

By: Paul Carter, Leader of the Council
To: County Council - 19 February 2009
Subject: Medium Term Plan 2009-12 (Incorporating the Budget and Council Tax Setting for 2009-10)
Classification: Unrestricted

Summary: This report has been prepared so that Kent County Council can formally set its budget and council tax levels for 2009-10 in accordance with relevant legislation.

The report briefly provides an update on the 2008-09 financial position and makes detailed proposals for the 2009-10 revenue and capital budgets, as set out in the 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 Cabinet Report of 2 February 2009. Consequential changes made to the Medium Term Plan and Budget have been identified within this report, as set out in paragraph 11 onwards ('Changes between draft budgets for Cabinet and Council').

Indicative financial information has been provided within the Medium Term Plan for 2010-11 and 2011-12. 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 to bring the white-comb bound 2009-10 Budget Book and 2009-12 Medium Term Plan 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 and ultimately set a budget and Council Tax for the next financial year, 2009-10. 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 2009-12 is attached to this report (white comb version). It should be noted that financial projections for both resourcing and expenditure for 2010-11 and 2011-12 are shown as "indicative" planning assumptions. Clearly, there are a number of issues that will be subject to better information or change over time, particularly in light of the current and forecast economic conditions. 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 2009-10. Formula Grant funding will increase by a headline 3.2%, which is above the floor funded minimum. This figure falls to 2.0% when the ending of the Local Authority Business Growth Incentive Scheme (LABGI) grant is taken into account. The headline figure for 2010-11 is also 3.2%. It should be noted that Formula Grant and Area Based Grant account for only 37% of our budget requirement, the rest is funded by Council Tax.

BUDGET 2008-09

5. Budget monitoring for the current year has shown significant pressures throughout the year to date. The budget for 2009-10 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 2008-09 is an underspend of £5.8m, although this is reduced to £0.6m if we take into account the 'overspend' on Asylum. However, we continue to expect Central Government to recompense us for the undue burden of asylum costs that falls on this Authority. The proposed budget for 2009-10 assumes that £3.7m of underspend from 2008-09 will be available to support the 2009-10 budget.
7. We expect to close the 2008-09 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 2009-10.
8. Schools started 2008-09 with revenue reserves of £67m and capital reserves of some £17m. 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, for use in schools or schools related expenditure.

CONSULTATION

9. 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 13 January 2009. A meeting with business leaders was held on 27 January and there was a consultation with staff representatives on 11 February. The budget proposals were reviewed at Cabinet Scrutiny Committee on 26 January and 10 February.
10. 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 2 February 2009.

CHANGES BETWEEN DRAFT BUDGETS FOR CABINET AND COUNCIL

11. Some changes to the Budget and Medium Term Plan document have been made since they were first published on 7 January. These are explained in this section.
12. The proposed Council Tax increase considered by Cabinet on 2 February was 2.44%. This is 0.41% less than the 2.85% increase proposed in the draft budget published on 7 January. In budget terms, this equates to a reduced funding requirement of £2.187m. Further details are provided in Table 1 in paragraph 15.
13. This change impacts on the Finance Portfolio and the budget and MTP have been changed accordingly, as have the Prudential Indicators shown at Appendix D in the MTP.
14. 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, particularly with regard to the rapidly changing economic climate.
15. The impact 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 2009-10	Net £'000
Budget Requirement per draft on 7 January	889,562
Further debt restructuring	- 3,169
Increase in second homes taxbase and associated spending	+ 77
Revised proposed Budget Requirement	886,470

Amount met by Council Tax per draft on 7 January	-557,626
Lower than expected taxbase	+ 1,135
Reduction in funding requirement which reduces council tax increase from 2.85% to + 2.44%	+ 2,187
Amount met by Council Tax per draft to Council	- 554,304
Government Funding – Formula Grant and Area Based Grant (unchanged at Final Settlement)	- 331,936
Surplus on tax collection for previous years	- 230
Total funding	- 886,470

REVENUE BUDGET PROPOSALS 2009-10

16. 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 2009-10 summarised in Table 2 below.
17. 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 2009.

Portfolio totals excluding charges for capital assets	£'000
Operations, Resources and Skills (CFE)	73,466
Children, Families and Educational Achievement	136,651
Adult Social Services	340,668
Environment Highways and Waste	150,002
Regeneration	8,096
Communities	56,347
Public Health	680
Corporate Support and External Affairs	16,665
Policy and Performance	1,482
Finance	<u>102,413</u>
Budget requirement 2009-10	886,470

CAPITAL INVESTMENT PROPOSALS 2009-10

18. The total estimated resources are summarised below:

SOURCE OF FUNDING:	£'000
Supported Borrowing	61,146
Prudential	46,151
Prudential funded from Portfolio Revenue	17,580
Property Enterprise Fund 2 (PEF2)	23,287
Grants	242,905
External Funding - Developer Contributions	7,682
Other External Funding	13,800
Revenue and Renewals	8,206
General Capital Receipts	2,680
Earmarked Capital Receipts	9,421
Private Finance Initiative (PFI)	54,983
Transfer of Land in Part Payment	3,060
TOTAL	490,901

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

TABLE 4 - CAPITAL EXPENDITURE 2009-10	
PORTFOLIO:	£'000
Operations, Resources and Skills (CFE)	278,519
Children, Families and Educational Achievement	3,318
Adult Social Services	23,046
Environment, Highways and Waste	128,633
Regeneration	6,835
Communities	28,589
Corporate Support & External Affairs	16,389
Policy and Performance	500
Finance	5,072
TOTAL	490,901

20. 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 2009-10

21. 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.
22. 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 2009-10 equals 540,114.82.

TABLE 5 – CALCULATION OF COUNCIL TAX	
	£000
Budget Requirement 2008-09	857,018
Spending Increase (net of adjustments)	+ 29,452
Budget Requirement 2009-10	886,470
Financed From:	
Formula Grant	- 331,936
Collection fund surplus	- 230
Precept requirement from Council Tax	554,304
Divided by tax base (band D equivalent)	540,114.82
Council Tax for a Band D property 2009-10	£1,026.27
Council Tax for a Band D property 2008-09	£1,001.79
Band D increase	£24.48
	+ 2.44%

23. 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 ASSUMING AN INCREASE OF 2.44%								
Band								
	A £	B £	C £	D £	E £	F £	G £	H £
Weekly Increase Compared to 2008-09	0.31	0.37	0.42	0.47	0.58	0.68	0.78	0.94
Annual Charge	684.18	798.21	912.24	1026.27	1254.33	1482.39	1710.45	2052.54

ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

24. 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.
25. 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.
26. 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 2009. The level of general reserves is in line with best practice as recommended by CIPFA and the Audit Commission.
27. To conclude, the Director of Finance is able to formally report that the budget estimates are robust and the level of reserves adequate.

RECOMMENDATIONS

28. The Council are asked to approve the contents of the attached 2009-10 Budget and Medium Term Plan 2009-12 and to approve the following proposals:
 - (a) the Revenue and Capital Budget proposals for 2009-10;
 - (b) the Revenue Budget requirement of £886,470,000;
 - (c) the Capital Investment proposals of £490,901,000, 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 for:
- Operations, Resources and Skills (CFE);
 - Children, Families and Educational Achievement;
 - Adult Social Services;
 - Environment, Highways and Waste;
 - Regeneration;
 - 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) a total requirement from Council Tax of £554,303,636 to be raised through precept to meet the 2009-10 budget requirement; and
- (h) a Council Tax as set out below, for the listed property bands:

Council Tax Band	A	B	C	D	E	F	G	H
£	684.18	798.21	912.24	1026.27	1254.33	1482.39	1710.45	2052.54

Background documents:

- *Impact of Current Economic Situation on the Council - Cabinet 4 August 2008;*
- *Autumn Budget Statement - Cabinet 15 September 2008;*
- *Effect of the downturn in the economy on Corporate Services - Corporate Policy Overview Committee 14 November 2008;*
- *Provisional Local Government Finance Settlement 2009-11 - 26 November 2008;*
- *Preparing the County Council for Future Challenges - County Council 11 December 2008;*
- *Local Government Provisional Finance Settlement - Cabinet 12 January 2009;*
- *KCC consultation response to Provisional LG Finance Settlement - 6 January 2009;*
- *Draft budget 2009-10 and Draft Medium Term Plan 2009-12 - launched 7 January 2009 and considered by Policy Overview Committees between 13 and 20 January 2008, and Cabinet Scrutiny Committee 26 January 2009;*
- *Final Local Government Finance Settlement 2009-10 and Provisional Settlement 2009-11 - 21 January 2009;*
- *Medium Term Plan 2009-12 (Incorporating the Budget and Council Tax Setting for 2009-10) - Update – Cabinet 2 February 2009.*

Officer Contact:

Lynda McMullan, Director of Finance, Ext. 4550
 Andy Wood, Head of Financial Management, Ext. 4622