

From: Paul Carter, Leader of the Council
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Procurement and Deputy Leader

To: County Council – 11th February 2016

Subject: Budget 2016-17 and Medium Term Financial Plan 2016-19
(including Council Tax setting 2016-17)

Classification: Unrestricted

Summary: This report is a summary of the proposed budget for 2016-17 and Medium Term Financial Plan 2016-19 and a guide to the draft budget documents. The County Council has a statutory duty to set an annual budget and the amount to be levied by council tax. In approving the budget the County Council is not only agreeing the total amount to be spent but is also delegating authority to manage the budget in compliance with the authority's financial regulations.

Members are asked to bring to this meeting the revised draft 2016-17 Budget Book and 2016-19 Medium Term Financial Plan documents (half blue cover, white combed) which were published on 3rd February 2015. Please note the previous version (white cover, black combed) is now redundant and should not be used.

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 they are in arrears and must not cast their vote on anything related to KCC's Budget or Council Tax.

1. Introduction

- 1.1 The Local Government Finance Act 1992 requires the Council to formally consult on and ultimately set a budget and council tax precept for the next financial year, 2016-17. The accompanying draft Budget Book and Medium Term Financial Plan (MTFP) set out the detailed calculations. The proposed Budget 2016-17 and MTFP enable the Corporate Director of Finance & Procurement to satisfy Section 25 of the Local Government Act 2003, which requires him to give an opinion on the robustness of the budget estimates and the level of reserves held by the Council.
- 1.2 A draft of KCC's revenue budget plan was published on 13th October 2015 for the dual purpose of a communication and engagement campaign. The consultation aspect closed on 24th November. In total the consultation elicited 1,693 responses to the question on council tax, 1,198 submissions via the budget modelling tool, and 757 face to face interviews conducted by independent consultants. Overall this is a slightly higher level of

engagement than the previous year. However, we continue to recognise that we need to improve communication about KCC's budget and the financial challenge in order to improve engagement. Qualitative evidence from market research gives reassurance that the responses are statistically valid and representative of views generally.

- 1.3 A draft of the revised budget and MTFP proposals was published on 11th January 2016. This took into account responses from KCC's consultation, the Spending Review and Autumn Statement announcement on 25th November 2015, the provisional local government finance settlement on 17th December 2015 and notification of provisional council tax base from district councils. This draft was significantly different from the plan published in October as a result of the changes to funding allocations, principally Revenue Support Grant (RSG), announced in the provisional local government finance settlement. The significance of these changes and very late announcement meant that some aspects of the draft MTFP (sections 1-3) could not be published until a week later alongside Cabinet papers for 25th January.
- 1.4 Publication of the draft budget and MTFP in early January allows time for consideration by Cabinet Committees in the January round of meetings, endorsement by Cabinet (and subject to scrutiny), as well as allowing a short period for final comment prior to the County Council meeting. The significant and very late changes in the provisional settlement could have had a detrimental impact on the scrutiny process. However, we have previously recognised that publishing the draft budget early to facilitate the scrutiny process (and so soon after the provisional funding announcements) carries the risk that further changes may be necessary. This is preferable to deferring the scrutiny process. Although there have been some material changes these have not required significant policy changes.
- 1.5 The material changes since the 11th January draft was published (including confirmation of council tax collection fund balances for the current year, which is often the case) warrant republishing the draft budget and MTFP documents. The revised drafts were published on 3rd February with different colour covers and white binders to distinguish them from earlier drafts. We had not received final notification of business rate tax base/collection funds or the final local government finance settlement in time for the print deadlines for these drafts. The material changes in the republished draft are covered in section 5 of this report, the republished draft also provides the opportunity to make other marginal changes to ensure the budget reflects the very latest forecast activity and prices for the coming year.
- 1.6 The draft budget published on 11th January showed a net revenue budget requirement of £901.9m for 2016-17. This was more than the £894m we forecast in October for the communication and consultation campaign. This was due to a combination of:
 - ↑ Higher than anticipated council tax base
 - ↑ Estimated collection fund surplus based on provisional returns from some districts

- ↑ Additional 2% council tax precept specifically for social care
- ↑ Transfer of previously separate grants into RSG
- ↓ Lower than predicted settlement from central government

- 1.7 The 11th January draft budget comprised of a reduction in un-ring-fenced Government funding (including RSG and business rate baseline/top-up in the provisional settlement) of £48.3m (13.5%) compared to 2015-16 original. However, RSG now includes the grants previously allocated for new responsibilities under the Care Act 2014 (which adds £8.5m to adjusted grant for 2015-16) meaning on a like for like basis central government funding has reduced by £56.6m (comprising mainly of £58m reduction in RSG). The draft also included £79.7m of additional spending demands (8.7% of net spend), and £33.7m from proposed increases in council tax and the provisional tax base. Combined, these required £94.3m of savings to balance the budget. This was the equation presented and endorsed by Cabinet on 25th January.
- 1.8 The republished final draft on 3rd February shows a net revenue budget requirement of £905.6m. This change is due to an additional £4.1m in the tax base and collection fund balances notified by district councils compared to the estimate included in the earlier draft and further evaluation of the impact of grants transferred into the 2016-17 provisional RSG settlement. The republished drafts do not take into account the final local government settlement (which was not announced in time for inclusion in this report), or final notification of business rate tax base and collection fund balances (which in some cases were submitted after the 31st January deadline). These will impact on the net budget requirement, which once confirmed will be detailed in a supplementary report for Members' consideration at the Council meeting on 11th February.
- 1.9 The republished draft on 3rd February is based on the latest updated spending demands of £75.3m, the most significant change from the earlier draft being a reduction in the realignment needed for adult social care following notification that Better Care Fund allocations will continue. The combination of revised funding and spending demands means the overall savings needed to balance the budget have reduced from £94.3m in the earlier draft to £86.2m due to additional funding and reduced spending demands. This has allowed for the removal of £4.0m unidentified saving, a reduction of £3.3m in drawdown from reserves, and £0.8m deferment of savings in adult social care pending further consideration of responses to detailed consultation on KCC run care homes.
- 1.10 At the time the final draft was republished a number of grants which are outside the main settlement but contribute to the net budget requirement had still not been announced. A number of ring-fenced and specific grants had also not been announced, estimates have been included but final allocations are likely to result in changes to gross spend and income, but not impact on net budget requirement. A full list of the outstanding grant allocations and other funding sources is included as appendix 1 to this report. We propose to deal with the impact of these grants through the normal budget monitoring arrangements as they are not considered material.

- 1.11 The proposed capital programme for 2016-19 is £708.9m. This includes a Schools' Basic Need programme (estimated £155.3m over the 3 years 2016-19) and highways enhancement (estimated £80m over 3 years) which are significantly or totally funded by government capital grants, which may be subject to change (particularly in 2017-18 and 2018-19). We will have to manage spending on schools and highways within the grants allocated, and the council is unlikely to have scope to provide any top-ups funded from borrowing. This may mean some projects will have to be adjusted once grant allocations have been confirmed. In total £390.7m of the programme is funded by government grants, £101.2m from developer contributions/other external funding, £190m from borrowing/receipts, and £27m revenue and renewals (principally schools devolved capital grants).
- 1.12 The capital programme has not been the subject of formal consultation and is subject to separate governance arrangements granting approval to plan and approval to spend. The capital strategy is set out in section 4 of the MTFP and focuses on achieving maximum effect from capital investment, with a sharper focus on the Council's strategic priorities and to obtain maximum value from our assets. This strategy reinforces the commitment to a fiscal indicator, which limits the cost of borrowing to 15% of net revenue budget. The proposed capital programme includes £83.4m of borrowing, which will count against this indicator (we are more than likely to cover this in the short and medium term from internal loans against cash deposits rather than external borrowing).
- 1.13 Any unavoidable late changes to the proposed budget after this report has been published will be reported separately to the County Council meeting.

2. Financial Implications

- 2.1 Setting the annual budget is one of the most significant decisions the County Council takes each year. It sets the County Council's share of council tax and the overall resource framework in which the Council operates. It also gives delegated authority to manage the budget to Corporate Directors and Directors within the parameters set out in the Council's Constitution and Financial Regulations. Corporate Directors and Directors will be held to account for spending decisions within delegated powers via the budget monitoring arrangements throughout the year.
- 2.2 The budget proposes a council tax increase up to the maximum permitted by the 2% referendum limit, increasing the County Council's band C charge (the most common band) from £968.88 to £988.24 (1.998%). Consultation responses indicated that around 76% of residents would accept a small increase in order to cover additional spending demands and protect services from reductions in central government funding.
- 2.3 The consultation evaluation and market research concluded that residents are not necessarily well informed about the services KCC provides and what their council tax pays for. In recent years KCC has published council tax information on-line via KCC's website (in common with Kent districts),

and has not produced the traditional council tax leaflet previously included with council tax bills. We remain committed to the principle of digital by default and do not propose to revert to printed leaflets to address the communications issues raised through the consultation. Furthermore, the funding arrangements for local government make it virtually impossible to identify precisely which areas of spending have been protected or funded from the proposed 1.998% increase. The 1.998% council tax increase yields £11.2m additional funding which contributes to KCC's overall net budget requirement.

2.4 The budget also includes the proposal to levy an additional 2% council tax precept specifically to support social care spending. This would raise band C further to £1,007.60, an increase of £38.72 per annum over 2015-16 (3.996%). This additional precept could not have been included in KCC's budget consultation as it was an option only available to us as a result of the November announcement of the Spending Review. The budget modelling tool and other research consistently shows that KCC should accord the highest priority to care services for the most vulnerable. The council is facing significant spending demands on adult social care services, arising from a combination of demography (rising elderly population, etc.) and market factors (introduction of National Living Wage, etc.). The additional council tax precept contributes a further £11.2m specifically towards these social care pressures.

2.5 The impact of the proposed increases in each Council Tax band is set out in table 1.

Table 1	2015/16	2016/17 (excl. Social Care Precept)	2016/17 (incl. Social Care precept)
Band A	£726.66	£741.18	£755.70
Band B	£847.77	£864.71	£881.65
Band C	£968.88	£988.24	£1,007.60
Band D	£1,089.99	£1,111.77	£1,133.55
Band E	£1,332.21	£1,358.83	£1,385.45
Band F	£1,574.43	£1,605.89	£1,637.35
Band G	£1,816.65	£1,852.95	£1,889.25
Band H	£2,179.98	£2,223.54	£2,267.10

2.6 The full financial implications for the overall resource framework and delegations to Corporate Directors and Directors are set out in the Budget Book and MTFP. We have not detailed all the changes since consultation in either the original draft Budget Book and MTFP published on 11th January or the republished drafts on 3rd February in order to keep presentation simple. A number of these changes reflect feedback from the consultation e.g. refocussing the highways maintenance budget to deliver better outcomes for the network (with the first priority being pothole repairs), and other changes reflect the latest forecast activity for 2015-16 taking into account the latest budget monitoring and the impact of funding announcements since the consultation was launched.

- 2.7 One of the considerations when setting up an alternative service delivery model is the treatment of the pensions in respect of employees transferring from Kent County Council to the new model. A key consideration is the accounting of pensions for different schemes and the potential for a dividend trap. In respect of the Property LATco and the staff transferring under a TUPE arrangement, the pension assets and liabilities associated with these staff will be retained by the County Council. This will mean that the LATco can account for their contributions as a defined contribution scheme and will only be required to report on the actual annual contributions that they make to the Pension Fund. This will avoid the 'dividend trap'. The contribution rate will be agreed once we have an actuarial report. Fixing the contribution rate at an agreed level will prevent the LATco having an open ended liability to the LGPS for future changes in the deficit. The current deficit disclosure and pension risk is transferred to the County Council and sits on its single entity balance sheet.

3. The Budget Proposals

- 3.1 This section of the report is based on the revised final draft budget and MTFP published on 3rd February. As identified in paragraphs 1.8 to 1.10 this does not include the impact of the final settlement or a number of other grants. Any known changes from the published documents will be clearly identified in the motion presented to County Council.

Realignment

- 3.2 The baseline for the draft budget has been set based on the November budget monitoring reported to Cabinet on 25th January 2016. The draft budget includes realignment of £11.0m for a number of services to reflect current levels of activity and spend. In particular this ensures that budgets are corrected for overspends in adult social care, SEN transport and waste recycling/disposal. The draft budget also includes savings where in-year activity has been lower than anticipated when this year's budget was set, e.g. mainstream home to school transport.
- 3.3 The 2015-16 budget was balanced by £12.4m one-off use of underspends and reserves. Such use of reserves cannot continue to support recurring expenditure and must be replaced in 2016-17. This is achieved through a separate realignment to redress the base budget by an equivalent amount. This should not be confused with replenishing reserves (which we're not doing), which may be necessary at a later date.

Pay and Reward

- 3.4 The draft budget includes an additional contribution towards the pay and reward package for Kent Scheme staff. The contribution is sufficient to ensure the pay and reward package is managed within an overall pot equivalent to 2% of pay. This pot is derived from the additional funding identified in the budget and headroom within staffing budgets as a result of new appointments being made at the bottom of pay grades and one-off payments for staff on the top of the grade. The 2% pot is likely to result in

a payment of 1.5% for all those assessed as 'achieving' under appraisal ratings which was noted by Personnel Committee who recommended that the final distribution of the pot for 2016-17 be agreed by the Cabinet Member for Corporate & Democratic Services but that there would be a minimum FTE cash award of £340 for all staff assessed achieving or better

- 3.5 This arrangement was introduced in 2014-15 and means staff receive a single reward assessment. The reward payment either increases an individual's salary via progression through the pay grade, or is a non-consolidated lump sum payment for staff on the top of the grade. The minimum cash figure ensures the lowest grades receive a higher percentage than rewards for staff on higher grades. The rewards leave sufficient in the pot for estimated cost of performance assessments falling due during the year i.e. for staff employed for less than 6 months.
- 3.6 There is no separate "cost-of living" award. The top and bottom of pay grades are recalibrated each year to ensure they remain competitive (although this recalibration only applies to new appointments as pay progression for existing staff is subject to the performance assessments described in paragraph 3.3). As a principle this recalibration is generally at least 50% of the "achieving" reward %, subject to this being affordable within the overall budget. It is proposed that the recalibration for 2016-17 should include the £340 uplift to the bottom of KR2 as the minimum reward, and 1% for all other grades. 1% is consistent with the public sector pay guidelines in the Spending Review and Autumn Statement 2015, the higher uplift for KR2 is consistent with KCC aspiration to make further progress towards paying the Foundation Living Wage and keep ahead of National Living Wage. It would mean the bottom of KR2 would increase to £7.41 an hour, compared to National Living Wage of £7.20 an hour from April 2016. This adjustment to grades will be published in an updated Pay Policy Statement for 2016-17 and will be the only change to the statement for this year.

Price Inflation

- 3.7 The draft budget includes provision for specific contractual price increases. In the main, these are index-linked and summarised on page 36 of the MTFP document. We have also included provision for non-specific increases in negotiated contracts, this includes a proportion of the National Living Wage which the council considers is reasonable for contractors to pass on as price increases, the full year effect of the increase in the National Minimum Wage in October 2015 and forecasts for CPI of 1% in 2016-17 for other costs within negotiated contracts. Managers will be expected to negotiate within these parameters. We have not made any provision for general inflation on goods and services procured by the council and managers will be expected to cover the impact of any inflation within their overall budget.

Other Spending Demands

- 3.8 The draft budget includes the forecast impact of population changes and estimated additional demand arising during the year. The major areas of growth forecast for 2016-17 include adults with learning disabilities, older people and home to school transport for children with special educational needs. The draft budget also includes the impact of additional spending imposed by legislation and government, principally in relation to the transfer of grants to fund new responsibilities under the Care Act 2014 which are now included in RSG. The draft budget includes additional spending on some local choices, e.g. supporting transformation, improving telephone and digital access to KCC, etc. A summary of all the additional spending proposals is set out on pages 35 to 38 of the MTFP.

Use of Reserves

- 3.9 The draft budget proposals include £16.3m of savings from the draw down from reserves in 2016-17 (principally from earmarked reserves, previous year's underspends and council tax equalisation reserve) with further £1.7m draw down identified in 2017-18. This means we plan to start 2016-17 with £37.2m in general reserves and £121.9m in earmarked reserves (the actual level of earmarked reserves will depend on 2015-16 final outturn). This provides a general contingency to just over 4% of net revenue budget, this is deemed to be sufficient to reflect the risk inherent in the budget and deliverability of savings plans. (See Appendix F of the MTFP).
- 3.10 The draft budget proposals also include reduced contributions to a number of reserves and further savings on the cost of financing debt by re-phasing the provision for debt repayment in line with the policy for annual Minimum Revenue Provision (MRP). The MRP guidance requires the Authority to make prudent provision within the revenue budget for repayment of debt accrued on capital projects and to present a statement setting out the MRP policy to the full council. KCC's MRP statement is set out in appendix C to the MTFP.

Savings Proposals

- 3.11 All of the savings and income proposals in the draft budget are summarised on pages 39 to 43 of the MTFP document. Most are as outlined in the draft plan used for consultation in October with more detail provided about proposals for 2016-17. Some additional savings are required in response to the worse than expected settlement from central government and the latest forecast additional spending demands, although these have mainly been delivered through financing items and use of reserves. This is only a short-term solution and means a significant amount of savings need to be identified for 2017-18. Savings are subdivided between transformation savings, income generation, efficiency savings, and policy savings, as well as the financing savings referred to above. Inevitably these categories can never be precise but have been developed to help identify where we plan to do things differently as compared to doing less.

- 3.12 Detailed consultation and equality impact assessments of specific proposals within each directorate will be undertaken, where necessary, once the budget has been approved and prior to implementation. Approval of the budget includes granting delegated power to Cabinet Members to make changes to the proposals in light of detailed consultation and equality impact assessments. Any changes will be reflected in the monthly monitoring reports to Cabinet.
- 3.13 In the Spending Review, the Chancellor of the Exchequer announced that to support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to spend up to 100% of their fixed asset receipts on the revenue costs of reform projects. This directive allows a number of local authorities (Kent being one) to treat as capital expenditure, expenditure which:
- is incurred by the Authorities on the revenue costs of projects designed to reduce future revenue costs and/or transform service delivery; and
 - is properly incurred by the Authorities for the years ending 31 March 2017, 31 March 2018, and 31 March 2019
- 3.14 This direction applies to those capital receipts received in the years to which the direction applies, i.e. April 2016 to March 2019, it does not apply to banked receipts. Qualifying expenditure can be determined by the local authority but the key criterion to consider is that the expenditure to be funded by capital receipts is forecast to generate ongoing savings to an authority's, or several authorities', and/or to another public sector body's net service expenditure. The guidance recommends that a strategy is prepared identifying the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full Council or the equivalent. A report on this will be brought back to County Council later in the year.

Unidentified Savings

- 3.15 The budget plan for the communication and consultation campaign had £7m of unidentified savings necessary to balance the budget in 2016-17, and £31.7m in 2017-18. The draft budget and MTFP published on 11th January had unidentified savings of £4m for 2016-17 and £56.5m for 2017-18. This was principally as a consequence of the worse than anticipated local government finance settlement announced on 17th December, with no prior notification or consultation. The provisional settlement was subject to a short consultation, to which we responded as reported to Cabinet on 25th January.
- 3.16 The unidentified savings for 2016-17 have now been resolved in the final draft published on 3rd February. This was largely as a result of higher than estimated collection fund balances notified by districts (council tax collection fund surpluses and business rate collection fund deficit) and continuation of funding to support the Care Act 2014 from the Better Care Fund that we were previously anticipating would cease (and therefore activity would need to be funded within the net budget requirement). The 3rd February draft also includes the final tax base notification, updated

spending demands and changes to savings proposals due to further developments since the earlier drafts. All the material changes between the 11th January and 3rd February publications are set out in section 5 of this report.

Medium Term Financial Plan

- 3.17 The MTFP includes indicative plans for 2017-18 and 2018-19, although inevitably these are less well developed than 2016-17 and are liable to change. In particular spending demands are a forecast which inevitably contains a degree of uncertainty, and not all of the savings necessary to balance 2017-18 and 2018-19 have been identified. £86m of savings are estimated to be needed in 2017-18, of which £57m are currently unidentified. The process to identify the additional savings required to balance these years has already begun.
- 3.18 The spending demands identified for 2016-17, and forecast for 2017-18 and 2018-19 are higher than the demands we faced in recent years. This is due to a combination forecast demographic growth leading to greater demands on services, inflation forecasts rising to 2% over the medium term, and the impact of legislative changes e.g. National Living Wage. Central funding reductions are greater than in recent years due to the phasing out of RSG and the redistribution proposed in the provisional settlement. The funding reductions are particularly severe in 2016-17 and 2017-18 before the changes to New Homes Bonus and improved Better Care Fund start to have an effect.
- 3.19 The medium term projections assume that council tax is increased up to the referendum level each year and the council levies the 2% extra social care precept each year. These increases combined with forecast tax base growth would increase council tax revenues by 5% each year. However, this additional council tax falls well short of the amount needed to fund spending demands and compensate for central government funding reductions meaning annual savings of £80m to £90m are likely to be needed each year. These savings are on top of the £433m the council has made since 2010.

4. Navigating the Budget Book and Medium Term Financial Plan Documents

- 4.1 This section of the report is aimed at helping members to navigate the Budget Book and MTFP publications. We have reproduced this section this year as some members may still be unfamiliar with these documents. Capital and revenue budgets have been presented to align with directorate structures rather than Cabinet Member portfolio responsibilities. This presentation better reflects budget management and reporting arrangements.
- 4.2 Section 3 of the Budget Book sets out the proposed capital investment plan for the following 3 years. Capital spending is for the purchase and enhancement of assets. For each directorate capital spending is split

between rolling programmes (usually related to the on-going enhancement of assets) and individual projects. There are two templates for each directorate, the first sets out a brief description of each programme/project and the planned spending for each year of the MTFP, with a summary of how the overall directorate plan is funded. A number of projects will only proceed when specific funding has been secured. The second template combines the three years of the capital programme and sets out in more detail the funding sources for each programme/project.

- 4.3 Sections 4 to 8 of the Budget Book set out the proposed revenue budget for 2016-17. Revenue spending is that spent on the day-to-day provision of council services. Section 4 provides a high level summary for each directorate. Gross expenditure is split between staffing (salaries and employer's costs for national insurance and pension contributions) and other costs. Service income from charges and contributions is deducted to derive net spend, although this sub-total is not shown in the budget book to keep it to a manageable size (this net spend is often the quoted figure in government returns and used for comparative purposes). Service income is split between internal and external income to help distinguish recharges and trading activity with KCC maintained schools.
- 4.4 Income from specific government grants is shown separately to derive the net cost attributable to KCC. The net cost is used in the MTFP and a comparison with the revised net cost for 2015-16 is included in the revenue budget book sections. Section 4 also shows how the net cost (net budget requirement) is funded either from council tax, the local share of business rates, or un-ring-fenced government grants.
- 4.5 Section 5 provides more detail of planned spending on individual services. This section is designed in an A to Z format and shows services according to how they are delivered and received by residents, rather than how the Council is organised. This is a conscious effort to provide a more outward facing presentation of the Council's spending. The A to Z is organised according to principal areas of front-line activity:
- Adults and Older People
 - Children's Services
 - Community Services
 - Environment
 - Highways
 - Local Democracy
 - Planning and Transport Strategy
 - Public Health
 - Public Protection
 - Regeneration and Economic Development
 - Schools
 - Services for Schools
 - Transport Services
 - Waste Management

These principal activity areas are consistent with central Government returns. Non frontline services; financing items, assessment services and management, support and overheads are identified separately.

- 4.6 Within each of the broad categories above, spending has been subdivided into individual areas of activity (based on the general principle that any distinct area of activity with spending in excess of £1m should be separately identified). The table also includes a brief description of activities which can be afforded within the budget. Inevitably, this section is a compromise between providing an appropriate level of detail to describe how the Council spends public money and keeping the analysis to a manageable size. The individual entries are kept under review both to reflect changes in the way services are delivered and to ensure we adhere to the principle of transparency without undue complexity.
- 4.7 Section 6 provides a detailed variation statement for each line in the A to Z service analysis showing how the budget has changed between 2015-16 and 2016-17. This provides a direct reconciliation between the Budget Book and MTFP. Inevitably, this is a large document and is the last piece of the budget jigsaw and can only be published in later versions of the Budget Book.
- 4.8 Section 7 will provide a graphical representation of the Council's funding and spending. It also includes a high level subjective analysis which presents information on the type of spending, rather than how the services are provided. The subjective analysis for 2016-17 can only be produced once budgets have been allocated by individual managers, thus for the versions of the Budget Book published on 11th January and 3rd February we could only show the subjective analysis for the revised 2015-16 base budget derived from in-year monitoring.
- 4.9 Section 8 sets out the total budget under the control of each directorate. This is generally presented at the third tier, i.e. the amounts delegated to the managers reporting to each director (often referred to as service units). Only in exceptional circumstances would budgets be identified below third tier, even though delegation and budget management takes place at lower levels in the organisation. Financing items are notionally shown under Strategic and Corporate Services although these are non-directorate specific costs often arising out of previous decisions or decisions outside of the county council's direct control. As such these costs cannot be attributed to any individual manager and are all under the control of the Corporate Director of Finance & Procurement.
- 4.10 Appendix A is a re-presentation of the A to Z entries in section 5 grouped for each directorate. Appendix B is drawn from the second quarter's budget monitoring report showing the forecasts for 2014-15. These appendices are produced as background information and are not part of the approved budget.
- 4.11 The MTFP provides a description of the Council's overall financial vision and key strategies. It is designed as a reference document, providing background information to set the budget in a wider and longer term

context. The main document includes a short executive summary, together with an appraisal of the national financial and economic context as it affects local government and the Council's capital, revenue, treasury management and risk strategies. These strategies will continue to evolve to reflect the impact of national policy developments affecting local government and the council's overall strategic objectives.

- 4.12 Sections 1 to 3 (Executive Summary, National Context and Revenue Strategy) have been fully updated to take account of the Spending Review and Autumn Statement on 25th November 2015 and provisional local government finance settlement on 17th December. The late announcement of these (and significant unanticipated changes in the latter), meant these sections could not be published along with other sections on 11th January. These sections were published a week later in conjunction with papers for Cabinet on 25th January. These sections have now been incorporated into the republished final draft on 3rd February.
- 4.13 The 3rd February version does not include the outcome of the final local government settlement as this was not announced in time for publication deadlines. Any significant changes in the final settlement will be reported to the County Council meeting, and included in the final MTFP document to be published in March.
- 4.14 The appendices to the MTFP set out the key financial information. Appendix A includes a high level 3 year plan and detailed plans for each directorate summarising the additional proposed spending, income and savings in 2016-17 compared to the 2015-16 approved budget. The row headings in appendix A(ii) use the same row headings as the A to Z variation statements described in paragraph 4.7. This enables a direct comparison of the overall strategic plan with the more detailed individual budget plans. Appendices B (Prudential Indicators) and C (MRP Statement) are presented to full Council for approval.

5. Changes in the re-published Draft Budget and MTFP

- 5.1 Rather than including a comprehensive description of all the changes since the original draft Budget Book and MTFP were published on 11th January we have decided to re-publish these documents for County Council approval. These revised final drafts were published on 3rd February. As already identified these publications could not include the final local government finance settlement, a number of other grants and full details of business rate tax base/collection funds due to late announcements and changes. Delaying the publication of papers or rescheduling the County Council budget meeting was not considered a viable option despite the late announcements. County council motions/amendments will need to be clear whether they are based on the draft amounts in the 3rd February publications, or final amounts following subsequent announcements.
- 5.2 Much of the information in the Budget Book and MTFP is unchanged from the 11th January draft, and most of the changes are not material as they relate to updated activity based on the latest monitoring returns (and

therefore would otherwise have been reflected in the first quarter's budget monitoring report during the year). This section provides a brief description of the following material changes:

- Council tax base and collection fund balances
- Funding to support implementation of Care Act 2014
- Unidentified savings
- Care homes
- Drawdown from reserves

- 5.3 We always have an issue with the balances on council tax and business rate collection funds. These need to be included in the budget as they represent the over/under collection on the budgeted tax base for the current year. District councils are required to notify us of these balances by 31st January, and often notification is close to the wire. For the 11th January publication we estimated a net surplus on council tax and business rate collection of £5m based on provisional returns from 6 out of 12 districts.
- 5.4 The 3rd February publication shows a net surplus of £10.620m on council tax collection funds and net deficit of £2m on business rates. The council tax surplus is based on final notification from ten districts and provisional notification from the other two. In total, eleven out of twelve districts have identified a surplus ranging from £0.311m (0.7%) to £1.893m (4.9%). Surpluses (and deficits) can arise from changes in the number of dwellings liable to pay council tax, changes in discounts and exemptions and changes in collection rates. Surpluses (and deficits) are also affected by individual district council collection fund accounting policies and provisions.
- 5.5 The business rate collection fund balance is based on final notification from six districts, provisional notification from three and KCC estimates for the remaining 3. Two of the nine districts have identified a small surplus, and seven deficits ranging from £0.014m (0.3%) to £0.448m (9.2%). Business rates are much more volatile than council tax due to the number of outstanding appeals from the quinquennial revaluation, applications for discounts and reliefs as well as the economic factor of new or closing businesses. KCC's share of the business rate tax base and collection fund is much lower than council tax.
- 5.6 We will undertake a fuller review of the underlying factors influencing collection fund balances and in particular any indicators which would give early warning of significant movements. The large balances which have only emerged late in the budget process in recent years pose a significant risk to financial planning. Whilst surpluses are always easier to accommodate than deficits, this needs to be addressed. This review will take place during the spring alongside the further work to analyse the underlying factors influencing the tax base already identified in section 3 of the MTFP and in the Budget and MTFP report to Cabinet on 25th January.
- 5.7 District councils must also notify the final tax base calculations for the coming year by 31st January. We have received final notification of council tax base from all twelve districts. This resulted in a small change from the

amounts published in the 11th January draft budget, with a small increase of £0.440m which is now included in the 3rd February final draft. Overall the notification of collection fund balances and tax base has contributed significantly to the increased net funding from £901.873m in the 11th January draft to £905.639m in the 3rd February draft. This net funding is still an estimate pending final notification of business rate tax base, collection fund balances from all districts, and the final local government finance settlement and other outstanding grants.

- 5.8 In 2015-16 we received £3.566m through the Better Care Fund towards the cost of implementing Care Act 2014 and £0.479m as a grant from DCLG towards new responsibility to assess care needs of prisoners. We had no reliable information whether this funding would continue into 2016-17. Consequently we took a cautious approach and assumed we would have to fund ongoing responsibilities under the Care Act from base budget. This was reflected in the proposed realignment of the adult social care budget. However, we are now sufficiently confident funding will continue and this element of the realignment can be removed in the 3rd February republished final draft. The realignment pressure of £10.311m shown on page 35 of the 11th January MTFP has now been reduced by £4.045m down to £6.266m on page 91 in the 3rd February draft. We have not received any detail of the precise funding allocations which may lead to in-year variations, but this is no different to any of the other unannounced grants (see appendix 1).
- 5.9 The combination of additional funding through council tax base and collection fund balances and reduced spending demands outlined in paragraph 5.8 means no further action is needed to resolve the £4m unidentified savings in the previous draft.
- 5.10 The Cabinet Member for Social Care, Health and Wellbeing has deferred his decision on the closure of two care homes pending further work following concerns raised during consultation. This deferment means that proposed savings for 2016-17 cannot be delivered in full. The original proposed savings were £290k and £1,145.9k shown on page 44 of the 11th January published MTFP. These have now been revised to £145k and £537k as shown on page 99 of the 3rd February published MTFP.
- 5.11 The combination of the changes in funding, spending demands and savings outlined 5.2 to 5.10 above leaves a balance of £3.3m. As previously reported to Cabinet Committees and Cabinet the provisional local government finance settlement announced on 17th December included a significant redistribution of RSG. This redistribution was announced with no prior notification or consultation and resulted in RSG allocation which was £18m less than we had previously estimated following the Spending Review announcement. It was subject to a short post announcement consultation. We could not have anticipated this change and the lateness of the announcement left little alternative other than to drawdown more from reserves. The subsequent further developments mean that this additional drawdown can now be reduced by the £3.3m balance. This is reflected in the MTFP with the £7m drawdown

shown on page 43 of the 11th January draft being reduced to £3.7m on page 99 of the 3rd February draft.

5.12 All of the changes outlined in paragraphs 5.2 to 5.11 have also been reflected in the relevant sections of the final draft Budget Book also published on 3rd February.

6. Robustness of Estimates and Adequacy of Reserves

6.1 As required by the Local Government Act 2003, the Section 151 officer (for Kent this is the Corporate Director of Finance and Procurement) must formally give opinion as to the robustness of the budget estimates and the level of reserves held by the Council. A Member briefing to support and explain this opinion is / was given on 8 February.

6.2 The estimates have been produced from a challenging process with Cabinet Members, Corporate Directors and Directors 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.

6.3 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 continued excellent record on budgetary control, the internal financial control framework, our strong approach to risk management and the expected level of General Reserves at 31st March 2016. The level of general reserves is in line with best practice as recommended by CIPFA and the Audit Commission.

6.4 To conclude, the Section 151 officer is able to formally report that the budget estimates are robust and the level of reserves adequate, as required by the Local Government Act 2003. The proposed budget has been formulated following a robust process of internal challenge with Cabinet Members and Corporate Directors, public consultation and scrutiny by Members of all political groups.

7. Recommendations

Recommendations:

In view of the final local government finance settlement being announced after the publication deadline for this report and the late notification of business rate tax base and collection funds, the County Council is asked to take note of both this report and the supplementary report and determine the net budget requirement and the planned drawdown of reserves by agreeing the following:

- (a) Net revenue budget requirement of £905.6m for 2016-17
- (b) Capital investment proposals of £708.896m over three years from 2016-17 to 2018-19 together with the necessary funding and subject to approval to spend arrangements

- (c) The Treasury Management Strategy as per section 5 of the Medium Term Financial Plan
- (d) Prudential Indicators as set out in Appendix B to the Medium Term Financial Plan
- (e) The Revised Minimum Revenue Provision (MRP) Statement as set out in Appendix C to the Medium Term Financial Plan including the revised policy regarding debt repayment
- (f) The directorate revenue and capital budget proposals as set out in draft Budget Book published on 3rd February and delegate responsibility to Cabinet Members and Corporate Directors to manage the budget within the parameters set out in the Constitution and Financial Regulations
- (g) The proposed retention of pension assets and liabilities for the Property LATCo set out in paragraph 2.7
- (h) To increase council tax band rates up to the maximum permitted without a referendum as set out in paragraph 2.5 table 1
- (i) To raise the additional 2% social care precept (£11,205,228 of the precept set out in (m) below)
- (j) The total council tax requirement of £583,181,198 to be raised through precepts on districts as set out in section 2 of the Budget Book

In addition:

- (k) To note that the Cabinet Member for Corporate and Democratic Services will determine the TCP reward thresholds for staff assessed as achieving, achieving above, and outstanding, and to set the recalibration of the pay ranges and minimum reward/increase to the bottom of KR2, within the 2% funding approved
- (l) To delegate authority to the Corporate Director of Finance & Procurement (in consultation with the Deputy Leader/Cabinet Member for Finance & Procurement and the political Group Leaders) to resolve any minor technical issues for the final budget publication which do not materially alter the approved budget or change the net budget requirement
- (m) The changes made in (l) above to be reflected in the final version of the Budget Book and MTFP due to be published in March
- (n) To note the financial outlook for 2017-18 and 2018-19 with further anticipated funding reductions and spending demands necessitating additional savings the vast majority of which are yet to be identified

8. Background Documents

8.1 Consultation materials published on KCC website can be found at www.kent.gov.uk/budget

8.2 Full report and executive summary from FACTS International and workshop sessions with staff, businesses and voluntary sector www.kent.gov.uk/budget

- 8.3 The Chancellor of the Exchequer's Spending Review and Autumn Statement on 25th November 2015 and OBR report on the financial and economic climate
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_Accessible.pdf

<http://budgetresponsibility.org.uk/economic-fiscal-outlook-november-2015/>
- 8.4 The provisional Local Government Finance Settlement 2016-17 announced on 17th December 2015
<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2016-to-2017>
- 8.5 [Response to Provisional Local Government Finance Settlement dated 15th January 2016](#)
- 8.6 [Submission to Spending Review](#)
- 8.7 [Budget reports to Cabinet Committees in January](#)
- 8.8 Draft Budget Book and MTFP published 11 January 2016 (white cover, blank binding) and as re-published on 3 February 2016 (blue cover white binding):
www.kent.gov.uk/budget
- 8.9 [Minutes of Cabinet Scrutiny Committee 19 January 2016:](#)
- 8.10 [Cabinet Report 25 January 2016](#)

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Schedule of Provisional and Estimated Central Government Grants in Draft Budget Book

2015-16 Published Budget Grant Income £000s	Funding Source	2016-17 Provisional £000s	2016-17 Final £000s	2016-17 Estimate £000s	2016-17 Final Draft Budget Book Grant Income £000s	Comments
Un-ring-fenced counting as funding						
<i>Local Government Finance Settlement</i>						
161,005.1	Revenue Support Grant	111,424.6			111,424.6	
	Business Rate Baseline	47,997.5				Included in settlement but shown under local share of business rates
122,939.1	Business Rate Top-up	123,963.5			123,963.5	
7,325.3	New Homes Bonus Grant	8,908.8			9,324.6	
560.9	New Homes Bonus adjustment			415.7		
	<i>Other Grants</i>					
3,341.7	Business Rate Compensation Grant			3,341.7	3,341.7	
13,750.0	Education Services Grant	13,345.8		12,375.0	12,375.0	Provisional grant based on October pupil numbers. Grant is recalculated quarterly and estimate includes impact of assumed academy transfers
	Local Service Support Grant:					
1,301.4	Extended Free School Travel			1,171.5		
137.9	Inshore Sea Fisheries			124.1	1,295.6	
327.0	Lead Local Flood Authority					Transferred into RSG 2016-17
Grants included as income to offset spending						
<i>Un-ringfenced Grants</i>						
<i>Care Act 2014</i>						
1,425.5	Carers and Care Act Implementation					Transferred into RSG 2016-17
2,388.1	Deferred Payments					Transferred into RSG 2016-17
4,559.8	Early Assessment for Cap on Care Costs					
479.1	Social Care in Prisons Grant			479.0	479.0	
	Better Care Fund					Shown as external income from Health Authorities
	Children's Social Care Innovation Program Grant					
	Disabled Facilities Grant					
830.4	Local Reform and Community Voices Grant			830.4	830.4	
	Property Searches New Burdens Payment					
<i>Ring-fenced Specific Grants</i>						
3.7	Access to Working			1.1	1.1	
19,762.0	Asylum Grant			45,881.3	45,881.3	
1,128.7	Bus Service Operators Grant			1,087.8	1,087.8	
2,997.8	Capital Maintenance Grant			2,997.8	2,997.8	
677,903.3	Dedicated Schools Grant (DSG)			679,826.0	679,826.0	
26.0	Department of Culture, Media & Sport			26.0	26.0	
80.8	Department of Energy & Climate Change			74.0	74.0	
36.0	DVLA			36.0	36.0	
28.4	European Regional Development Fund (ERDF)			25.0	25.0	
13,091.4	Free School Meals Grant			12,155.5	12,155.5	
	Heritage Lottery Fund			149.8	149.8	
	Independent Living Fund Grant (ILFG)			2,216.0	2,216.0	
170.0	Initial Teacher Training (ITT)			0.0	0.0	
110.5	Interreg			100.5	100.5	
468.7	Interreg (EU)			750.5	750.5	
16.0	KEEP Grant			0.0	0.0	
893.8	Local Sustainable Transport Fund			0.0	0.0	
	Marlowe Grant			1,671.3	1,671.3	
10.3	Natural England			6.1	6.1	
1,363.7	PE and Sports Grant			3,189.6	3,189.6	
22,605.5	PFI			22,605.5	22,605.5	
71.7	Police & Crime Commissioner Grant (PCCG)			35.0	35.0	
65,158.0	Public Health			71,166.1	71,166.1	
34,796.1	Pupil Premium (PP)			33,153.8	33,153.8	
140.0	Road Safety - Cycle Training			140.0	140.0	
3.2	Rural Payments Agency			3.2	3.2	
99.3	Rural Payments Agency (New Leader Programme)			99.3	99.3	
849.0	SEN Implementation			849.0	849.0	
659.5	Sensory Impairment			450.0	450.0	
30,226.6	Sixth Form Funding			28,326.8	28,326.8	
10,223.5	Skills Funding Agency			9,863.6	9,863.6	
265.3	Staying Put Grant			530.6	530.6	
0.0	Syrian Vulnerable Persons' Resettlement			1,250.0	1,250.0	
2,192.0	Troubled Families Payment by Results			2,192.0	2,192.0	
	Youth Justice Board			1,230.8	1,230.8	
1,205,752.1	Total				1,185,124.4	