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TO: Cabinet Meeting – 23rd January 2012

Subject: Provisional Local Government Finance Settlement 2013/14 and
KCC Draft Budget 2013/14

Summary: To update the Cabinet on the provisional local government finance settlement announced on 19th December and proposed 2013/14 Budget launched on 16th January for final comment. Cabinet is asked to endorse the proposed budget and Council Tax levels for 2013/14 for submission to the County Council on 14th February 2012. Cabinet is also asked to agree the revised Treasury Management strategy proposed in the draft budget.

The update includes:

- Details of the local government finance settlement and KCC's response
- Implications of the settlement on the draft budget issued for consultation on 6th September
- The latest forecast for spending demands for 2013/14 based on the November Second Quarter Budget Monitoring Report
- The proposed Capital Programme 2013/16
- Treasury Management strategy
- The provisional tax base information from District Councils
- Recommendation to Personnel Committee on staff pay

Members are reminded that Section 106 of the Local Government Finance Act 1992 applies to any meeting where consideration is given to a matter 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.

1. Introduction

- 1.1 The draft 2013/14 Budget was launched for public consultation on 6th September. This is the first time we were able to launch consultation in advance of receiving the provisional local government finance settlement. This provided an 8 week consultation period and enabled Cabinet to issue a formal response at its meeting on 3rd December. This response has informed the changes in the final draft budget launched on 16th January following assessment of the provisional local government finance settlement announced on 19th December.
- 1.2 The budget proposals have been developed in the most difficult circumstances. Not only does the Government maintain its commitment to eliminate the UK's budget deficit through public spending reductions but this year we have also had to contend with a major overhaul of the main funding arrangements for local government and significant changes to the Council Tax system. Initial estimates from the 2010 Spending Review (SR2010) indicated this would be an easier year with smaller savings targets, however, the combination of the other changes means we are facing savings of a similar magnitude as the current year.
- 1.3 At the same time as funding is reducing the demands on local authority services are increasing. Next year we are estimating new spending demands of £33.6m¹. This is less than similar pressures in previous years and represents a £1.8m increase on the amount identified at the time consultation was launched. Within this there a number of increases and reductions which are outlined in draft Budget Book and MTFP attached as appendices 2 and 3 respectively.
- 1.4 The consultation set out Cabinet's commitment to freeze Council Tax at the same rates as 2010/11 for the third successive year. At the time the consultation was launched we were not planning for any support from Government Grant towards the freeze. Feedback from consultation supported this approach and Cabinet has maintained its resolve not to increase in spite of the challenging budget. Since the consultation was launched Government has announced a grant equivalent to 1% of Council Tax for those authorities freezing tax levels in 2013/14.
- 1.5 Since 2010 we have been estimating that over the 4 year period from 2011 we would need to make £340m of savings in real terms to take into account funding reductions and additional spending demands. The 2013/14 draft budget and MTFP indicates that this estimate remains an accurate forecast.
- 1.6 The draft budget is based on the forecasts in the quarter 2 monitoring reported to Cabinet in December. The exception monitoring report

¹ excluding reversal of one-offs from 2012/13, spending supported by health funding and 2 year old expansion funded from DSG

presented elsewhere on this agenda does not include any material changes which would affect the proposed draft budget.

- 1.7 Personnel committee considers a report on 18th January which includes a recommendation about a pay award for all Kent Scheme staff. Their recommendation will be part of the budget recommendations to County Council on 14th February.

2. Provisional Local Government Finance Settlement

- 2.1 The provisional local government finance settlement was announced on 19th December 2012. This was later than in previous years and gave very little time for analysis before Christmas. This was several weeks later than previous years and nearly two weeks later than this year. The settlement was also more complex than previous years as a result of the transfer of a number of grants into a new funding system which makes comparison with the current year very difficult. It did not help that we did not have any provisional figures and some significant changes only came to light during consultation in the autumn and we did not get the outcome from these until the settlement was announced.
- 2.2 The new arrangements are based on the authority receiving 9% of the estimated business rates to be collected locally by district councils. In addition the authority receives a top-up to ensure funding matches a business rates baseline (districts have to pay a tariff to ensure their estimated share of business rates does not exceed the baseline). In the following year the actual business rates collected in 2013/14 will be compared to the estimates included in the budget and any excess will be distributed between the districts/county council/fire and rescue authority in the ratio of 80:18:2 (similarly any deficit will also have to be shared out in the same ratio). The ratio means that variation on business rates collection is not as significant for the county as it is for the districts.
- 2.3 In addition to the business rates and top up the authority will also receive Revenue Support Grant (RSG) equivalent to 60.05% of the grants which have been transferred into the new arrangements. This is funded from the 50% of business rates which are collected locally and returned to the HM Treasury plus the other Government funding identified for local government in SR2010. This system of business rates (including top-ups and tariffs) and RSG replaces the previous grant arrangements. More detail on the new funding arrangements is included in the draft MTFP.
- 2.4 The new funding system based on business rates and RSG also include the money transferred from Department for Work and Pensions (DWP) to fund local Council Tax Support schemes (CTS). The introduction of CTS means that the County Council's tax base for 2013/14 is significantly less than 2012/13. There have also been other

changes to Council tax which allows billing authorities more discretion over discounts and exemptions. The draft Budget Book includes an explanation of the change in the tax base between 2012/13 and 2013/14.

- 2.5 Overall the provisional local government settlement shows a reduction government grant of £39m on a like for like basis between 2012/13 and 2013/14. This equates to 9.5% of the overall un-ring-fenced grants or just under 4% of the county council's net spend excluding schools. This is £13m worse than we estimated for the consultation. The Council tax base is slightly better than we forecast for the consultation and overall the net budget excluding schools shows a £40m reduction (compared to the £28m reduction at the time of the consultation).
- 2.6 We had until 15th January to respond to the provisional settlement. In our response we have commented on the difficulties the time scale has presented and have repeated our principle concerns with the new arrangements and the late changes, particularly in relation to Early Intervention Grant (EIG) and Local Authority Central Spend Equivalent Grant (LACSEG). In spite of these concerns we have urged that the government does not make any further changes at this very late stage as this would impact on ability to set the budget and therefore precept levels for Council Tax.
- 2.7 The grants to support the transfer of Public Health responsibilities were only announced on 10th January. This was too late to include in this draft of the Budget Book and MTFP and will be reported to County Council separately. There are a number of other less significant grants still to be announced/confirmed.

3. Draft Budget and MTFP

- 3.1 We have included the impact of the provisional settlement into the draft budget and MTFP. We have also included the additional £1.8m spending demands referred to in paragraph 1.3. This has increased the savings/income target from the £60m outlined in the consultation launched in September to £74m on a like for like basis. This does not include the impact of one-offs or grant changes (the income from health towards social care or the income for the expansion of 2 year olds places now included in the Dedicated Schools Grant - these have to be included in MTFP analysis for completeness).
- 3.2 We have refined and re-phased some of the planned savings e.g. transformation of specialist children's services which has a knock on consequence on the amount that can be delivered in 2013/14. We have also proposed a number of new and increased savings to compensate and to balance the additional spending demands and funding changes. The new proposals are drawn from Cabinet's response to the consultation rather than the services which are notionally funded from the grants which have changed since we

launched the consultation as they have transferred into the new arrangements. In particular this means that early intervention and education support services have not faced additional savings targets compared to the consultation.

- 3.3 The ongoing uncertainty in the new arrangements means it is not considered prudent to produce a detailed medium term financial plan beyond 2013/14. In particular we need to pay close attention to Council Tax and business rate collection as these will have a significant bearing on future resources. We also need more time to analyse of the indicative figures for 2014/15 as unlike the current formula arrangements we will no longer receive grant to reflect population increases.
- 3.4 The draft Budget Book and MTFP includes the proposed capital programme for 2013/16 and a new proposed capital strategy. We did not include the capital programme in the consultation launched in September as it is heavily reliant on grant announcements from central government departments. We have still not received announcements for some of these grants e.g. schools basic need, but we must publish a draft programme based on estimates.

4. Treasury Management Strategy

- 4.1 The draft MTFP includes a revised treasury management strategy. In particular the proposed strategy includes proposals to increase the number of counterparties where the council can invest money, the types of approved investments and the maximum duration for investments. These changes are needed in order to deliver better value from the authority's treasury management and achieve £2m of savings/additional income included in the draft budget proposals.
- 4.2 Cabinet is asked to agree the changes to the Treasury Management Strategy.

5. Council Tax Base

- 5.1 KCC's calculation of Council Tax depends on the number of equivalent Band D properties within the area. This constitutes the tax base and is the basis of the precept we make on District Councils. District Councils must notify all preceptors of the tax base by the end of January. This calculation is based on the assessment of the number of properties in each band as at 30th November less each council's estimate for discounts for single occupancy, empty properties, exemptions and collection rates. This is then converted to the Band D equivalent tax base.
- 5.2 For the purposes of the draft 2013/14 Budget we are assuming a Band D equivalent tax base of 486,341.98 yielding £509,579,400 at the same

Band D rate as 2012/13 (£1047.78). This is based on the latest estimates provided by district councils. Comparison with 2012/13 Band D equivalent tax base of 551,560.84 is difficult due to the changes through CTS and the additional discretions on exemptions and discounts. On the best like for like basis we can produce this shows an increase in the tax base of 0.35%. This is encouraging in terms of tax yield and higher than we had previously estimated. As already outlined Cabinet is proposing a Council Tax freeze in the 2013/14 Budget, meaning that the Band D rate would remain £1,047.78 for the fourth successive year.

5.3 Table 1 below shows the increase in the overall Band D equivalent tax base for 2013/14 and previous years on a like for like basis.

| Table 1 Band D Equivalents | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2013/14 adjusted on like for like basis |
|----------------------------------|---------|----------|---------|---------|--|
| | | | | | |
| Total | 543,481 | 547, 528 | 551,561 | 486,342 | 553,467 |
| % Increase | 0.62% | 0.74% | 0.74% | | 0.35% |

5.5 This tax base could still change up to the deadline of 31st January. Any changes will be included in the final budget presented to County Council.

5.6 District councils must also notify major preceptors of the balance on the collection funds for previous years by 31st January. This balance has to be allocated to authorities pro rata to their respective tax base. As in previous years we will have to factor any overall surplus or deficit into the final budget although this can only be treated as a one-off.

6. Conclusions

6.1 In summary there have been a number of significant changes since the draft budget was launched for consultation:

- Changes to the amounts transferred into the new local government funding arrangements for EIG and LACSEG have significantly reduced the funding available in the provisional settlement by £20.5m compared to the consultation launched in September
- The additional Council Tax Freeze Grant for 2013/14 has increased the funding available in the provisional settlement by £5.8m compared to the consultation launched in September
- Changes to other grant assumptions have increased the funding available in the provisional settlement by £1.7m compared to the consultation launched in September
- The overall estimated Council Tax base including the impact of Council Tax support has increased the funding available by £1.2m compared to the consultation launched in September.

- The spending demands have increased by £1.8m compared to the estimate included in consultation launched in September
- The overall impact of the 5 points above requires an additional net £13.6m of savings to be included in the final draft budget compared to the £60.3m in the consultation launched in September.

6.2 The impact of these changes is reflected in the final draft budget Book and MTFP

6.3 Table 2 summarises the revised proposed budget requirement and proposed Council Tax precept for 2012/13.

| Table 4 – Calculation of Council Tax | 2012/13 Approved Budget | 2013/14 Draft Budget for Consultation £000s | 2013/14 Final Draft Budget |
|--------------------------------------|-------------------------------|---|----------------------------------|
| Proposed Budget Requirement | 904,321 | 966,510 | 951,711 |
| Financed from: | | | |
| Formula Grant | 303,446 | 293,400 | |
| Early Intervention Grant | | 54,883 | |
| | | 35,627 | |
| Council Tax Support Grant | | 69,146 | |
| Revenue Support Grant | | | 246,602 |
| Business Rates Top-up | | | 118,241 |
| Education Services Grant | | | 20,642 |
| Council Tax Freeze Grant | 14,446 | | 5,820 |
| New Homes Bonus | 2,829 | 4,200 | 4,383 |
| Other Grants | 3,437 | 888 | 628 |
| | | | |
| Business Rates | | | 45,816 |
| | | | |
| Council Tax Collection Fund Surplus | 2,239 | | |
| Council Tax Precept | 577,914 | 508,366 | 509,579 |
| | | | |
| Band D equivalent tax base | 551,560.84 | 485,183.91 | 486,341.98 |
| | | | |
| Council Tax Band D rate 2013/14 | £1,047.78 | | £1,047.78 |

7. Recommendations

7.1 Cabinet is asked to endorse the following, for consideration and approval by County Council on 14th February 2013:

- (1) The Revenue Budget proposals for 2013/14 including the proposed changes since the consultation, included in the published draft Budget, and the resulting change to the overall budget requirement.

- (2) A requirement from Council Tax of £509.579m to be raised through precept on District Councils.
- (3) A Council tax freeze at 2012/13 levels. Levels for each property band as set out below.

| Council Tax Band | A | B | C | D | E | F | G | H |
|------------------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|
| | £698.52 | £814.94 | £831.36 | £1,047.78 | £1,280.62 | £1,513.46 | £1,746.30 | £2,095.56 |

- (4) The Capital investment proposals for 2013/14, together with the necessary borrowing, revenue, grants, capital receipts, renewals, external funding and other earmarked sums to finance the programme. Note that delivery of the programme will be subject to the approval to spend on individual schemes and the level of Government support available in future years
- (5) The Prudential Indicators as set out in Appendix B of the draft MTFP 2013/15

7.2 Cabinet is asked to agree the Treasury Management Strategy as set out in section 4 of the draft MTFP 2013/15

Officer Contacts

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Appendices

Appendix 1 – Minutes of the Cabinet Scrutiny Committee meeting to be held on 21st January 2013

(At the time of agenda publication the meeting had not taken place - minutes will be circulated as soon as they are available after the meeting)

Appendix 2 - Draft Budget 2013/14 - launched 16th January 2013

Appendix 3 – Draft Medium Term Financial Plan 2013/15 - launched 16th January 2013

Background Documents

[Budget Consultation Document – Framing Our Budget launched 6th September 2012](#)

[Report to Cabinet on Budget Consultation 2013/14 – 3rd December 2012](#)