

From: Paul Carter, Leader  
John Simmonds, Cabinet Member for Finance & Procurement  
and Deputy Leader  
Andy Wood, Corporate Director of Finance & Procurement

To: Cabinet 28<sup>th</sup> January 2015

Decision No:

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

Classification: **Unrestricted**

**Summary:** This report relates to the proposed draft budget for 2015/16 and Medium Term Financial Plan (MTFP) 2015/18 to be presented to County Council on 12<sup>th</sup> February 2015. The proposed draft budget includes a 1.99% council tax increase i.e. up to the referendum limit. The draft budget represents the Council's response to the local budget consultation and the provisional Local Government Finance Settlement. This report includes details of some revisions to the version published on 12<sup>th</sup> January and a revised draft will be produced for County Council incorporating these changes.

The local budget consultation ran from 9<sup>th</sup> October 2014 until 28<sup>th</sup> November 2014 and identifies separately the feedback from the following activities:

- a) Responses directly to the Council either through the website or via other channels
- b) Responses via Lake Research from deliberative workshop sessions and on-line survey of a statistical sample of residents
- c) Responses from staff workshops conducted by Lake Research and KCC
- d) Responses from workshop sessions with representatives from business and voluntary sectors

The provisional Local Government Finance Settlement was announced on 18<sup>th</sup> December 2014. Responses to the settlement had to be submitted by 15<sup>th</sup> January.

**Recommendation(s):**

Cabinet is asked to endorse the draft budget and the Council Tax precept taking into account proposed amendments from Cabinet Committees and late changes to the draft Budget and MTFP published on 12<sup>th</sup> January 2015.

Cabinet members are asked to bring the black combed draft Budget Book 2015/16 and Medium Term Financial Plan 2015/18 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 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 Setting the Council's revenue and capital budgets continues to be exceptionally challenging. Funding from central government for 2015/16 is reducing in response to the national budget deficit as expected following the Spending Round 2013. We do not have any government spending plans beyond 2015/16 although it seems likely that funding for local authorities will continue to reduce no matter what the outcome of the General Election.
- 1.2 For 2015/16 we will see a reduction of £55.7m in un-ring-fenced grants (over 15%). These grants together with Council Tax and the local share of business rates represent the total funding towards the net budget requirement. The Council's revenue strategy has been developed to plan for the significant reductions we face over the coming years.
- 1.3 There are also significant changes to some ring-fenced and specific grants (new grants to reflect new responsibilities as well as reductions in other established grants). These grants are treated as income to offset expenditure and thus have no impact on the net budget requirement. The Council's policy is to limit spending to the amount available from these ring-fenced grants and not to provide top-up from un-ring-fenced grants or Council Tax.
- 1.4 The capital budget is also facing reduced funding. The capital programme increasingly relies on government grant allocations, developer contributions, external funding and capital receipts. We have imposed our own fiscal rule to limit the cost of servicing borrowing to fund the capital programme to 15% of net revenue budget. We have also introduced a new capital strategy to evaluate capital projects in light of constraints on funding.
- 1.5 The draft Budget Book 2015/16 and Medium Term Financial Plan 2015/18 were published on 12<sup>th</sup> January 2015. This is earlier than previous years to allow longer than the mandatory week for Cabinet papers. Producing the budget publications for this deadline posed a significant challenge as we did not receive the provisional settlement from Central Government until 18<sup>th</sup> December or the provisional Council Tax base notification from districts around the same time. Nonetheless, these are comprehensive documents setting out the national context, key financial strategies (revenue, capital, treasury management, risk) as well as the detailed financial analysis.
- 1.6 Publishing documents earlier carried the risk that there may need to be some changes leading up to County Council for issues which have emerged during January. The number and interaction of potential changes between the

MTFP and Budget Book means we will have to republish these documents for final approval at County Council.

## 2. Financial Implications

2.1 Table 1 shows a high level summary of the main revenue equation for 2015/16 and the estimated equation over the three years to 2015/18 as it will be set out in the revised draft Budget Book and MTFP after taking account of the revisions set out in paragraph 6.4 and 6.5. The main changes from the equation presented in consultation is that funding is £7.5m more than we had estimated (mainly due to better than anticipated Council Tax base), resulting in an increase in planned spending of £1.8m and reduction in planned savings of £5.7m. These changes are explored in more depth later in the report.

Table 1	2015/16		3 Year Total £m
	£m	%	
Grant Reductions	55.7	15.3%	120.1
Council Tax/Business Rates	-18.9	3.3%	-47.9
Spending Demands	50.7	5.4%	134.3
Savings/Income	-87.5	9.3%	-206.5

2.2 The picture on grant reductions is rather complex and is explained in depth in the MTFP publication. The provisional settlement is based on the settlement funding assessment (SFA). This comprises of the Revenue Support Grant (RSG) and the business rate baseline (which is split between business rate top-up grant and the local share of business rates). The grant reductions include the impact on RSG and business rate top-up grant within SFA, plus changes in other un-ring-fenced grants e.g. Social Fund, Education Services Grant (ESG), New Homes Bonus (NHB), etc. We show these grants as part of our overall funding rather than income so that the net budget is comparable with previous years. Table 2 shows a comparison of the change in RSG, SFA and the overall £55.7m reduction in grants.

Table 2	2014-15	2015-16	Change	
	£000s	£000s	£000s	
Revenue Support Grant	213,092	159,524	-53,568	-25.1%
Settlement Funding Assessment	380,434	330,064	-50,371	-13.2%
All un-ring-fenced Grants	364,900	309,207	-55,693	-15.3%

2.3 The 2015/16 provisional settlement was largely as we expected although there are some technical changes particularly resulting from Government decisions on New Homes Bonus and capping business rate increases for the second year running. The Government also announced decision on the replacement for the Social Fund which is covered later in this report. The changes as a result of the provisional settlement are covered in more depth in sections 2 and 3 of the MTFP document.

- 2.4 Our assumptions about the reductions in funding for 2016/17 and 2017/18 have not been recalculated from those in the consultation (although we have reflected the impact of the minor changes to RSG and business rates in the 2015/16 settlement). The Office for Budget Responsibility (OBR) has forecast that funding reductions could be larger than we have estimated if deficit reduction plans are to be met. These forecasts are covered in section 2 of the MTFP publication. We will need to monitor the likely scenario for 2016/17 and 2017/18 in the run up to, and immediately after, the General Election.
- 2.5 The provisional Council Tax base notified by districts has increased by 1.7% on 2014/15 due to a combination of factors. We will be providing an analysis of the underlying reasons identifying separately the effect of new households, changes in discounts and exemptions, and collection rates. Detail of the provisional tax base notification is included in section 2 of the draft Budget Book 2015/16. The additional tax base has been built into the budget to cover both additional spending demands which have been identified in the latest budget monitoring for this year, and changes to some savings proposals.
- 2.6 When we published the initial draft budget we had only received details of the provisional balance on this year's Council Tax collection from a couple of districts. Since publishing the draft documents and this Cabinet paper we have had provisional notification from a number of other districts. This is sufficient to give us confidence that we can use some of this anticipated Collection Fund balance to provide appropriate budget for a continuation of the Kent Support and Assistance Service (KSAS) as outlined paragraphs 4.4 to 4.5 below.
- 2.7 The County's share of the business rate baseline has declined marginally due to the Government's decision to increase the multiplier by 1.91% rather than 2.3% using September RPI. This will be compensated by a separate un-ring-fenced grant. The final share of the business rates will be determined once districts have notified the tax base for 2015/16.
- 2.8 The combination of un-ring-fenced grants in the provisional settlement, Council Tax and business rates sets the overall resource framework for forthcoming years.
- 2.9 The spending assumptions in the revised draft budget and MTFP have been updated to include the latest forecasts. In particular we have made the following changes:
- Provision for inflation in 2015/16 has reduced from £13.8m to £11.4m due to recent reductions in Consumer Price and Retail Price Indices and revised forecasts for next year. We will continue to keep provision for inflation
  - Demographic pressures have increased by £1.1m due to changes in current demand including waste tonnage volumes
  - The "right sizing" of budgets has increased by £3.8m as a result of additional spending identified in the current year's budget monitoring on SEN transport, social care and Young Person's Travel Pass.
- 2.10 The additional spending demands also include £23.2m under the government and legislative heading for the spending associated with the increase in ring-fenced grant for Public Health for the transfer of services for 0-5 year olds,

and additional grants in relation to the Care Act. These are significant amounts which increase the Council's gross expenditure and income (but have nil effect on the net budget).

2.11 The net savings (i.e. excluding the additional specific grant income referred to in paragraph 2.9) have reduced from £93.2m in the consultation to £87.5m in the revised draft budget. This includes identifying additional savings to resolve the £7.4m unidentified gap in the consultation and reductions or re-timing of some of the savings proposals, particularly in relation to specialist children's, waste recycling, KSAS and community wardens.

### **3. Budget Consultation**

3.1 The budget consultation opened on 9<sup>th</sup> October with a press launch and closed on 28<sup>th</sup> November. The communication and engagement strategy was aimed at increasing the understanding of the financial challenge and to get more engagement with Kent residents. This strategy was based on producing a simplified version of the budget including:

- Single page analysis of the funding and spending changes, and savings/income required to balance the budget;
- 3 multiple choice questions about budget strategy;
- A budget modelling tool which sought views on the Council's spending priorities across the breadth of the Council's services.

3.2 This strategy was backed up by market research commissioned from Lake Research and focus group sessions with staff, business representatives and voluntary sector. This strategy was only partially successful, the number of responses to the 3 questions were lower than last year, although engagement with the modelling tool was higher. These results have been reported to Cabinet Committees in January and have not been repeated in this report. The market research and focus groups provided valuable qualitative evidence and full reports from these will be available as background documents for County Council.

3.3 The main conclusions that can be drawn from the consultation are:

- Support for 2% Council Tax increase was consistent with last year with a minority (less than 25% supporting a freeze);
- Support for a mixed strategy towards savings to include transformation, efficiency and reducing services least valued by residents (rationing services did not receive significant support);
- Increasing income in order balance the unidentified gap – we have partially seen this through the higher tax base and business rate pooling arrangements working in partnership with district councils
- Recognition by residents and staff that savings have to be found in response to the financial climate
- We need to find more effective ways of communicating information about the financial challenge and how KCC spends public money;
- There are no significant differences between the views of residents and staff/businesses/voluntary sector

#### **4. Autumn Budget Statement and Provisional Local Government Finance Settlement**

- 4.1 The Chancellor of the Exchequer made his Autumn Budget Statement to Parliament on 3<sup>rd</sup> December. The statement allows him to present the latest economic forecasts from the OBR. This year (as in recent years) he also took the opportunity to use the statement to make policy changes in relation to taxation and spending. A fuller analysis of the Autumn Statement is included in the draft MTFP.
- 4.2 The OBR forecasts show that the economy has grown by more in 2014 than previously forecast. The second half of the year also saw reductions in the rate of inflation which is forecast to be lower than previously estimated through 2015/16, and falling unemployment. However, progress on the deficit reduction as a proportion of the overall economy has been slightly less than previously forecast. The OBR concluded that this was because the economic growth and reductions in unemployment have not been reflected in wage and productivity growth, thus affecting tax yields.
- 4.3 The provisional local government settlement was published on 18<sup>th</sup> December. As already outlined this was largely as we had anticipated from the indicative settlement last year and consultation over the summer. There were some minor technical changes which are included in the MTFP publication but these were largely insignificant.
- 4.4 The only significant issue in the provisional settlement is in relation to the Social Fund. The separate grant we have previously received from Department for Work and Pensions (DWP) has been removed as we had concluded from the indicative settlement last year. A separate element for welfare provision has been identified within the RSG, but this has been created by reducing other elements within RSG rather than transferring in money from DWP. This separate element, as with the rest of RSG, is un-ring-fenced. This decision followed a consultation in November, the analysis of which has not yet been published. Effectively it means we have no additional money to maintain Kent Support and Assistance Service (KSAS). The draft budget published in 12<sup>th</sup> January showed the £3.4m loss of grant and the consequential £3.4m reduction in KSAS spending.
- 4.5 Our original plan was that any further spending on welfare support through KSAS would have to be drawn from reserve created over the last 2 years out of the DWP grant, although this could not be confirmed until the 2014/15 outturn was finalised. However, following further consideration and in light of the RSG decision we have concluded it would make more sense to show a continuation of an appropriate base budget for line KSAS line in the budget book. This will be funded in 2015/16 from the estimated surplus on Council Tax collection funds in 2014/15. This change will be reflected in the republished draft budget.
- 4.6 The provisional finance settlement also included the "Spending Power" calculations that have been included in previous settlements. This showed a 0.4% increase for KCC. We have previously explained how this calculation only partially shows the overall impact on local authority budgets. In particular for 2015/16 the change in spending power includes all the

additional revenue funding associated with the Better Care Fund as well as other specific grants. We have consistently challenged this presentation of the Spending Power calculation as it is not a true reflection of the reality of the financial challenge. We have once again made representation on this in our response to the settlement which was submitted by the deadline of 15<sup>th</sup> January.

- 4.7 The settlement also confirmed that the Council Tax referendum threshold for 2015/16 is 2%, and that a grant (equivalent to approx. 1% Council Tax) is available for those authorities that freeze or reduce Council Tax. Our budget strategy is based on the assumption of the maximum increase permitted without holding a referendum (1.99%). Taking-up the grant would leave a £4.7m gap in the budget which cannot be addressed at this late stage without significant changes and added risk to the planned budget. The proposed increase for each band are included in section 2 of the budget book and repeated in table 3.

Table 3	2014-15	2015-16
Band A	£712.44	£726.66
Band B	£831.18	£847.77
Band C	£949.92	£968.88
Band D	£1,068.66	£1,089.99
Band E	£1,306.14	£1,332.21
Band F	£1,543.62	£1,574.43
Band G	£1,781.10	£1,816.65
Band H	£2,137.32	£2,179.98

## 5. Other Changes to Draft Publications

- 5.1 There may need to be some minor changes between the publications approved by County Council and the final Budget Book and MTFP. Where these do not materially affect the budget we will seek delegated authority to make the necessary changes in the final publications in March. Any material changes will be reflected in revised publications for County Council approval.
- 5.2 There are two amounts which have been held unallocated in the draft publications on 12<sup>th</sup> January as it was not possible to finalise the allocation of these amounts in time for the printing deadlines:
- £4.0m towards the single pay and reward payments. The value of reward payments for those staff assessed as “achieving”, “achieving above” and “outstanding” need to be set within the overall amount available in the budget<sup>1</sup>. The amounts can only be assessed and allocated to directorates once the Total Contribution Pay assessments have been analysed. This analysis will be reported to Personnel Committee and included in the report to County Council. A separate increase in the Kent Scheme pay grades will also need to be confirmed to ensure the scales remain competitive in the same way as 2014/15. These new scales

<sup>1</sup> this not only includes the additional £4m but also the headroom within staffing budgets as result of new appointments starting at the bottom of the grade and one-off reward payments for staff at the top of the grade

would only apply to new appointments during 2015/16 as payments for existing appointments are subject to the single arrangements;

- £2.0m of procurement savings held temporarily within Finance and Procurement budget. This was agreed as part of the strategy to resolve the £7.4m gap but further work is needed before these savings can be allocated.

5.3 Any other material changes which emerge before the County Council papers are finalised will be identified and reflected in re-published documents.

## **6. Conclusions**

6.1 Overall we have concluded that publishing the draft Budget Book and MTFP earlier was the right approach. This allows all members of the County Council more time to consider the budget proposals. The draft as presented will allow the Corporate Director of Finance and Procurement to make the statutory declaration on the adequacy of reserves and robustness of the estimates.

6.2 The published draft budget takes account of views expressed in consultation. Further work is needed to improve communication of the financial challenge and how the Council spends public money. This should ensure better engagement in future consultation.

6.3 The provisional settlement for 2015/16 is as we anticipated, reinforcing the robustness of the authority's medium term financial planning and revenue budget strategy. The capital strategy ensures that capital investment decisions reflect the Council's strategic priorities and are affordable within the anticipated financial climate. The treasury management strategy ensures that the Council manages its money in a secure manner whilst also maintaining reasonable yield on investments.

6.4 A material change in relation to the presentation of the budget for KSAS is proposed. This will change the published savings and revenue budget for this service, and will be compensated by estimated surplus on Council Tax collection funds.

6.5 Since the draft Budget Book and MTFP was published we have also allocated the £3.8m shown as contingency for emerging pressures as follows:

- £0.8m to Domiciliary Care to reflect the latest budget monitoring
- £1.0m to waste disposal to reflect the increased waste tonnage in 2014/15
- £1.0m to Young Persons' Travel Pass to reflect latest information on usage of the pass during the permitted mid-week hours
- £1.0m to replace the proposed additional income from Business Rates as we have still not received guidance on the accounting arrangements for this income

6.6 The other unallocated budgets identified in this report will either be resolved for County Council, or treated as in-year adjustments in accordance with the Council's Financial Regulations and procedures.



## 7. Recommendation(s)

### Recommendation(s):

Cabinet is asked to endorse the draft budget and the Council Tax precept taking into account proposed amendments from Cabinet Committees and late changes to the draft Budget and MTFP published on 12<sup>th</sup> January 2015.

## 8. Background Documents

- 8.1 Consultation materials published on KCC website can be found at [www.kent.gov.uk/budget](http://www.kent.gov.uk/budget)
- 8.2 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)
- 8.3 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>
- 8.4 Final reports from Lake Market Research and workshop sessions with staff, businesses and voluntary sector

## 9. Contact details

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