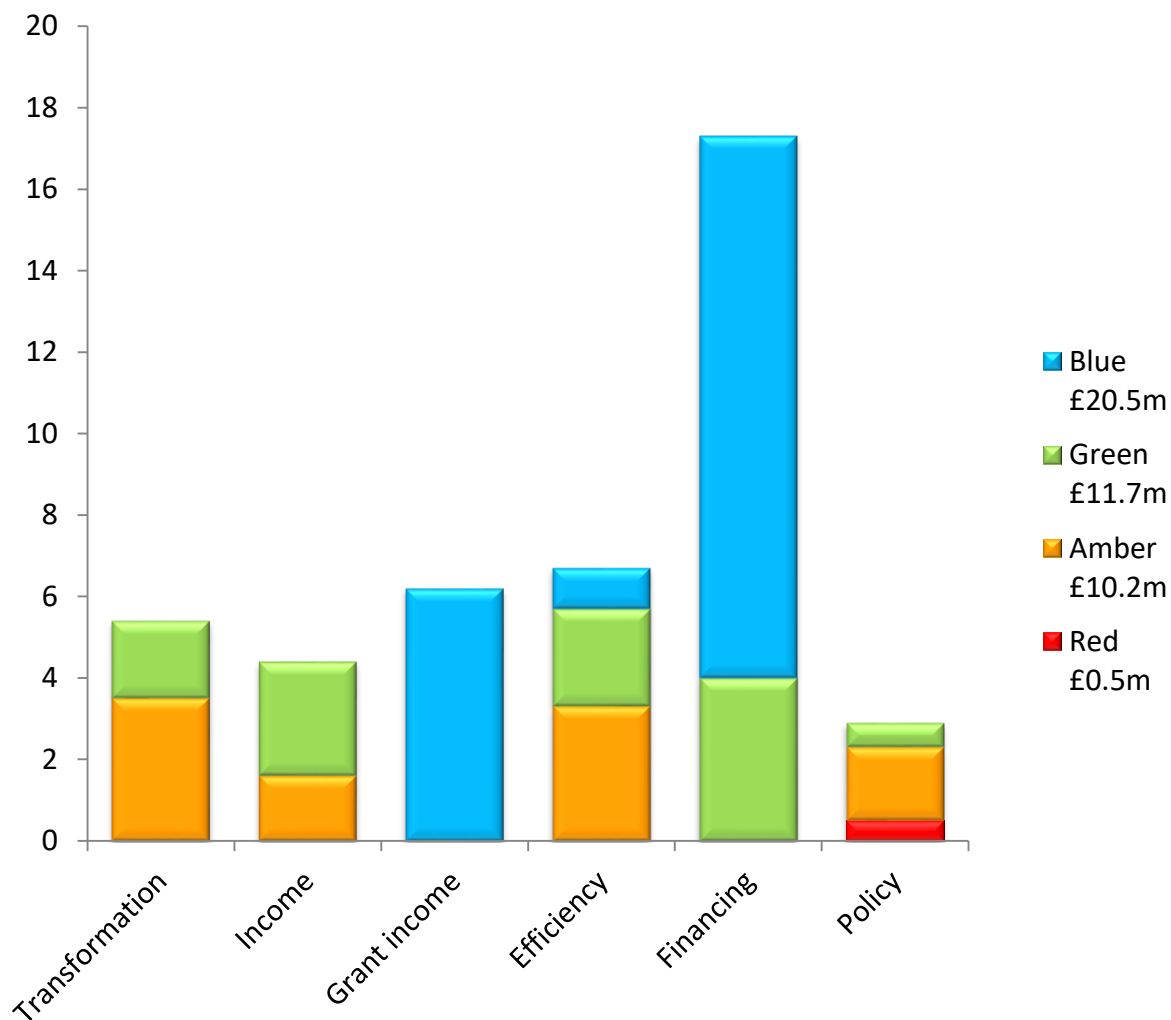


Total Net Loss of Funding: £6.3m

Green bars reflected **expected** changes; **Red bars** reflect **unexpected** changes

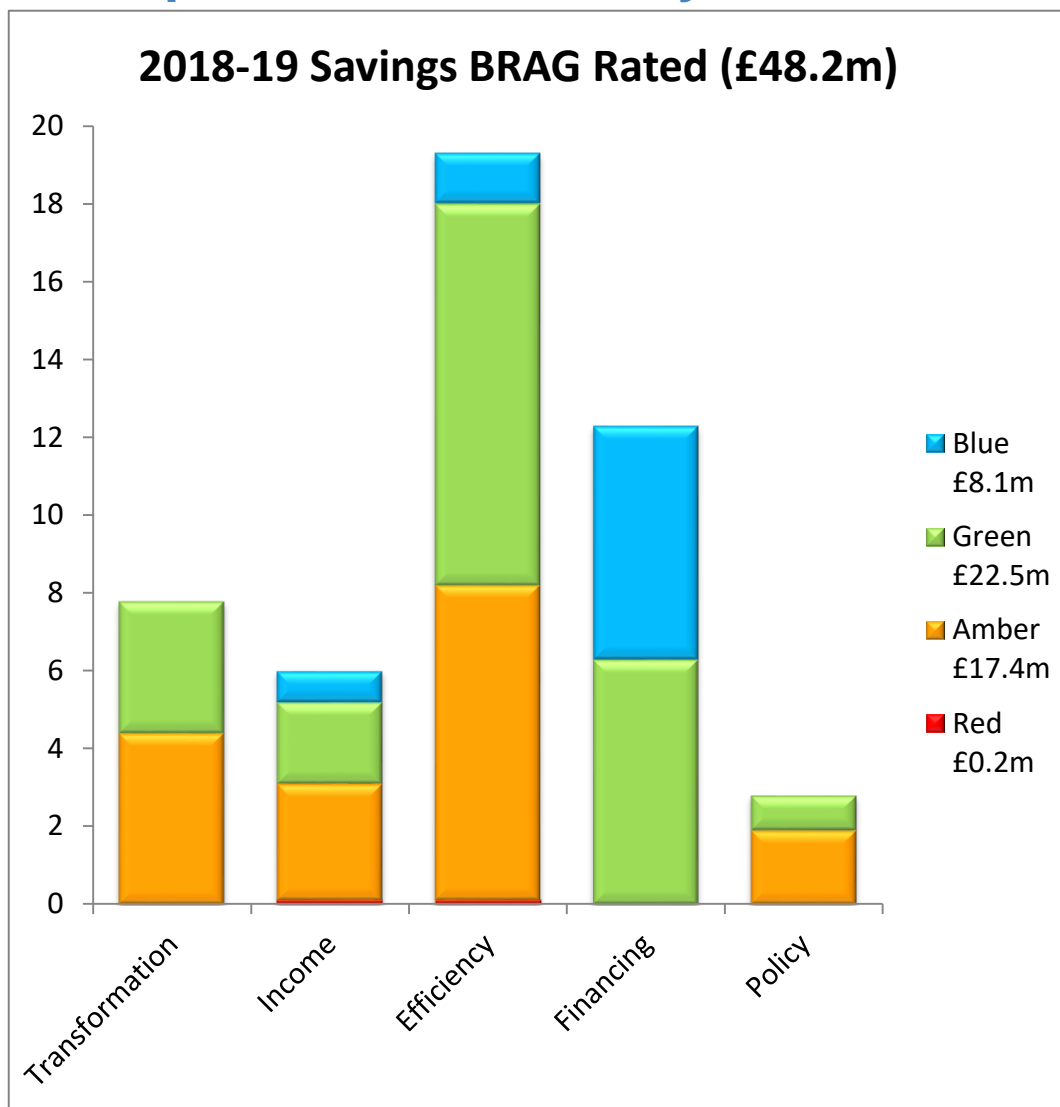
BRAG Ratings

2019-20 Savings BRAG Rated (£42.9m)



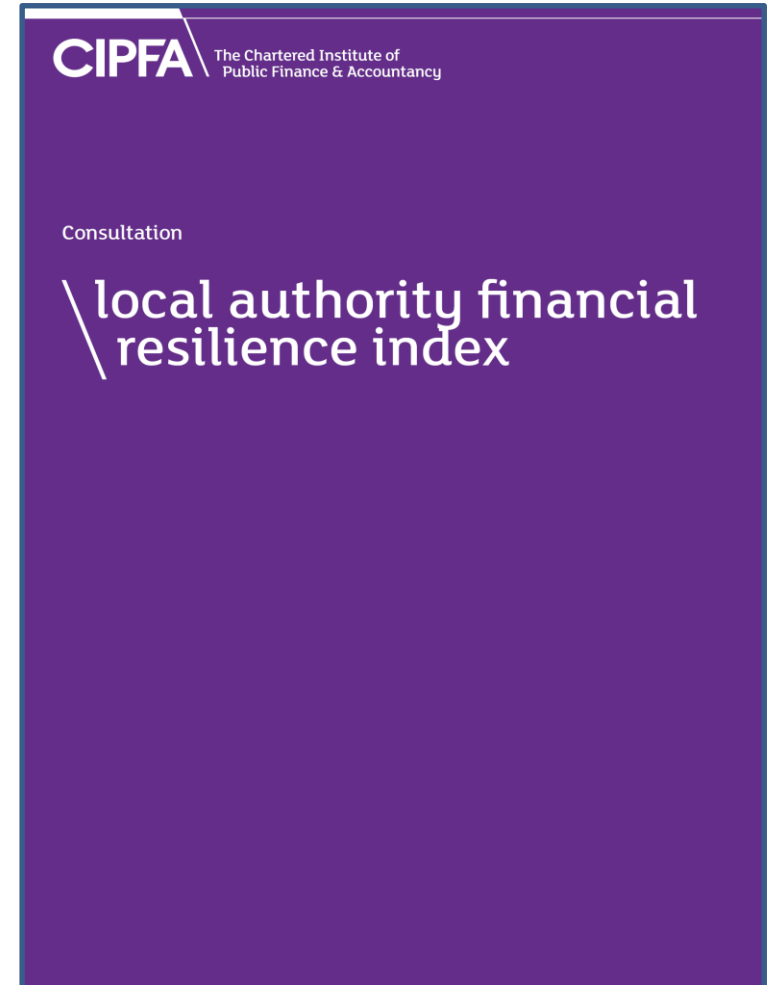
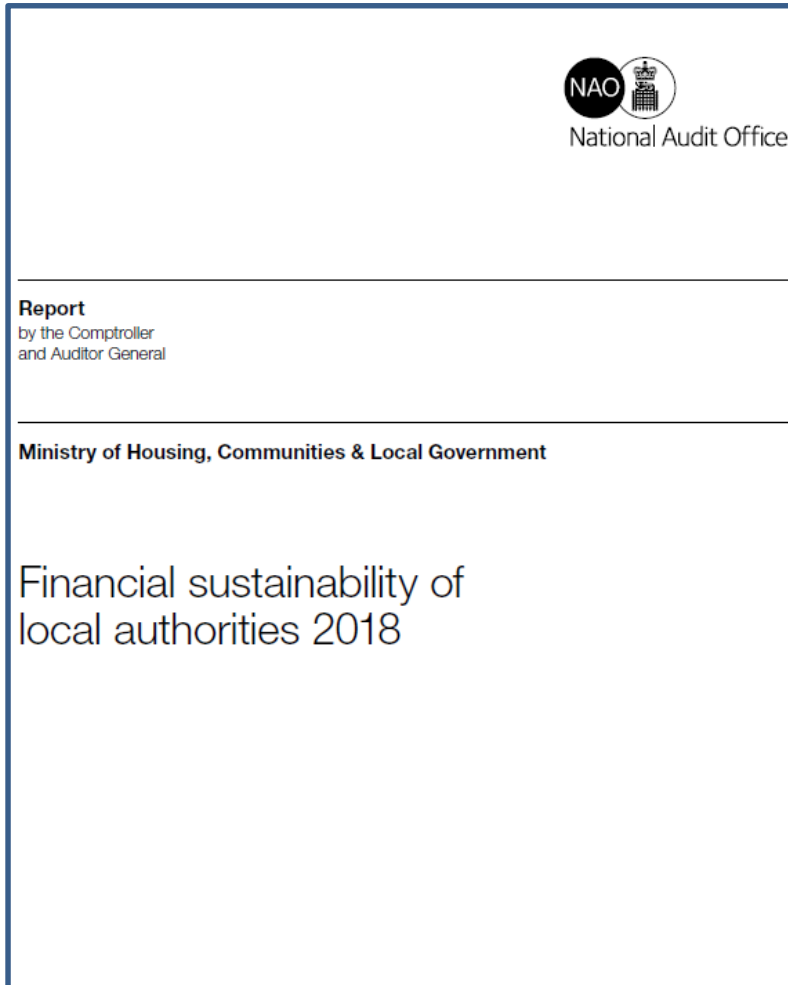
This time last year

BRAG status as presented to County Council in February 2018



Independent Analysis

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National Audit Office – Key Facts for local authorities

- Between 2010-11 and 2017-18:
 - 49.1% real terms reduction in government funding
 - 28.6% real terms reduction in spending power (*government funding plus council tax*)
 - One authority has issued a S114 notice indicating they are at risk of spending more than the resources available
- Between 2010-11 and 2016-17:
 - 3% real terms reduction in spending on social care services
 - 32.6% real terms reduction in all other services
- Service budgets overspent by £901m in 2016-17
- 66.2% of local authorities with social care responsibilities drew down their reserves in 2016-17
- If they continue to draw down at this rate, 10.6% of these would have no reserves left in three years time

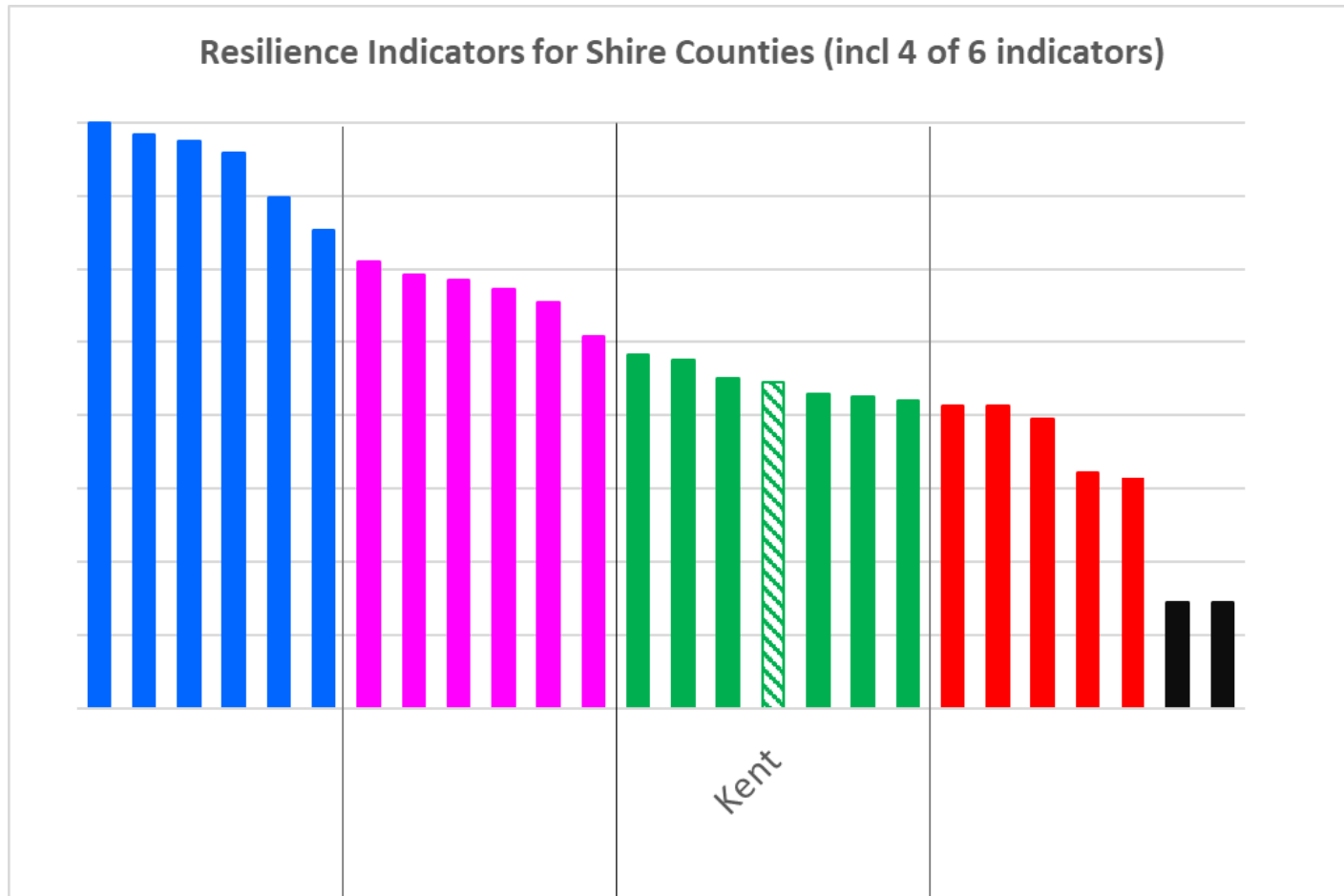
New CIPFA Resilience Index

- Developed to provide:
 - an early warning dashboard for senior officers & Members
 - a comparative index for use by local government & its external auditors
- Based upon factors associated with financial stress:
 - Running down reserves, including reserves depletion time
 - Failure to plan & deliver savings in service provision
 - Shortening of medium term financial planning horizons
 - Gaps in savings plans
 - Having unplanned overspend/undelivered savings
- Other potential factors:
 - Dependency on external central financing
 - Proportion of non-discretionary spending as a proportion of total expenditure
 - Adverse judgement by Ofsted
 - Changes in accounting policies (including MRP)
 - Poor returns on investments
 - Low level of confidence in financial management
- Uses Revenue Outturn information

New CIPFA Resilience Index cont'd

- Latest update from CIPFA is that this will no longer be based on a composite weighted index as originally envisaged but will include a RAG (red, amber, green) alert of specific proximity to insufficient reserves given recent trajectories.
- These resilience measurements to first be provided by CIPFA to Local Authorities and their auditors via the section 151 officer rather than publishing openly (these are awaited)
- The new indicators will remain under review
- *The following indices are our calculation of the initial proposal of the composite weighted index*

County Councils' Indices



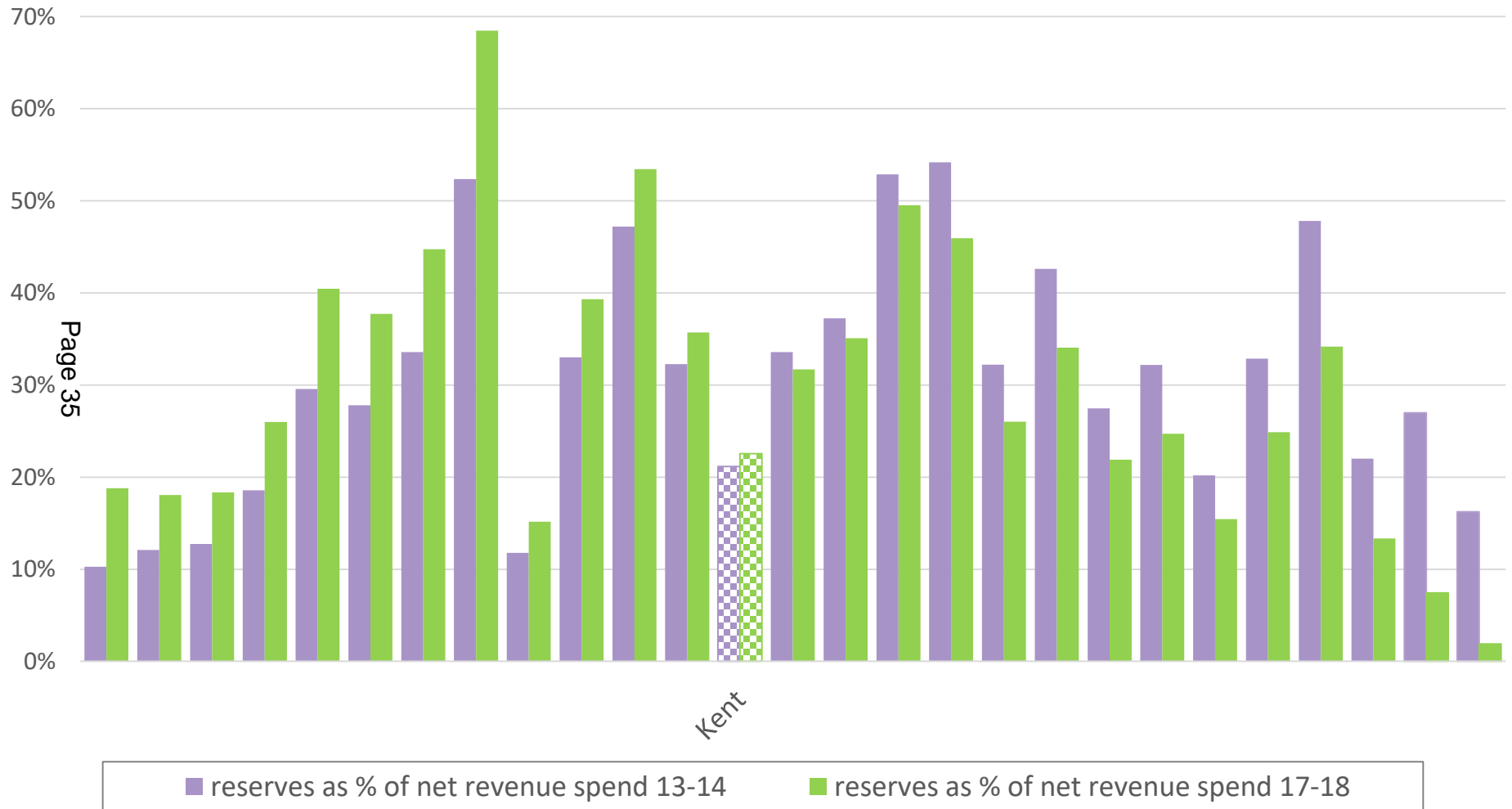
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Based on 4 indices from draft 2017-18 Outturn:

% reserves; % change in reserves over 3 years, % of spend grant funded, % of spend on debt interest and adults & children's social care

Change in Total Reserves

Reserves as % of net spend (from RO)
(in order of change in proportion of reserves from 13-14 to 17-18 as % of net budget)



Comparison of 2017-18 KCC Reserves and Shire Average

- KCC = 22.6%
 - General Reserves = 4.2%
 - Earmarked Reserves = 18.0%
 - Public Health Reserves = 0.4%

County Average = 28.9%

- General Reserves = 4.9%
 - Earmarked Reserves = 23.3%
 - Public Health Reserves = 0.7%
- Its difficult to compare earmarked reserves as these are held for specific eventualities which almost certainly will differ between authorities

