

By: Paul Carter, Leader of the Council
To: County Council - 18 February 2010
Subject: Medium Term Plan 2010-13 (Incorporating the Budget and Council Tax Setting for 2010-11)
Classification: Unrestricted

Summary: This report has been prepared so that Kent County Council can formally set its budget and council tax levels for 2010-11 in accordance with relevant legislation.

The report briefly provides an update on the 2009-10 financial position and makes detailed proposals for the 2010-11 revenue and capital budgets, as set out in the draft Budget Book and proposed Medium Term Plan. This report incorporates Final Settlement Grant figures, final tax base notifications, final collection fund surpluses and deficits, all as described in the updated Cabinet Report of 1 February 2010. Consequential changes made to the Medium Term Plan and Budget have been identified within this report, as set out in paragraph 12 onwards ('Changes between draft budgets for Cabinet and Council').

This report also includes some minor amendments to the published "Draft for County Council" version of the Budget Book as set out in paragraphs 18 onwards.

Members should note that the proposed Council Tax increase is now 2.1% following resolution of issues on the support for unaccompanied asylum seekers.

Indicative financial information has been provided within the Medium Term Plan for 2011-12 and 2012-13. It should be noted that this is for planning purposes only, in line with the requirements of the Local Government Act 2003 and has not yet been updated for the minor amendments outlined in paragraphs 18 onwards

Members are reminded to bring the white comb-bound "Budget Book 2010/11" and "Medium Term Plan 2010-13" to this meeting.

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 he/she is in arrears and must not cast their vote on anything related to KCC's Budget or Council Tax.

INTRODUCTION

1. The Local Government Finance Act 1992 requires the Council to formally consult on and ultimately set a budget and Council Tax for the next financial year, 2010-11. This report sets out the required calculations and recommendations. The Local Government Act 2003 requires the Director of Finance to give an opinion on the robustness of the budget estimates and the level of reserves held by the Council. The Medium Term Plan formally sets out the assumptions that inform these decisions.
2. The Council's budget is set within the framework of its policy priorities. It takes into account a range of external factors including national local government funding and the legislative programme.
3. To clearly demonstrate this, the Medium Term Plan for 2010-13 is attached to this report (white comb version). It should be noted that financial projections for both resourcing and expenditure for 2011-12 and 2012-13 are shown as "indicative" planning assumptions. For those two years, we have no indication of the level of Government Grant that we can expect to receive, as the Grant for 2010-11 is the last of the existing three-year settlement. Formal decisions on the actual annual budget allocations will continue to be made each February at County Council.
4. The Medium Term Plan sets out in some detail the main issues that have been taken into account in setting the budget and Council Tax for 2010-11. Formula Grant funding will increase by a headline 3.2%, which is above the floor funded minimum. It should be noted that Formula Grant and Area Based Grant account for less than half of our budget requirement, the rest is funded by Council Tax.

BUDGET 2009-10

5. Budget monitoring for the current year has shown significant pressures throughout the year to date, particularly on Children's Social Services as we continue to see the consequences of the Baby Peter case. The budget for 2010-11 takes these pressures into account, where appropriate, to ensure that our base budget reflects the latest possible projections of activity and cost.
6. The latest forecast for the revenue budget for 2009-10 is an underspend of £4.3m, although this will reduce if there is any overspend on Asylum. The proposed budget for 2010-11 assumes that £1.57m of underspend from 2009-10 will be available to support the 2010-11 budget.
7. We expect to close the 2009-10 accounts with £25.8m of general reserves, which is in line with the Council's financial strategy. It is also in line with recommended best practice as provided by both CIPFA and the Audit Commission. There is no proposal in the budget to change the level of general reserves in 2010-11.
8. Schools started 2009-10 with revenue reserves of £51.6m and capital reserves of some £9.5m. The slight reduction in schools' reserves in 2008-09 was only the second time in 19 years of Local Management in Schools that these had fallen. This is partly due to the introduction of the balance control mechanism, which came into force from January 2007, which limits the level of uncommitted reserves that individual schools may hold.
9. It should be noted that the Dedicated Schools Grant (DSG) is a ring-fenced grant and any surplus or deficit at the end of the year must be carried forward to the next financial year in accordance with the regulations, for use in schools or schools related expenditure.

CONSULTATION

10. The annual budget process provides formally for consultation with the public, Trade Unions, the business community, opposition Members, the Kent Youth County Council, and professional organisations. Policy Overview and Scrutiny Committees have considered the budget proposals during January 2010. A meeting with business leaders was held on 26 January and there was a consultation with staff representatives on 9 February. The budget proposals were reviewed at Cabinet Scrutiny Committee on 25 January.
11. Formal feedback has been received from market research firm Ipsos MORI on KCC's study of public attitudes to expenditure priorities and Council Tax levels. This information has informed the recommendations made to County Council and a summary was attached to the report to Cabinet on 1 February 2010.

CHANGES BETWEEN DRAFT BUDGETS FOR CABINET AND COUNCIL

12. Some changes to the Budget and Medium Term Plan document have been made since they were first published on 5 January. These are explained in this section.
13. We have received notification of an additional £0.913m of Area Based Grant. The majority of this, £0.781m, is for the transfer of staff from the Learning and Skills Council, with the remainder, £0.132m, to meet the Government's guarantee that all 16 and 17 year olds who are not in education, employment or training (NEETs) in January will have a place on an Entry to Employment programme. There is no net impact on the net budget and council tax.
14. The Council Tax base notified to us by Districts has grown by 0.62% on last year, compared to our assumed growth of 0.8%. This will reduce the Council Tax yield from that included in the draft budget released on 5 January 2010, by £1.023m. Our medium term assumptions of growth remain unchanged.
15. The balance on the District Collection Funds as at 31 January 2010 is a surplus of £1.461m. Therefore, the net yield from Council Tax for 2010-11 is an additional £0.438m. It is proposed to transfer this into the Rolling Budget reserve pending clarification of some of the outstanding budget issues, including the final figure on Second Homes. This change impacts on the Finance Portfolio and the budget and MTP have been changed accordingly.
16. The Budget Book and MTP have also been updated to reflect the most up to date information. That includes refining of gross and income estimates, allocation of overheads and capital charges, and general updates on the commentary in the MTP.
17. We have now reflected what we believe will be the final element of the Performance Reward Grant. This amounts to £1.5m. Half of that amount has been allocated to the CF&E Portfolio to assist with their restructure. The other half has been allocated to the Finance Portfolio in order to make a contribution to a reserve to be used over the medium term to support our intensive work in Margate. This change has no affect on the budget requirement.

CHANGES TO BUDGET SINCE THE DRAFT FOR COUNTY COUNCIL WAS PUBLISHED

18. Second Homes taxbase figures have now been confirmed by all Districts (the 2009-10 figure was £2.570m). The taxbase income at the projected council tax level will increase by £0.064m. It will be necessary to make a draw-down from the Rolling Budget Reserve to the District Grants for Local Priorities budget in the Localism and Partnerships Portfolio, on the basis that we will grant any sum over £2m back to Districts.
19. We have now resolved the outstanding issues on the support for unaccompanied asylum seekers and we can reduce the proposed budget in the Children, Families and Education Portfolio (p9 line 4) by £1.663m leaving a net cost of £1.337m. This net cost will be needed to meet the cost of ongoing support for those who have All Right of Appeal Exhausted beyond the extended grant, those who cannot be included in the grant claim, and the additional cost of different interpretation of the legal duties of Children Services Authorities between the Home Office and DCSF.
20. Following the decision not to let the contract for Kent TV at the end of the pilot period to transfer £0.400m from the "Strategic Development Unit" (Corporate Support Services & Performance Management Portfolio p50 line 1) to "Contribution to Reserves" (Finance Portfolio p55 line 12). This will still leave a total of £0.350m within the Strategic Development Unit to meet the costs of running a new Kent Digital service on the "kent.gov.uk" website.
21. The result of the changes which have an impact on the budget as set out in this report to Council can be summarised as follows:

TABLE 1 – CHANGES TO DRAFT BUDGET 2010-11	Net £'000
Budget Requirement per draft on 5 January	944,556
Deduct additional Asylum grant	-1,000
Additional contribution to reserves from changes in Council Tax base and collection funds	+ 438
Increase in Area Based Grant	+ 913
Revised proposed Budget Requirement as per "Draft for County Council"	944,907
Deduct reduction in net costs of Asylum	-1,663
Final proposed Budget Requirement	943,244

Amount met by Council Tax per draft on 5 January	-573,135
Additional Asylum grant	+ 1,000
Lower than expected taxbase	+ 1,023
Amount met by Council Tax per "Draft to County Council"	- 571,112
Reduction in net costs of Asylum	+1,663
Final proposed Amount to be met by Council Tax	-569,449
Government Funding	
Formula Grant (unchanged at Final Settlement)	-275,715
Area Based Grant (including additional allocations)	-96,619
Surplus on tax collection for previous years	- 1,461
Total funding	- 943,244

REVENUE BUDGET PROPOSALS 2010-11

22. Managing Directors and Cabinet Portfolio Members have developed and refined medium term budget pressures and savings opportunities since the summer. This has included the incorporation of changes to budgets to reflect changes between portfolios and directorates. The attached Medium Term Plan provides more detail, with the proposals for 2010-11 summarised in Table 2 below.
23. The final position on the Children, Families and Education Directorate in relation to Dedicated Schools Grant (DSG) will be subject to the remaining recommendations from the Schools Forum. The recommendations on this need to be delegated to the Cabinet Member for Children, Families & Education (CFE). The final amount of DSG will not be announced by the Government until June 2010.

TABLE 2 – REVENUE BUDGET PROPOSALS 2010-11	
Portfolio totals excluding central costs and charges for capital assets	£'000
Children, Families & Education	213,173
Adult Social Services	344,452
Environment Highways and Waste	151,261
Communities	87,926
Regeneration & Economic Development	6,361
Public Health & Innovation	561
Localism & Partnerships	7,367
Corporate Support Services & Performance Management	11,111
Finance	121,032
Budget requirement 2010-11	943,244

CAPITAL INVESTMENT PROPOSALS 2010-11

24. The total estimated resources are summarised below:

TABLE 3 – TOTAL ESTIMATED RESOURCES 2010-11	
SOURCE OF FUNDING:	£'000
Supported Borrowing	43,420
Prudential Borrowing	45,180
Prudential funded from Portfolio Revenue	14,720
Property Enterprise Fund 2 (PEF2)	24,065
Grants	284,554
External Funding - Developer Contributions	3,058
Other External Funding	16,257
Revenue and Renewals	14,390
General Capital Receipts	-4,151
Earmarked Capital Receipts	5,503
Private Finance Initiative (PFI)	45,101
Transfer of Land in Part Payment	3,600
Total of Funding Available	495,697
Amount of over-programming	9,734
Total Planned Capital Resources	505,431

25. The total forecast capital expenditure financed from all of the above sources of funding is as follows:

TABLE 4 - CAPITAL EXPENDITURE 2010-11	
PORTFOLIO:	£'000
Children, Families & Education	264,794
Adult Social Services	33,135
Environment, Highways and Waste	153,024
Communities	24,407
Regeneration & Economic Development	7,455
Localism & Partnerships	500
Corporate Support Services & Performance Management	22,116
Total Planned Capital Expenditure	505,431

26. The above figures reflect the rephrasing as set out in the regular budget monitoring reports to Cabinet throughout 2009-10, including the report on 1 February 2010.
27. The Prudential Regime requires that this capital programme be agreed with due regard to the new indicators which have been provided in full at Appendix D in the attached Medium Term Plan.

COUNCIL TAX 2010-11

28. The Budget's aims are to establish a sound and sustainable financial position, to provide value for money and to make progress on policies to deliver the kind of modern public services Kent people want, and deserve.
29. In order to calculate the level of county Council Tax it is necessary to divide the precept requirement by the tax base within its area. The County's tax base is the sum of the 12 District tax bases and is expressed as the number of equivalent Band D properties, which for 2010-11 equals 543,481.14.

TABLE 5 – CALCULATION OF COUNCIL TAX	
	£000
Budget Requirement 2009-10	886,470
Spending Increase (net of adjustments)	+ 56,774
Budget Requirement 2010-11	943,244
Financed From:	
Formula Grant	- 275,715
Area Based Grant	- 96,619
Collection fund surplus	- 1,461
Precept requirement from Council Tax	569,449
Divided by tax base (band D equivalent)	543,481.14
Council Tax for a Band D property 2010-11	* £1,047.78
Council Tax for a Band D property 2009-10	£1,026.27
Band D increase	£21.51
	+ 2.10%

* Band D tax must be divisible into ninths

30. The tax for other property bands is calculated in fixed proportions to Band D. Table 6 illustrates the impact for all property bands. In practice, people will pay lower amounts of tax if they are eligible for discounts (e.g. people living alone) or receive Council Tax Benefit which is available to people on low incomes. These tax levels exclude the charges from the separate Fire & Rescue Authority, Police Authority, District Councils and Parish Councils.

TABLE 6 – KCC COUNCIL TAX ASSUMING AN INCREASE OF 2.1%								
Band								
	A £	B £	C £	D £	E £	F £	G £	H £
Weekly Increase compared to 2009-10	28p	32p	37p	41p	51p	60p	69p	83p
Annual Charge	698.52	814.94	931.36	1,047.78	1,280.62	1,513.46	1,746.30	2,095.56

ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

31. As required by the Local Government Act 2003, the Director of Finance must formally give opinion as to the robustness of the budget estimates and the level of reserves held by the Council.
32. The estimates have been produced from a challenging process with Portfolio Holders and Directorates, resulting in agreement on the level of service delivery within the identified financial resources. In addition, the Medium Term Plan sets out the main budget risks, alongside the proposed management action for dealing with these.
33. The Medium Term Plan also clearly sets out the recommended strategy for ensuring adequate reserves. This has been set in consideration of a number of key factors, such as our recent excellent record on budgetary control, the internal financial control framework, our strong approach to risk management and the expected level of General Reserves at 31 March 2010. The level of general reserves is in line with best practice as recommended by CIPFA and the Audit Commission.
34. No budgetary provision has been made for the proposed Free Personal Care at Home legislation. The consultation process has highlighted major concerns about the potential cost to County Councils if this bill is passed. There is increasing concern about the financial implications of this, not only within councils, but also in the national media.
35. To conclude, the Director of Finance is able to formally report that the budget estimates are robust and the level of reserves adequate.

RECOMMENDATIONS

36. The Council are asked to approve the contents of the attached 2010-11 Budget and Medium Term Plan 2010-13 (as amended by this report) and to approve the following proposals:
- (a) the Revenue and Capital Budget proposals for 2010-11;
 - (b) the Revenue Budget requirement of £943,244,149;

- (c) the Capital Investment proposals of £505,431,000, together with the necessary use of borrowing, revenue, grants, capital receipts, renewals and other earmarked capital funds, external funding and PFI, subject to approval to spend arrangements;
- (d) the Prudential Indicators as set out in Appendix D of the attached Medium Term Plan;
- (e) the Revenue and Capital Budget proposals as presented in the white combed version of the Budget Book and Medium Term Plan, as adjusted by the items at paragraphs 18-21 in this report, for:
- Children, Families and Education;
 - Adult Social Services;
 - Environment, Highways and Waste;
 - Communities;
 - Regeneration and Economic Development;
 - Public Health & Innovation;
 - Localism & Partnerships;
 - Corporate Support Services & Performance Management; and
 - Finance;
- (f) that final recommendations in relation to the Schools Budgets and Dedicated School Grant (DSG) be delegated to the Cabinet Member for Children, Families and Education (CFE);
- (g) a total requirement from Council Tax of £569,448,669 to be raised through precept to meet the 2010-11 budget requirement; and
- (h) a Council Tax as set out below, for the listed property bands:

Band								
Council Tax for Band at 2.1% increase	A	B	C	D	E	F	G	H
£	698.52	814.94	931.36	1,047.78	1,280.62	1,513.46	1,746.30	2,095.56

Background documents:

Autumn Budget Statement – Cabinet 12th October 2009

Budget 2010/11 and Medium Term Financial Plan 2010-13 considered by Policy Overview and Scrutiny Committees between 11th November 2009 and 19th November 2009

Provisional Local Government Finance Settlement 2010/11 – 26th November 2009

KCC response to the Provisional Local Government Finance Settlement – 6th January 2010

Provisional Local Government Settlement 2010/11 – Cabinet 11th January 2010

Draft 2010/11 Budget and Medium Term Plan 2010-13 launched 5th January 2010 and considered by Policy Overview and Scrutiny Committees between 11th January 2010 and 19th January 2010

Budget 2010/11 and Medium Term Plan 2010/13 – Update – Cabinet 1 February 2010

Officer Contact:

Lynda McMullan, Director of Finance, Ext. 4550

Andy Wood, Head of Financial Management, Ext. 4622

Dave Shipton, Finance Strategy Manager, Ext. 4597