

By: Paul Carter, Leader of the Council
To: County Council - 19 February 2008
Subject: Medium Term Plan 2008-11 (Incorporating the Budget and Council Tax Setting for 2008-09)
Classification: Unrestricted

Summary: This report has been prepared so that Kent County Council can formally set its budget and council tax levels for 2008-09 in accordance with relevant legislation.

It briefly updates the 2007-08 financial position and makes detailed proposals for the 2008-09 revenue and capital budgets, as set out in the attached Medium Term Plan.

Members are reminded to bring the enclosed 2008-09 Budget Book and 2008-11 Medium Term Plan to this meeting.

This report incorporates Final Settlement Grant figures, final tax base notifications, final collection fund surpluses and deficits, all as described in the Cabinet Report of 6 February 2008.

Consequential changes made to the Medium Term Plan and Budget have been identified within this report, as set out in paragraph 16 onwards ('Changes between drafts for Cabinet and Council').

Indicative financial information has been provided within the Medium Term Plan for 2009-10 and 2010-11. It should be noted that this is for planning purposes only, in line with the requirements of the Local Government Act 2003.

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 and ultimately set a budget and Council Tax for the next financial year, 2008-09. 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 2008-11 is attached to this report. It should be noted that financial projections for both resourcing and expenditure for 2009-10 and 2010-11 are shown as "indicative" planning assumptions. Clearly, there are a number of issues that will be subject to better information or change over time. 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 2008-09. Formula Grant funding will increase by a headline 3.4%, which is above the floor funded minimum. The Provisional Settlement showed a headline increase of 3.7% but did not include the impact on local authorities of new full-cost fees for childcare proceedings in the Ministry of Justice's proposed revision of Public Law Family Fees from April 2008.
5. The Final Settlement makes a prior year adjustment to 2007-08 which has increased upper tier grant to all floor funded authorities and reduced the need for other authorities to contribute to the floor. As a result KCC has gained £0.263m Formula Grant. However, KCC's estimated share of the full-cost fees is assumed by Central Government to be £0.860m. It is quite clear that no financial provision has been made in 2008-09. This does appear to be contrary to the New Burdens Doctrine which is meant to ensure Local Authorities are recompensed for such changes.
6. In 2009-10, the headline grant increase is 3.2%, but this figure falls to 2.0% when the cessation of the existing Local Authority Business Growth Incentive Scheme grant is taken into account. The headline figure for 2010-11 is 3.2%. It is important to note that Formula Grant and Area Based Grant account for only 37% of our budget requirement, the rest is funded by Council Tax.

BUDGET 2007-08

7. Budget monitoring for the current year has shown significant pressures throughout the year to date. The latest reported budget position reflects a number of pressures which have been taken into account in setting the budget for 2008-09.
8. Activity led budgets, generally, continue to require intensive monitoring (such as waste disposal and social care clients). However, in the main, these growth pressures are being contained in the current year within overall resources.
9. Before management action there is a net pressure of £4.2 million for 2007-08, of which £4.1 million is attributable to Asylum. We continue to expect central government to recompense us for the undue burden of asylum costs that falls on this authority. Management action is forecast to deliver an under spend of £1.6 million (£5.7 million excluding Asylum), although this needs to be considered in the context of the £10 million outstanding debt on Asylum. There will be sufficient under-

spending within the Finance Portfolio to fund the proposed roll forward of budget set out in paragraph 17.

10. On these bases, KCC expects to close its 2007-08 accounts with approximately £25.8m of general reserves in line with the Council's financial strategy. There is no proposal in the budget to change the level of general reserves in 2008-09.
11. Schools started 2007-08 with revenue reserves of £68m (around 8.0% of their revenue budget), and capital reserves of some £12.9m. Under normal circumstances we would expect reserves to remain broadly at this level. However the balance control mechanism, which came into force from January 2007, limits the level of uncommitted reserves that individual schools may hold. It is still unclear how schools will react to the scheme, but we may see a reduction in reserves as a result. It should be noted that the Dedicated Schools Grant (DSG) is a ringfenced 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, and cannot be used to offset over- or under-spends elsewhere in the directorate budget. Therefore, at year end these balances will be transferred to an earmarked reserve for DSG.

CONSULTATION

12. The annual budget process provides formally for consultation with the public, Trade Unions, the Business community, opposition members and professional organisations. Policy Overview Committees have considered the budget proposals since 24 January. Meetings with business leaders and staff representatives were held on 4 February and 7 February respectively. The budget proposals were reviewed at Cabinet Scrutiny Committee on 1 February.
13. 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 6 February 2008.
14. For the first time, KCC held a consultation workshop with young people including members of the Kent Youth County Council.

CHANGES BETWEEN DRAFTS FOR CABINET AND COUNCIL

15. Minor changes have been made since the draft Medium Term Plan and Budget were published on 21 January and submitted to Cabinet on 6 February 2008. These are explained in this section.
16. The opportunity has been taken to recalculate and marginally refine the estimates for the prudential indicators in Appendix B.
17. The budget book has been updated to reflect the most up to date information. That includes grossing up income and expenditure within Operations, Resources and Skills (CFE) and Children, Families and Educational Achievement Services Portfolios as more specific grant details have been finalised. In addition, funding has been provided for Public Law Family Fees, paid for by a reduction in the Finance Portfolio, which itself has been funded by a roll forward of underspend from 2007-08. There have also been transfers between the two portfolios.
18. On the recommendation of the Cabinet Scrutiny Committee, the final budget book will be revised to reflect a standard definition of Strategic Management across all directorates.

19. Overall, a net deficit on the Kent district tax collection funds has been declared this year, as part of the 2008-09 budget process, with £244,535 being KCC's share.
20. The impact of the changes which do 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 2008-09	Net £'000
Budget Requirement per draft to Cabinet	856,890
Impact of full-cost fees for childcare proceedings	+ 860
Roll forward of under-spend 2007-08	- 638
Reduction in second homes taxbase and associated spending	- 94
Budget Requirement per draft to Council	857,018

Amount met by Council Tax per draft to Cabinet	- 536,707
Increased council tax yield due to higher than expected growth in tax base	- 110
Amount met by Council Tax per draft to Council	- 536,817
Government Funding – Formula Grant and Area Based Grant (updated for Final Settlement)	- 320,446
Deficit on tax collection for previous years (new)	+ 245
Total funding	- 857,018

21. The capital budget has increased in 2008-09 for Gravesend Town Hall project to reflect the full cost of Phase 1 of the scheme. This is an increase of £0.850m funded by external funding (£0.500m) and revenue contributions (£0.350m).

REVENUE BUDGET PROPOSALS 2008-09

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 2008-09 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 Operations, Resources and Skills (CFE). The final amount of DSG will not be announced by the Government until June 2008.

TABLE 2 – REVENUE BUDGET PROPOSALS 2008-09	
Portfolio totals excluding charges for capital assets	£000
Operations, Resources and Skills (CFE)	60,893
Children, Families and Educational Achievement	132,090
Adult Social Services	323,803
Environment Highways and Waste	139,486
Regeneration and Supporting Independence	8,381
Communities	54,650
Public Health	957
Corporate Support and External Affairs	24,658
Policy and Performance	5,426
Finance	<u>106,674</u>
Budget requirement 2008-09	857,018

CAPITAL INVESTMENT PROPOSALS 2008-09

24. The total estimated resources are summarised below:

TABLE 3 – TOTAL ESTIMATED RESOURCES 2008-09	
SOURCE OF FUNDING	£'000
Loan	58,909
Prudential	20,213
Prudential funded from Portfolio Revenue	13,266
Grant	161,474
External Funding	17,178
Revenue and Renewals	5,039
General Capital Receipts	4,587
Earmarked Capital Receipts	64,635
Private Finance Initiative (PFI)	90,105
Transfer of Land in Part Payment	3,060
TOTAL	438,466

25. Total forecast capital expenditure financed from all sources:

TABLE 4 - CAPITAL EXPENDITURE 2008-09	
PORTFOLIO	£'000
Operations, Resources and Skills (CFE)	255,149
Children, Families and Educational Achievement	1,295
Adult Social Services	60,587
Environment, Highways and Waste	83,810
Regeneration and Supporting Independence	10,335
Communities	15,038
Corporate Support & External Affairs	5,488
Policy and Performance	500
Finance	6,264
TOTAL	438,466

26. The Prudential Regime requires that this capital programme be agreed with due regard to the new indicators which have been provided in full as Appendix B to the attached Medium Term Plan.

COUNCIL TAX 2008-09

27. 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.
28. 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 2008-09 equals 535,857.71.

TABLE 5 – CALCULATION OF COUNCIL TAX	
Budget Requirement 2007-08	£000 741,729
Spending Increase (net of adjustments)	115,289
Budget Requirement 2008-09	857,018
Financed From:	
Formula Grant	- 320,446
Collection fund deficit	+ 245
Precept requirement from Council Tax	536,817
Divided by tax base (band D equivalent)	535,857.71
Council Tax for a Band D property 2008-09	£1,001.79
Council Tax for a Band D property 2007-08	£964.17
Band D increase	£37.62 + 3.9%

29. 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 Authority, Police Authority, District Councils and Parish Councils.

TABLE 6 – KCC COUNCIL TAX AT 3.9%								
	Band							
	A £	B £	C £	D £	E £	F £	G £	H £
Weekly Increase Compared to 2007-08	0.48	0.56	0.64	0.72	0.88	1.04	1.21	1.45
Annual Charge	667.86	779.17	890.48	1001.79	1224.41	1447.03	1669.65	2003.58

ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

30. 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.
31. 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.

32. 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 2008.
33. To conclude, the Acting Director of Finance is able to formally report that the budget estimates are robust and the level of reserves adequate.

RECOMMENDATIONS

34. The Council are asked to approve the contents of the attached 2008-09 Budget and Medium Term Plan 2008-11 and to approve the following proposals:
- (a) the Revenue and Capital Budget proposals for 2008-09;
 - (b) the Revenue Budget requirement of £857,018,000;
 - (c) the Capital Investment proposals of £438,466,000, 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 B of the attached Medium Term Plan;
 - (e) the Revenue and Capital Budget proposals as presented for:
 - Operation, Resources and Skills (CFE);
 - Children, Families and Educational Achievement;
 - Adult Social Services;
 - Environment, Highways and Waste;
 - Regeneration and Supporting Independence;
 - Communities;
 - Public Health;
 - Corporate Support and External Affairs;
 - Policy and Performance; and
 - Finance;
 - (f) that final recommendations in relation to the Schools Budgets and Dedicated School Grant (DSG) be delegated to the Cabinet Member for Operations, Resources and Skills (CFE);
 - (g) to note that all of the above are predicated on satisfactory resolution of the Asylum funding issue;
 - (h) a total requirement from Council Tax of £536,817,000 to be raised through precept to meet the 2008-09 budget requirement; and
 - (i) a Council Tax as set out below, for the listed property bands:

Council Tax Band	A	B	C	D	E	F	G	H
£	667.86	779.17	890.48	1001.79	1224.41	1447.03	1669.65	2003.58

Background documents:

- *Autumn Budget Statement – Cabinet 17 September 2007*
- *Provisional Local Government Finance Settlement 2008-11 – 6 December 2007*
- *Budget 2008-11 and Medium Term Plan 2008-09 to 2010-11: Update on Provisional Local Government Settlement (6 December 2007) – Cabinet 14 January 2008*
- *KCC consultation response to Provisional LG Finance Settlement –8 January 2008*
- *Draft budget 2008-09 and Draft Medium Term Plan 2008-1 – Cabinet 21 January 2008*
- *Final Local Government Finance Settlement 2008-09 and Provisional Settlement 2009-11 – 24 January 2008*
- *Medium Term Financial Plan 2007-10 (Incorporating the Budget and Council Tax Setting for 2007-08) - Update – Cabinet 6 February 2008*
- *Revenue & Capital Budget Monitoring Exception Report – Cabinet 6 February 2008*

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