

KENT COUNTY COUNCIL

INFORMAL MEMBER GROUP ON BUDGETARY ISSUES

MINUTES of a meeting of the Informal Member Group on Budgetary Issues held in the Wantsum Room, Sessions House, County Hall, Maidstone on Friday, 26 November 2010.

PRESENT: Mrs T Dean (Chairman) and Mr L Christie

APOLOGIES: Mr R Manning

ALSO PRESENT: Miss S J Carey and Mr J D Simmonds

IN ATTENDANCE: Mr A Wood (Acting Director of Finance), Mr D Shipton (Finance Strategy Manager), Mr P Sass (Head of Democratic Services and Local Leadership) and Mr A Webb (Research Officer To The Cabinet Scrutiny Committee)

UNRESTRICTED ITEMS

13. Notes of Previous Meeting on 8 October 2010 (attached for approval) *(Item 1)*

(1) It was pointed out that paragraph 11(1) should read that the Council responded to this consultation by welcoming the removal of universal capping powers.

RESOLVED that subject to the amendment of paragraph 11(1) the notes of the Informal Member Group on Budgetary Issues held on 8 October 2010 were agreed as a correct record.

14. Revenue and Capital Budgets, Key Activity and Risk Monitoring (Cabinet report attached) *(Item 2)*

(1) Mr Wood summarised the position by stating that an overall underspend was projected for the current year. He was very confident that Finance would deliver an underspend and fairly confident that the Directorates would broadly balance, but had three areas of concern.

(2) There was £2.5 million of management action taking place within Kent Adult Social Services (KASS) and Mr Wood and his team had had a number of meetings with KASS Directorate Finance officers around unit costs and activity. He thought that given current trends, the management action would achieve its desired result, subject to activity following the pattern of previous years, and that in KASS terms the amount was modest.

(3) Within Children, Families and Education (CFE), the number of referrals and costs were increasing, but this was balanced out by an underspend in social work teams. Recruitment was becoming more successful, and this would reduce this element of underspend, and Mr Wood anticipated this would mean approximately £5 million

would need to be put into the CFE budget the following year. In the current year, he expected that management action would mean that CFE would come in slightly under budget.

(4) In response to a question from Mrs Dean about how much the decrease from a vacancy rate of 26% to 11% had cost, Mr Wood said he would find out this figure. Responding to a question from Mr Christie about whether the additional £5 million being put into CFE would represent a further pressure, Mr Wood stated that this was within the £161 million identified pressure over the next two years, as set-out within the Autumn Budget Statement.

(5) The third pressure was the fact that the Freedom Pass had been very successful, and the demand was increasing. However, an underspend in the Waste division, due to lower tonnage, was helping to balance things out across the piece.

(6) Mr Wood drew Members' attention to the underspend of approximately £4.5 million (excluding schools) in Table 1a of the report, along with a slight overspend in the schools budget. He commented that in Capital that there was the usual mix of rephasing, but that any variances had a funding stream associated with them, meaning there were no new funding pressures.

(7) Mr Simmonds added that it had been made clear to the Directors that they must finish the year within budget, but that CFE might create a pressure in relation to measures in response to the recent Ofsted judgement.

(8) In response to a query about recent vacancy figures, Mr Wood stated that globally the figure was of the order of 9% of assignments, but that he would obtain figures from the Director of Personnel and Development. There was a brief discussion about the use of staff vacancies to fulfil management action requirements, with Mr Christie expressing a desire to know the number and nature of vacancies in KASS, with a concern that they might affect services. Mr Wood referred Members to page 19, which showed a reduction of 32 in the Headcount for KASS during the year, adding that vacancies were being held in KASS Finance until the outcome of future centralisation was known.

(9) In response to a question referring to the Restructure costs mentioned in paragraph 3.4.6.1, Mr Wood clarified that this would be expected to cover the cost of the Programme Manager and other minor costs, but not the restructuring process.

(10) In response to a question about the Upper Stone Street lay-by scheme referred to in recommendation 9.6, Mr Simmonds stated that Maidstone Borough Councillors were aware of this decision, but he was unsure if it had been considered at the Environment, Highways and Waste Policy Overview and Scrutiny Committee (POSC).

(11) Referring to the increasing number of Looked After Children (LAC) in Kent, detailed on page 55 of the report, the Chairman asked if any progress had been made in discussing the issue with Government. Mr Wood undertook to check this with the Managing Director, Children, Families and Education.

(12) In response to a question about whether measures to keep the average cost of care provision for 18+ asylum seekers down to £150 per week would be successful,

Mr Wood informed Members that the Managing Director, Children, Families and Education would soon be preparing a report on this issue. The Chairman asked if asylum seekers were being placed with families, but until the paper had been produced, Mr Simmonds would not be aware of the preferred option.

(13) Referring to the activity and income relating to library CD and DVD rentals (page 112), the Chairman inquired whether the Council was making a loss, and whether the service should cease. Mr Wood and Mr Shipton stated that profit was dwindling compared to previous years, making the service less viable.

15. Autumn Budget Statement, including Comprehensive Spending Review (Cabinet Report attached)

(Item 3)

(1) Mr Shipton introduced the report, explaining that its principal purpose was to report on the Spending Review 2010 (SR2010) on 20 October. The Council had not been expecting 'front-loading' of the reduction in the main formula grant but rather a straight line reduction. The order of the reduction was in line with estimates but was being made earlier than anticipated. The Chairman mentioned that she had attended a meeting the previous Monday where this issue was discussed, and some Councils had expressed a concern that they would find it difficult to manage. She speculated that Government may be looking to alleviate this, but Mr Simmonds made the point that no such announcement had yet been made.

(2) The other main issue in SR2010 was the transfer of Area Based Grants (ABGs) and specific grants into the Formula Grant, especially the grant for Preserved Rights. The risk associated with this transfer was because the authority received twice as much through the ABG than it was anticipating it would receive through the Formula Grant, and this presented the possibility of losing approximately £5 million. It was not possible to forecast the exact reduction to the formula grant, as officers did not have access to the national data underpinning the formula or any changes ministers might make to the formula methodology to compensate.

(3) Mr Christie made the point that deprivation was a factor in the allocation of the Formula Grant, and Kent did not feature highly in terms of deprivation distribution (but this was compensated in the Area Based Grant). He expressed concern that the resulting flow of funding away from the county would not be covered by the £340 million of savings that had been identified, and asked if 'floor mechanisms' would be brought into play to mitigate against this.

(4) Mr Wood responded that the Council knew the amount of Formula Grant from the CSR, but the CSR was silent on the remainder of the Area Based Grant, which represented a series of risks. Responding to a query from Mr Christie about the consequence of the remaining funding being allocated through the Formula Grant, Mr Shipton stated that as the majority of these grants related to CFE, the risk would be that they would transfer to the Dedicated Schools Grant, which was allocated on the basis of pupil numbers and deprivation. If the Council saw a loss of all the remaining grants, it would represent a loss of 10% of funding and would contravene the Government objective of a 7.25% reduction in grants to Local Government.

(5) Mr Wood explained that it would not be possible to know if the identified savings would be sufficient until the CSR settlement on 2 December, but that the Council had assigned a risk weighting to each grant, and this had given the £340 million figure.

(6) Regarding the floor mechanism, Mr Shipton stated that within the current Formula Grant KCC contributed over £11 million to pay for the floors for other authorities. This meant the risk was that if Preserved Rights was put into existing funding the Council's baseline would go up by the existing grant of £10.6m but the formula would only go up by around £5m and the difference would simply come off the amount paid into protecting other Councils. This would result in a net cash loss to KCC of around £5.5m. Therefore, in order to fully protect KCC the Government would have to put some other form of transitional protection in place.

(7) There was a discussion around the front-loading of the grant reductions, and Mr Simmonds explained that there are often staff attached to grants, which meant sudden reductions in costs were difficult to achieve.

(8) Responding to a question about possible funding complications arising from grants previously paid to upper tier authorities being transferred to lower tier and other classes of authority in formula, Mr Wood explained that this was a very real risk for some grants where there was not an adequate proxy in the formula. Money could end up being allocated to all tiers even though it was intended for upper tier councils, only producing a windfall gain for the lower tier and other classes of authority. Prime examples were the transfer of Concessionary Fares and Supporting People

(9) There was a discussion around Sure Start, as referred to in paragraph 2.10 on page 141. Responding to a question about whether the funding would be maintained in cash terms, Mr Wood replied that the Managing Director, CFE, was looking at the effectiveness of Sure Start across the county. The Chairman asked if Sure Start was slipping in the capital programme; Mr Simmonds responded that it was not prudent to spend the money until the situation was understood, and Mr Wood added that traditionally there was a Sure Start underspend and the grant was then rolled forward.

(10) Referring to page 143 of the report, which mentioned nearly £28 million of pressures for 2011/12 and 2012/13 which the Council had managed to resist or reject, Mr Christie asked if a list of these pressures was available. Similarly the Chairman referred to the estimated pressures on page 151 of the report, and asked about the £2 million difference between the current and proposed Medium Term Financial Plans for 2011/12. It was explained that the pressures were forecast earlier in the process and had now been brought down; this could happen as a result of changes to the Retail Price Index (RPI) for example. Mr Wood and Mr Shipton agreed to provide lists of these pressures.

16. Budget Book format (Discussion)

(Item 4)

(1) Mr Shipton explained that he had hoped to share a draft of the budget book format at the meeting, but negotiations about the appropriate level of detail were still ongoing with the Directorates. Officers were trying to break down budgets to an appropriate level of detail (in some instances budgets were aggregated at quite a

high level in the current budget book), but applying a rule of thumb that anything below £1 million was too small to identify separately.

(2) Responding to a question about the differences in the public facing element of the budget book, it was explained that the current book had a mix of what was spent on individual services and how the authority was organised. The new format would not contain less information but would be clear on what was spent on services, presented in an A-Z format, rather than how the Council was organised, as the aim was to be more transparent.

(3) Responding to a question about whether previous years' data would be presented, Mr Wood explained that the 2010/11 data would be included, but there might be some headings with no 2010/11 spend, for example Big Society.

(4) It was proposed that the January budget book would contain the public facing element, presented as services in alphabetical order, as this would be the version that would go for consultation, whereas the version going to County Council would include the information in terms of how the Council was organised in order to facilitate a portfolio by portfolio debate. Mr Christie expressed concern that the budget book would not be presented in terms of how the Council was organised in January. Officers agreed to investigate how far in advance of County Council the version in portfolio order could be released. Mr Wood explained that the only practical position would be to work up this presentation around the current structure as the new structure would not be sufficiently developed.

(5) Mr Christie speculated that a normal budget debate would take place at County Council on 17 February, and elements of the budget would be transferred thereafter by delegated Cabinet authority, or by a follow-up meeting of the County Council. The Chairman added that, following discussions at the Corporate POSC, she thought the structure would be revisited at subsequent meetings.

(6) Mr Wood explained that the high-level structure would be agreed at County Council on 16 December, and then there would be a series of consultations on how the savings would be delivered lower down in the structure, and there would be a number of assumptions in the budget around this.

(7) The Chairman asked what would happen if the structure proposed on 16 December was very different from that in the consultation. Mr Wood stated that, if there was a whole new proposal, the consultation process would need to recommence and Mr Simmonds added that the financial implications of the new structure would need to be analysed. Mr Shipton stated that in this scenario, the appropriate level of delegation to the 'building blocks' would need to be looked at, otherwise the Budget might need to come back to County Council.

17. New Homes Bonus - Consultation

(Item 5)

(1) A briefing note on a Government consultation – New Homes Bonus, was tabled at the meeting. Mr Shipton explained that this was because it had been published after the IMG agenda. He went on to explain some of the key features of the consultation.

(2) The New Homes Bonus would replace the Housing and Planning Delivery Grant, which went to the lower tier of local government. The proposal was that the grant be split between the County Council (20%) and the District or Borough Councils (80%), subject to local negotiation.

(3) Mr Christie asked if this represented a new role for higher tier councils, since lower tier councils previously had all the funding. Mr Shipton explained that this was not the case, but was instead recognition that County Councils had a role in provision of homes. Previously the Council would have to fund any contribution out of the Formula Grant or Council Tax.

(4) Mr Shipton estimated that this new grant would be worth £750,000 to KCC in 2011/12. The proposal was that the grant would be equivalent to band D Council Tax, with a supplement of £350 for each affordable new home built. Mr Shipton explained that this would be assigned on the basis of the gross amount of affordable homes, and would not take account of empty or condemned properties, but that there was a question in the consultation as to whether these should be included.

(5) There was a discussion around how affordable homes were defined. It was explained that the Department of Communities and Local Government (DCLG) had its own definition. Referring to question 10 of the consultation, the Chairman asked if losses of affordable homes would include sales. Mr Shipton replied in the affirmative, since the DCLG did not collect data on the number of affordable homes sold. It was explained that there was a difficulty knowing the number of affordable homes, since most but not all were administered through housing associations. DCLG would be using their own data, and Mr Shipton stated that he thought it important to support the principle of not putting further reporting burdens on lower-tier councils.

(6) Responding to a question about how the money would be used, he explained that it would not be ring-fenced. If the grant was fixed based on band D of Council Tax, and there was a housing boom, less would go into the Formula Grant. Mr Wood added that if a boom was less than in other parts of the country, Kent would lose out, but if it was greater than other parts of the country, Kent would gain.