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To: Environment and Transport Cabinet Committee January 2015

Subject: Budget 2015/16 and Medium Term Financial Plan 2015/18

Classification: Unrestricted

**Summary:** This report sets out the proposed draft budget 2015/16 and Medium Term Financial Plan (MTFP) 2015/18 as it affects the Environment and Transport Cabinet Committee. The report includes extracts from the proposed final draft budget book and MTFP relating to the remit of this committee (these are exempt until the Budget and MTFP is published on 12 January). This report also includes information from the KCC budget consultation, Autumn Budget Statement and provisional Local Government Finance Settlement as they affect KCC as a whole as well as any specific issues of relevance to this Committee.

**Recommendations:** The Environment and Transport Cabinet Committee is asked to note the draft Budget and MTFP (including responses to consultation and Government announcements) and make recommendations to the Cabinet Member for Finance and Procurement and Cabinet Member for Transport and Environment on any other issues which should be reflected in the budget and MTFP prior to Cabinet on 28 January and County Council on 12 February 2015.

## 1. Introduction

1.1 Setting the annual budget and three year MTFP remains one of the most important and challenging strategic decisions that the council has to make. Over recent years the council has to tackle the conflicting impact of reduced funding from central government as it seeks to eliminate the budget deficit, rising demand and cost of providing services, and a desire to keep Council Tax increases low. At the same time the Council has also had to respond to significant changes in responsibility passed down from central government and significant changes in the way local authorities are funded. This means the council has had to make unprecedented levels of year on year savings in order to balance the budget.

1.2 This challenge is unlikely to abate for the foreseeable future. When we set the 2014/15 budget and 2014/17 MTFP we anticipated there would be further significant reductions in Revenue Support Grant (RSG) for 2015/16 as a result of the Spending Round 2013 announcements. These reductions were anticipated to be on a similar scale to 2011/12 when the first round of reductions in public spending were front-loaded onto local government. The provisional Local Government Finance Settlement announced on 18 December 2014 confirmed that these reductions were

as per the amounts we had anticipated (other than some minor technical adjustments which have no material impact).

1.3 The outlook beyond 2015/16 looks equally grim with predictions of further public spending reductions if the Government is to meet its deficit elimination targets, with commentators suggesting that these reductions would see public spending as a proportion of the overall economy reducing to levels not seen since the 1930s. We do not have any Government spending plans beyond 2015/16 so we have no detail where these reductions might be achieved, or if an incoming government may change its stance on levels of spending and taxation. However, whatever the outcome it is clear that any new government is highly unlikely to run a large deficit and that substantial savings will have to be delivered beyond 2015/16.

1.4 Section 2 of the published MTFP provides a much fuller analysis of the national financial and economic context.

**2. Financial Implications**

2.1 The initial draft budget was published for consultation on 9 October 2014. This set out our forecasts for the overall funding likely to be available for the next 3 financial years, estimated spending based on the current year’s performance and future predictions for additional spending demands, and additional savings/income necessary to balance the budget. The funding estimates were unchanged from the 2014/17 MTFP (these were based on the indicative settlement for 2015/16 from central government published at the same time as the 2014/15 settlement) and KCC estimate for 2016/17. The consultation included a new estimate for 2017/18.

2.2 The financial equation presented in the consultation is set out in table 1 below. The consultation identified proposed savings of £85.8m leaving a gap of £7.4m still to be found before the budget is finalised.

Table 1	2015/16		3 years	
Grant Reductions	-£55.8 m	-15.40%	-£118.0 m	-32.60%
Council Tax/Business Rates	£11.5 m	1.99%	£42.0 m	7.20%
Spending Demands	£48.9 m	5.20%	£130.0 m	13.80%
Savings	-£93.2 m	-9.90%	-£206.0 m	-21.90%

2.3 As indicated in paragraph 1.2 the provisional Local Government Finance Settlement for 2015/16 was announced on 18 December and was largely unchanged from the previous indicative settlement. There were some minor technical adjustments and changes in business rates which affected both the RSG and business rate top-up, but these will be compensated by changes in other grants.

2.4 At the time we published the MTFP we had no indicative figures for other grants outside the main settlement e.g. New Homes Bonus, Education Services Grant (ESG), etc., and thus included our best estimate. These estimates have now been updated from the provisional settlement although the amount for ESG is recalculated during the year to take account of academy transfers (and we have to estimate the impact) and the business rate compensation grant for the changes in business rates included in the Autumn Statement has not yet been announced.

2.5 As well as the provisional settlement, which includes un-ring-fenced grants where the council has complete discretion how the money is spent, there are still a number of ring-fenced grants allocated by government departments. These ring-fenced grants are announced both before and after the provisional settlement according to individual ministerial decisions. The County Council's financial strategy is that any reductions (or increases) in ring-fenced grants are matched by spending changes and therefore there is no overall impact on the net spending requirement. This means the County Council will not generally top-up ring-fenced grants from Council tax or general grants.

2.6 We have had provisional notification of the Council Tax base from district councils. This is higher than the 0.5% estimate included in the budget consultation and will be reflected in the final draft budget to be published on 12 January. We will receive final notification by the end of January together with any balances on this year's collection funds. The final draft budget will also confirm the intention to increase the KCC precept for all Council Tax bands by 1.99%, increasing the County Council Band D rate from £1,068.66 to £1,089.99. We have had no provisional business rate tax base figures and at this stage are assuming no change from the baseline. Under the new funding arrangements introduced in 2013/14 the County Council receives 9% of any increase in the business rate base, and for budget planning purposes this is considered to be marginal and we assume no increase/decrease until we receive the final tax base at the end of January.

2.7 Appendix 1 sets out the high level picture of the revised funding, spending and savings assumptions which are proposed for 2015/16 and will be included in the draft MTFP to be published on 12 January, pending any final last minute changes. **Appendix 1 is exempt from publication until the final Budget and MTFP is published.** There may be further changes to the final draft budget for 2015/16 following final notification of all Government grants and final tax bases (including collection fund balances). As in previous years any changes from the amounts published will be reported to County Council in February. At this stage we have not revised the assumptions for 2016/17 and beyond (despite some very dire forecasts included in the Autumn Statement and accompanying outlook from the Office for Budget Responsibility) until we have more detail following the next spending review.

2.8 Appendix 2 sets out a more detailed extract from the MTFP setting out the main changes between 2014/15 and 2015/16 relating to the remit of Environment and Transport Cabinet Committee. This information will be included in the draft MTFP to be published on 12 January, pending any final last minute changes. **Appendix 2 is exempt from publication until the final Budget and MTFP is published.** The council's budget and MTFP is structured according to directorate responsibilities. This means presenting information that is relevant to individual Cabinet Committees is not straight forward.

2.9 We moved from publishing budget information on a Cabinet portfolio basis to a directorate basis for 2014/15 budget. This was introduced to enhance budget planning and control in the difficult financial climate. The information in appendix 2 is based on the budget responsibilities for the following directors/directorates (note this does not include budgets held by Corporate Directors or any unallocated amounts):

GET Directorate – Director of Highways, Transport & Waste  
GET Directorate – Director of Environment, Planning and Enforcement

2.10 Appendix 3 sets out an extract from the draft Budget Book setting out the relevant budgets for 2014/15 and 2015/16 for the A to Z entries relating to the remit of Environment and Transport Cabinet Committee. This information will be published on 12 January, pending any final last minute changes. **Appendix 3 is exempt from publication until the final Budget and MTFP is published.** The information in appendix 3 is based on the budget responsibilities for the same directors/directorates as appendix 2 but does not include budgets for Directorate Management and Support or budgets held by other directors.

2.11 Appendix 4 sets out the draft capital programme for Growth Environment and Transport Directorate. **Appendix 4 is exempt from publication until the final Budget and MTFP is published.** Due to the way the capital programme is constructed the budget and funding cannot be broken down into more detail to more closely match the remit of individual cabinet committees.

### **3. Budget Consultation**

3.1 The consultation and engagement strategy for 2014 included the following aspects of KCC activity:

- Press launch on 9 October
- 3 questions seeking views on Council Tax, approach to savings and balancing the 2015/16 budget open from 9 October to 28 November
- On-line budget modelling tool comparing 22 areas of front line spending open from 9 October to 28 November
- A simple summary of 3 year budget published on KCC website
- Web-chat on 24 October with Cabinet and Deputy Cabinet members for Finance & Procurement
- Workshops with business and voluntary & community sectors on 27 November
- Staff workshops
- Presentation and discussion with Kent Youth County Council on 16 November

3.2 A full analysis of the responses to the consultation will be reported to Cabinet on 28 January and circulated to members of the Policy and Resources Cabinet Committee in advance. This will also be available as background material for the County Council meeting in February.

3.3 This section of the report covers the main results from the 3 questions and on-line tool to assist Committees in scrutinising the budget proposals set out in the exempt appendices. The responses to the 3 questions and on-line tool are set out in appendices 5 and 6. These appendices are not exempt.

3.4 In addition the council employed market research experts to validate the responses with a representative sample of residents via more in depth research and analysis. This included an e-mail survey using the same on-line tool as the Kent.gov.uk website which enables a direct comparison of views between those responding on-line a survey with a representative sample. This analysis in appendix 6 does not highlight any marked differences. The full consultant's report is unlikely to be available in time for cabinet committees but will be available as background material for the full County Council budget meeting in February.

3.5 In total we have received 1,962 responses to the 3 questions and 853 responses to the on-line tool. Although responses to the individual questions were less than last year this is still a high level of engagement compared to previous years when more detailed questions were included. There is no evidence that asking an additional question compared to last year affected responses levels, and the evidence shows that we did not get the same surge of responses at particular times as we had last year. This indicates that we need to find more effective ways to promote awareness throughout the campaign in order to increase response levels. The responses to the on-line tool are higher than last year, which is encouraging. The responses to the 3 questions and the online tool via the Kent.gov.uk website include those from residents and staff. The more detailed analysis has not shown up any marked differences between staff and residents at this stage although more work is needed on this analysis for the final reports.

3.6 The responses to the 3 questions clearly indicate support for a 1.99% Council Tax increase in order to preserve valued services as result of reduction in government funding. This conclusion is fully supported by the market research evidence. Although there is some support for higher increases there is not enough evidence that a referendum would be successful. This too was borne out by the market research and the more in depth analysis. Around  $\frac{1}{4}$  of respondents would prefer a Council Tax freeze. These responses are remarkably consistent with last year's responses.

3.7 The responses to the question on the approach to making savings show support for a mixed approach, with the highest level of support for a transformation approach, but also significant support for efficiency savings and stopping/reducing the lesser valued services. This is similar to responses from last year although the question was phrased in better way to get a clearer picture. Support for restricting access to services continues to receive the lowest support as an approach to savings.

3.8 Responses to the options to close the unresolved gap in the 2015/16 budget showed clear for raising additional income either through increased charging or increasing the Council Tax base through tackling avoidance.

3.9 We have placed a high priority on the latter and have recently had a successful bid to the Government's £16m anti-fraud fund. We will continue to work with district councils and other major precepting authorities to maximise the tax base.

3.10 The next most popular option was to deliver further savings and options for higher Council tax increase (in excess of 1.99% already proposed), use of reserves and pay/price freeze were less popular.

3.11 All these results are consistent with the initial analysis from other engagement activities.

3.12 All of the responses above are supported by initial analysis from the market research and other KCC led activities.

#### **4. Specific Issues for Environment and Transport Cabinet Committee**

Appendices 2, 3 and 4 set out the main budget proposals relevant to Environment and Transport Cabinet Committee. These proposals need to be considered in light of the general financial outlook for the county council over the medium term, and in particular the need for significant savings in 2015/16 as a result of the 25% reduction in Revenue Support Grant within the provisional settlement (13% within overall settlement). Committees will also want to have regard to consultation responses in considering budget proposals.

#### **5. Conclusions**

5.1 The financial outlook for the next 3 years continues to look challenging. The reductions in the provisional settlement for 2015/16 are as severe as we anticipated from the indicative settlement last year, and the only changes relate to marginal technical issues. These make the settlement look slightly better but are offset by changes in other grants outside the settlement which mean the effective reductions are around 13%. We continue to reject the Government's "change in spending power" figures within the settlement. These include some specific grant increases (which bring with them additional spending requirements) and ignore the impact of unfunded and unavoidable spending increases (see below).

5.2 At this stage we have not changed our forecasts for 2016/17 and 2017/18 even some commentators have expressed the view that meeting the deficit elimination objectives up to 2018/19 will require even greater spending reductions than 2010/11 to 2014/15. Nonetheless, committees should be aware of this potential, particularly when considering additional spending demands for 2015/16 which add to the council's base budget, and therefore, future spending levels.

5.3 Appendix 2 includes the latest estimates for unavoidable and other spending demands for 2015/16 and future years. These estimates are based on the latest budget monitoring and activity levels as reported to Cabinet in December (quarter 2). Committees no longer receive individual in-year monitoring reports and therefore members may wish to review the relevant appendices of the Cabinet report before the meeting.

#### **6. Recommendations:**

The Cabinet Committee is asked to note the draft Budget and MTFP (including responses to consultation and Government announcements) and make recommendations to the Cabinet Member for Finance and Procurement and Cabinet Member for Transport and Environment on any other issues which should be reflected in the budget and MTFP prior to Cabinet on 28 January and County Council on 12 February 2015

#### **7. Background Documents**

7.1 Consultation materials published on KCC website <http://www.kent.gov.uk/about-the-council/have-your-say/budget-consultation>

7.2 The Chancellor of the Exchequer's Autumn Statement on 3<sup>rd</sup> December 2014 and OBR report on the financial and economic climate  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/382327/44695\\_Accessible.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382327/44695_Accessible.pdf)  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/382525/December\\_2014\\_EFO.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382525/December_2014_EFO.pdf)

7.3 The provisional Local Government Finance Settlement 2015/16 announced on 18th December 2014  
<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2015-to-2016>

7.4 Any individual departmental announcements affecting individual committees

## **8. Contact details**

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