

From: Matthew Balfour, Cabinet Member for Environment and Transport

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To: Environment and Transport Cabinet Committee – 18th January 2017

Subject: Draft 2017-18 Budget and Medium Term Financial Plan

Classification: Unrestricted

Electoral Division: All

Summary: County Council debated the authority's Autumn Budget Statement on 20th October 2016. The Autumn Budget Statement report set out an update to the Medium Term Financial Plan (MTFP) for 2017-18 and 2018-19 including progress on proposals to close the unidentified budget gap in the original plan. County Council reaffirmed the role of Cabinet Committees in scrutinising the budget.

This report is designed to accompany the final draft 2017-18 Budget and 2017-20 MTFP published on 12th January 2017. The report is exempt until these drafts are published. The report provides further detail on the key assumptions which underpin the budget proposals and savings relevant to the remit of the Environment and Transport Cabinet Committee.

The report also includes information from KCC's budget consultation, the Chancellor's Autumn Budget Statement and provisional local government finance settlement.

Recommendation(s)

The Environment and Transport Cabinet Committee is asked to note the draft budget and MTFP (including responses to consultation and Government announcements).

The Environment and Transport Cabinet Committee is invited to make suggestions to the Cabinet Member for Finance and Procurement, the Cabinet Member for Environment and Transport and the Cabinet Member for Community Services on any other issues which should be reflected in the draft budget and MTFP prior to Cabinet on 23rd January 2017 and County Council on 9th February 2017.

1. Introduction

1.1 The MTFP sets out the overall national and local fiscal context, KCC's revenue and capital budget strategies, and KCC's treasury management and risk strategies. It also includes a number of appendices which set out

the high level 3 year revenue budget plan, a more detailed one year plan by directorate, prudential and fiscal indicators, and an assessment of KCC's reserves.

The financial plans in the MTFP take into account all of the significant changes from the current year including additional spending demands, changes to funding, and the consequential savings needed to balance the budget to the available funding. This incremental approach to budgeting and financial planning is adopted by the vast majority of local authorities.

- 1.2 Since 2014-15 the one-year detailed financial analysis in the MTFP has been produced in directorate format (previously this was produced in Cabinet portfolio format). This enables the MTFP to mirror the council's financial monitoring, reporting and management arrangements. The directorate format (and indeed the previous portfolio format) is not ideal to reflect Cabinet Committee remits as the two are not always aligned. It is not possible to re-present the budget to reflect Cabinet Committees remits in the time available.

Consequently each committee will receive the relevant directorate MTFP plan and will need to ignore those aspects which are not relevant e.g. Environment and Transport Cabinet Committee will receive the plans for the whole of the Growth, Environment Transport ("GET") Directorate and will need to ignore the Growth, Environment and Community Services elements that do not form part of the remit of this committee.

The draft 2017-18 MTFP for the Growth, Environment and Transport directorate is attached as appendix 1 to this report, with pressures, income and savings proposals for this committee highlighted for ease of reading.

- 1.3 The draft directorate revenue budget is presented in the A to Z service format for Cabinet Committee scrutiny. We have used this format since 2011-12 which is designed to reflect the services we provide to Kent residents, businesses and local communities. We believe this is the most helpful format to present the budget proposals for scrutiny. The draft 2017-18 revenue budget for the Growth, Environment and Transport Directorate is attached as appendix 2 to this report.
- 1.4 The A to Z format is not designed to reflect how directorates are organised. Section 8 of the draft budget book presents the manager analysis setting out the overall amounts delegated to individual directors and heads of service within directorates. We do not believe it necessary or appropriate for Cabinet Committees to scrutinise these delegations.
- 1.5 The final draft budget presented to County Council on 9th February includes Section 6 which sets out all of the changes to each line of the A to Z budget. These detailed variation statements show how the MTFP translates into the spending proposals for individual service lines. This section takes a significant amount of resource to produce and there is not enough time available to produce these detailed statements for Cabinet Committees.

- 1.6 We are continuing to develop systems which aim to enable these detailed variation statements to be produced at the same time the draft budget is launched (and thus be available for Cabinet Committee scrutiny) but at the moment these systems do not exist.
- 1.5 The draft capital programme is also presented in directorate format. The draft 2017-20 capital programme for the Growth, Environment and Transport Directorate is attached as appendix 3 to this report.
- 1.6 All three financial appendices are exempt from publication until the council's final draft Budget and MTFP is published. These final draft plans will be considered at County Council on 9th February and will be published well in advance of the required timetable for County Council papers to enable members to have sufficient time to consider the proposals and any alternatives. We intend publish these papers before the Cabinet Committees meetings so that the appendices are unrestricted by the time of the meeting.

2. Financial Context

- 2.1 The overall financial context remains largely unchanged from that reported to County Council on 20th October following the Chancellor's Autumn Statement on 23rd November. The funding settlement from central government, including Revenue Support Grant (RSG), is anticipated to include the reductions outlined in the indicative settlement published last year.
- 2.2 Since the October report we have had provisional tax base calculations and collection fund balances which are higher than we had anticipated and help to resolve the unidentified savings. However, some of the spending demands are also greater arising from higher than the budgeted spend in 2016-17 (and need to be reflected in 2017-18 budget) and higher forecast future inflation/demand. Details of the assumptions underpinning spending demands are explored later in this report. Some savings options have also been revised since the October report.
- 2.3 The provisional Local Government Finance Settlement was announced on Thursday 15th December. The settlement sets out the provisional allocation of key government funding streams for 2017/18 and indicative allocations for 2018/19 and 2019/20. The settlement also includes the government's estimate of the change in local authority overall spending power taking into account both government funding and council tax.
- 2.4 Overall the context for local government spending over the medium term remains "flat-cash" between 2015/16 to 2019/20. This flat-cash includes council tax, additional social care funding and reductions in central government grants. Flat-cash means there is no overall additional funding for rising costs or demand pressures, therefore these have to be compensated by savings and spending reductions. Consequently, KCC's position remains that flat-cash for the local government sector is not good enough as this represents a significant reduction in real spending power.

- 2.5 The settlement offered additional funding for social care within the same overall flat-cash envelope with two key changes:

Greater flexibility in social care council tax precept – whilst this remains at 6% over the three years of the settlement (2017/18 to 2019/20), authorities have choice to raise up to 3% in any year (as long as overall the 6% limit over 3 years is not breached). This would enable council tax increases to be brought forward early although council tax charges in 2019/20 cannot be any greater than they would have been under the previous Spending Review (SR2015) announcement.

A new one-off Social Care Reform Grant in 2017/18, funded out of New Homes Bonus (NHB) by bringing forward the proposed changes from 2018/19. In Kent this is at the expense of districts (which collectively receive £6.2m less NHB than announced in SR2015) and KCC receives a net £4.6m more (allowing for both the new social care grant and our loss of NHB).

The final draft budget includes how KCC intends to respond to these two significant changes.

- 2.6 The table below sets out a high level summary of changes to the 2017-18 budget equation since the Autumn Budget Statement was published for County Council on 20th October.

	Autumn Budget Statement £m	Final Draft budget £m	Movement £m
Spending demands	57.2	66.3	9.1
Grant reductions	51.1	46.4	-4.6
Council Tax:			
– Increase in line with 2% referendum limit	-11.8	-11.9	-0.1
– Social Care Levy	-12.1	-12.2	-0.1
– Growth in tax base & change in collection fund surplus	-0.9	-7.2	-6.2
Business Rates	-3.1	-3.2	-0.1
Savings	-80.4	-79.1	2.1

Note - this table, shows each element to nearest decimal place including totals, consequently the totals may not appear to add-up but are accurate

- 2.7 This equation of rising spending demands/costs compounded by reducing government funding, offset by council tax increases and the need for significant base budget savings continues the challenging theme of recent years. The 2017-18 Budget is likely to be the most difficult we have faced during the period of austerity since 2010.
- 2.8 The most significant movements between the Autumn Budget Statement and the Final Draft budget are explained in the table below:

Movement	Explanation
Spending Demands (increased by +£9.1m)	<u>Budget realignments:</u> <ul style="list-style-type: none"> • +£3.2m Children’s Social Care budget realignment to reflect 2016-17 activity • +£2.0m SEN transport budget realignment to reflect higher journey costs than budgeted in 2016-17 • +£0.8m Learning Disability & Mental Health budget realignment to reflect 2016-17 activity • +£0.6m Waste tonnage budget realignment <u>Pay:</u> <ul style="list-style-type: none"> • -£2.0m removal of estimated pressure to increase employer pension contribution rate, which is no longer needed following the actuarial revaluation of pension fund <u>Prices:</u> <ul style="list-style-type: none"> • +£6.8m New provision to increase prices for adult social care contracts to facilitate market sustainability as required under Care Act 2014 • +£1.3m updates to general price provisions reflect Q2 monitoring and latest CPI assumptions • -£1.5m reduction to estimated National Living Wage pressure following Chancellor’s Autumn Budget Statement on 23rd November <u>Demography</u> <ul style="list-style-type: none"> • -£1.5m reduction to estimated Older People & Physical Disability demography pressure
Grant reductions (improvement of £4.6m)	<ul style="list-style-type: none"> • +£6.2m Social Care Support Grant announced in provisional local government finance settlement on 15th December • -£1.5m reduction to provisional New Homes Bonus Grant announced in the local government finance settlement
Growth in tax base & change in collection fund surplus (improvement of £6.2m)	<ul style="list-style-type: none"> • £3.1m growth in council tax base resulting from: increase in number of households; change in discounts; and reviews of local Council Tax Reduction Schemes • £3.1m increase in assumed 2016-17 council tax collection fund surplus
Savings and Income (reduction of £2.1m)	<ul style="list-style-type: none"> • A number of changes as presented in revised MTFP to take into account of latest proposals and phasing and the impact of changes to spending demands and funding outlined above

2.9 This equation of rising spending demands/costs compounded by reducing government funding, offset by council tax increases and the need for significant base budget savings continues the challenging theme of recent years. The 2017-18 Budget is likely to be the most difficult we have faced during the period of austerity since 2010.

3. Budget Consultation

- 3.1 The budget communication and consultation campaign was launched on 13th October to coincide with the publication of the County Council Autumn Budget Statement papers.

The campaign was aimed at reaching a wide audience of Kent residents, businesses and other interested parties to better inform them of the budget challenge arising from a combination of additional spending demands (which are unfunded) and reductions in central government funding. As a result of the campaign we hoped that sufficient numbers would be inspired to engage with the consultation.

- 3.2 The campaign was primarily delivered through the council's website <http://www.kent.gov.uk/about-the-council/have-your-say/budget-201718>.

This dedicated page provided a high level summary of the financial challenge with links to consultation questionnaire, budget modelling tool and more detailed supporting information. In total the site had 1,416 unique page views between 13th October and 27th November, 489 accessed from internal users and 927 external visits. The peak traffic for internal users was immediately following the launch i.e. 13th/14th/17th October, which accounted for 302 of the 489 visits. The peak traffic for external users was Monday 14th November (125 of the 927 visits).

- 3.3 In total 512 responses were received either through the dedicated webpage or the general consultations page. A handful of written responses were also received. A summary of the responses is presented below. The questionnaire explored 4 key issues:

- Council tax increases in relation to the referendum requirement
- Council tax increases for social care precept
- KCC's overall budget strategy
- The level of awareness of the financial challenge

The questionnaire also allowed for any other comments.

- 3.4 Details of the consultation responses will be presented as part of Cabinet and County Council budget papers. For the sake of brevity we have published the report on all consultation activity as a background document to Cabinet Committee reports rather than including all the information in each committee report. This consultation can be accessed via the link at the end of this report.

4. Specific Issues for the Environment and Transport Cabinet Committee

- 4.1 Appendices 1, 2 and 3 set out the main budget proposals relevant to the Growth, Environment and Transport Directorate that will be included in the final draft MTFP, revenue budget and capital programme.

These appendices are exempt until the final draft MTFP and budget book are published. These proposals must be considered in light of the general financial outlook for the County Council for 2017-18 which is for further reductions in overall funding even after planned council tax increases, and flat-cash over the medium term. This means we have no funding for additional spending demands and consequently will continue to need to make budget savings each and every year.

4.2 Autumn Statement/provisional local government finance settlement.

The Autumn Statement confirmed an additional £3bn of investment on improving roads around the country, with £70m allocated specifically to fix potholes. For Kent, this means a fund of £2.2m, with confirmation also provided for the block maintenance capital grant allocation of £24.2m.

4.3 Spending demands which the directorate faces for 2017-18.

For 2016-17, approximately 76% of the gross budget for the Growth, Environment and Transport Directorate is non-staffing – predominantly tied up in contracts – and therefore a significant pressure exists in terms of contractual price increases.

In addition, 2016-17 has seen several demand led pressures in relation to increases tonnages in the waste service, as well as increased usage/cost of the Young Person's Travel Pass. This is also the case with the Coroners service where numbers of reported deaths continue to increase, as does the percentage that lead to further investigation and post mortem.

Conversely, the English National Concessionary Travel Scheme (ENCTS) has seen reduced journey numbers in Kent, as is the case nationally. All of the above have been reported in the financial monitoring reports throughout the year and will be reflected in the 2017-18 budgets.

4.4 Savings and income proposals.

The rollout of the LED Streetlight programme is quickly gathering pace and the completion of the residential phase is anticipated in Q1 of 2017/18, with the scheme moving on to high speed roads and town centres. Accordingly, the base budgets in relation to energy costs, carbon reduction commitment and maintenance continue to reduce.

There is a continued focus on exploring income generation opportunities, where possible, and due to the significant spend on contracts, procurement efficiencies will also continue to be a feature of this directorate.

4.5 Savings from any new policy initiatives are shown in the exempt appendices and any significant issues will be raised during the Cabinet Committee meeting following publication of the final draft MTFP and Budget (scheduled for 12th January). Due to the exempt nature of the appendices these proposals cannot be covered in detail in the report.

5. Conclusions

- 5.1 The financial outlook for the next 3 years continues to look exceptionally challenging. Although the medium term outlook is flat cash i.e. we should have a similar spending in 2019-20 to 2015-16, there is a dip in 2017-18 which makes the forthcoming year the most difficult. Furthermore, the flat cash equation includes additional funding raised through Council Tax, the 2% precept for social care and the Better Care Fund. This additional income is required to fund rising spending demands (and may not be enough to fund all demands). This means the Council will still need to find substantial savings in order cover any shortfall against spending demands and to compensate for the reductions in RSG (and any other changes in specific grants including those referred to in this report).
- 5.2 At this stage the forecasts for 2018-19 and 2019-20 are our best estimates. If these estimates prove to be accurate then the savings needed to balance the budgets in these years would be less than we have faced for a number of years. At this stage we have made no presumptions on the possible consequences of 100% business rate retention.

We know that the extra business rates we will be able to retain will come with additional responsibilities although we have no indication what these might be and whether there will be enough money to cover the cost. We also know the government is reconsidering the calculation of the existing baseline which determines the top-up we receive (and the tariffs other authorities pay). Once again at this stage we have made no presumption about the outcome of this review until we know more.

- 5.3 Appendices 1 and 2 include the latest estimates for unavoidable and other spending demands for 2017/18 and future years. These estimates are based on the latest budget monitoring and activity levels as reported to Cabinet in November (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. Recommendation(s)

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7. Background Documents

7.1 Consultation materials published on KCC website and the outcome report:
<http://www.kent.gov.uk/about-the-council/finance-and-budget/budget-201718>
<http://consultations.kent.gov.uk/consult.ti/BudgetConsultation2017/consultationHome>
(exempt until 12 January 2017)

7.2 The Chancellor of the Exchequer's Spending Review and Autumn Statement on 23rd November 2016:

<https://www.gov.uk/government/publications/autumn-statement-2016-documents>

and OBR report on the financial and economic climate:

<http://budgetresponsibility.org.uk/efo/economic-and-fiscal-outlook-november-2016/>

7.3 The provisional Local Government Finance Settlement 2017-18 announced on 15 December 2016.

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2017-to-2018>

8. Contact details

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