

By: Paul Carter, Leader of the Council
To: County Council - 22 February 2007
Subject: Medium Term Plan 2007-10 (Incorporating the Budget and Council Tax Setting for 2007-08)
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Summary: This report has been prepared in order that Kent County Council formally sets its budget and council tax levels for 2007-08 in accordance with relevant legislation.

It updates the 2006-07 financial position in brief and makes detailed proposals for the 2007-08 revenue and capital budgets, as set out in the attached Medium Term Plan.

This report incorporates final Grant Settlement figures, final tax base notifications, latest collection fund surpluses and deficits, all as described in the Cabinet Report of 8 February 2007.

Consequential changes made to the Medium Term Plan and Budget have been identified within this report, as set out in paragraph 4.

Indicative financial information has been provided within the Medium Term Plan for 2008-09 and 2009-10. It should be noted that this is for planning purposes only, in line with the requirements of the Local Government Act 2003.

1. INTRODUCTION

- 1.1 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, 2007-08. This report sets out the required calculations and recommendations. With the introduction of the Local Government Act 2003, it has made sense to formally set out the medium term planning assumptions that inform these decisions.
- 1.2 The Council's budget is set within the framework of its policy priorities. It takes into account a range of external factors including the national local government funding and legislative programme.
- 1.3 To clearly demonstrate this, the Medium Term Plan for 2007-10 is attached to this report. It should be noted that financial projections for both resourcing and expenditure for 2008-09 and 2009-10 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.
- 1.4 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 2007-08. External funding will increase by a headline 2.7%, because the County Council will be in receipt of floor funding (the nominal funding increase guaranteed by government). This headline increase (+ £6.012m) is calculated after making a number of adjustments for Preserved Rights grant, Waste Electrical and Electronic Equipment grant, and capital funding, a net £3.539m. Formula Grant has therefore increased by just £2.473m in cash terms. However, after adjusting for unfunded additional "supported" borrowing and inflation at 3.6% (RPI at September 2006) the effective increase is minus 5.3%, an effective reduction in grant of £12.4m for 2007-08. To balance the budget, savings of £31.2m and income generation of £10.6 are budgeted for in 2007-08.

2. BUDGET 2006-07

- 2.1 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 2007-08.
- 2.2 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.
- 2.3 On this basis, KCC expects to close its 2006-07 accounts with approximately £25.8m of unallocated reserves in line with the Council's financial strategy.
- 2.4 Schools started 2006-07 with revenue reserves of £62.5m (around 8.0% of their revenue budget), and capital reserves of some £11.4m. Under normal circumstances we would expect reserves to remain broadly at this level, however the balance control mechanism comes into force for the first time this year, limiting the level of uncommitted reserves individual schools may hold. It is yet unclear how schools will react to the scheme, but we may see a significant 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 and underspends elsewhere in the directorate budget. Therefore, at year end these balances will be transferred to a new earmarked reserve for DSG.

3. CONSULTATION

- 3.1 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 26 January. Meetings with business leaders and staff representatives were held on 6 February and 7 February respectively. The budget proposals were reviewed at Cabinet Scrutiny Committee on 2 and 7 February.
- 3.2 Formal feedback has been received from market research firm 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 8 February 2007.

4. CHANGES BETWEEN DRAFTS FOR CABINET AND COUNCIL

- 4.1 Minor changes have been made since the draft Medium Term Plan and Budget was published on 22 January and submitted to Cabinet on 8 February 2007. These are explained in this section.
- 4.2 Chapter 3 of the Medium Term Plan has been redrafted to provide an even sharper focus on the objectives, priorities and risks facing portfolios. It has also enabled a greater consistency of presentation across all portfolio proposals. An opportunity has also been taken to recalculate and marginally refine the estimates for the prudential indicators in Appendix B.
- 4.3 The budget book has been updated to reflect the most up to date information. That includes grossing up income and expenditure within Education & School Improvement and Children & Family Services Portfolios as more specific grant details have been finalised. There is no net effect on either portfolio.
- 4.4 Overall, a net surplus on the Kent district tax collection funds has been declared this year, as part of the 2007-08 budget process, with £1.505m being KCC's share.
- 4.5 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 2007-08	Net £'000
Budget Requirement per draft to Cabinet	739,669
Kent Highway Services Group	1,505
Environment Agency Levy	-35
Local priorities	-24
Enhanced staff benefits	614
Budget Requirement per draft to Council	741,729

Amount met by Council Tax per draft to Cabinet	510,984
Increased council tax yield due to 0.1% higher than expected growth in tax base	555
Amount met by Council Tax per draft to Council	511,539
Government Funding – Formula Grant (unchanged)	228,685
Surplus on tax collection for previous years (new)	1,505
Total funding	741,729

- 4.6 The capital budgets have been updated to reflect the potential receipt of £1.895m of Dignity in Care Capital Grant within Adult services portfolio for 2007-08. There is also a minor change of £0.014m in the asset maintenance programme funded by prudential borrowing in 2006-07 in the Adult Services portfolio. There are no other capital changes.
- 4.7 The FTEs for Communities Portfolio and consequently the total number of FTEs has been reduced by a net 43.5 posts to reflect more accurately the proposals flowing from the intended libraries restructure.

5. REVENUE BUDGET PROPOSALS 2007-08

- 5.1 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 2007-08 summarised in Table 2 below.
- 5.2 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 Members for Education and School Improvement. The final amount of DSG will not be announced by the Government until May / June 2007.

TABLE 2 – REVENUE BUDGET PROPOSALS 2007-08	
Portfolio	£000
Education Standards and School Improvement	54,814
Children and Family Services	98,325
Adult Services	273,682
Environment Highways and Waste	116,764
Regeneration and Supporting Independence	7,007
Communities	53,538
Health	100
Corporate Support	26,381
Policy and Performance	3,440
Finance	<u>107,678</u>
Budget requirement 2007-08	741,729

6. CAPITAL INVESTMENT PROPOSALS 2007-08

- 6.1 The total estimated resources are summarised below:

TABLE 3 – TOTAL ESTIMATED RESOURCES 2007-08	
SOURCE OF FUNDING	£'000
Loan	141,488
Grant	113,170
External Funding	7,554
Revenue and Renewals	5,298
General Capital Receipts	200
Earmarked Capital Receipts	47,973
Private Finance Initiative (PFI)	36,301
TOTAL	351,984

- 6.2 Total forecast capital expenditure financed from all sources in 2007-08 is £351.984m. This probably represents the County Council's largest ever programme of capital investment and is summarised in table 4 below.

TABLE 4 - CAPITAL EXPENDITURE 2007-08	
PORTFOLIO	£'000
Education and School Improvement	161,802
Children and Family Services	5,105
Adult Services	43,192
Environment, Highways and Waste	103,153
Regeneration and Supporting Independence	7,604
Communities	21,518
Corporate Support	3,644
Policy and Performance	500
Finance	5,466
TOTAL	351,984

- 6.3 The new 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.

7. COUNCIL TAX 2007-08

- 7.1 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.
- 7.2 In order to calculate the County Council Tax rate it is necessary to divide the precept requirement by the number of equivalent Band D properties (or 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 2007-08 equals 530,548.32.

TABLE 5 – CALCULATION OF COUNCIL TAX	
	£000
Budget Requirement 2006-07	709,958
Spending Increase (net of adjustments)	31,771
Budget Requirement 2007-08	741,729
Financed From:	
Formula Grant	-228,685
Council Tax Collection surplus	-1,505
Precept requirement from Council Tax	511,539
Divided by tax base (band D equivalent)	530,548.32
Basic Amount of Council Tax	
Tax rate for Band D property 2007-08	£964.17
Tax rate for Band D property 2006-07	£918.72
Band D increase - £	£45.45

- 7.3 The tax for other property bands is calculated in fixed proportion 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 4.95%								
	Band							
	A £	B £	C £	D £	E £	F £	G £	H £
Weekly Increase Compared to 2006-07	0.58	0.68	0.78	0.87	1.07	1.26	1.46	1.75
Annual Charge	642.78	749.91	857.04	964.17	1,178.43	1,392.69	1,606.95	1,928.34

8. ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

- 8.1 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.
- 8.2 The estimates have been produced from a challenging process with Portfolios and Directorates, resulting in agreement 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.
- 8.3 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 budget monitoring, the internal financial control framework, our strong approach to risk management and the expected level of General Reserves of approximately £25.8m as at 31 March 2007.
- 8.4 To conclude, the Director of Finance is able to formally report that that the budget estimates are robust and the level of reserves adequate.

9. RECOMMENDATIONS

- 9.1 The Council are asked to approve the contents of the attached Budget and Medium Term Plan 2007-10 and to approve the following proposals:
- (a) the Revenue and Capital Budget proposals for 2007-08;
 - (b) the Revenue Budget requirement of £741,729,000;
 - (c) the Capital Investment proposals of £351,984,000, 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:
 - (i) Education and School Improvement;
 - (ii) Children and Family Services;
 - (iii) Adult Services;
 - (iv) Environment, Highways and Waste;
 - (v) Regeneration and Supporting Independence;

- (vi) Communities;
 - (vii) Public Health;
 - (viii) Corporate Support;
 - (ix) Policy and Performance;
 - (x) Finance;
- (f) that final recommendations in relation to the Dedicated Schools Grant be delegated to the Cabinet Members for Education and School Improvement;
- (g) a total requirement from Council Tax of £511,539,000 to be raised through precept to meet the 2007-08 budget requirement
- (h) a Council Tax as set out below, for the listed property bands:

Council Tax Band	A	B	C	D	E	F	G	H
£	642.78	749.91	857.04	964.17	1,178.43	1,392.69	1,606.95	1,928.34

Background documents:

- *Autumn Budget Statement – Cabinet 18 September 2006*
- *Provisional Local Government Finance Settlement 2007-08 – 28 November 2005*
- *Budget 2007-08 and Medium Term Plan 2007-08 to 2007-10: Update on Provisional Local Government Settlement (28 November 2006) – Cabinet 4 December 2006*
- *KCC consultation response to Provisional LG Finance Settlement –5 January 2007*
- *Draft budget 2007-08 and Draft Medium Term Plan 2007-10 (incorporating the Budget and Council Tax Setting for 2007-08) – Cabinet 22 January 2007.*
- *Medium Term Financial Plan 2007-10 (Incorporating the Budget and Council Tax Setting for 2007-08) - Update – Cabinet 8 February 2007*
- *Revenue & Capital Budget Monitoring Exception Report – Cabinet 8 February 2007*

Contact: Lynda McMullan
 Director of Finance
 Tel: 01622 694550