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To: Cabinet 23<sup>rd</sup> January 2017

Future Pathway of Paper: For decision of the County Council 9 February 2017

Subject: **Budget 2017-18 and Medium Term Financial Plan 2017-20**

Classification: **Unrestricted**

**Summary:** This report relates to the draft budget for 2017-18 and Medium Term Financial Plan (MTFP) 2017-20 to be presented to County Council on 9<sup>th</sup> February 2016. The draft budget includes a proposed 1.99% council tax increase (up to the referendum limit) and a further 2% through the Social Care Levy, although final decision on these will not be taken until the County Council meeting. The draft budget represents the Council's response to local budget consultation and consequences of the provisional Local Government Finance Settlement.

The local budget consultation ran from 13<sup>th</sup> October 2016 until 27<sup>th</sup> November 2016 and identifies separately the feedback from the following activities:

- a) Responses directly to the Council either through the website or via other channels
- b) Independent market research conducted by MMR International Research via deliberative workshop sessions with a representative sample of residents
- c) Young Persons workshops conducted by MMR International
- d) Responses from workshop sessions with representatives from the voluntary sector and Kent Youth County Council.

The provisional Local Government Finance Settlement was announced on 15<sup>th</sup> December 2016. Responses to the settlement had to be submitted by 13<sup>th</sup> January 2017.

**Recommendation(s):**

Cabinet is asked to endorse the draft budget taking into account any proposed amendments from Cabinet Committees and any late changes to the draft Budget and MTFP published on 10<sup>th</sup> January 2017. Cabinet is asked to note that final decision on council tax precept will be presented at the County Council meeting on 9<sup>th</sup> February to allow time to consider the additional flexibility on the social care levy.

Cabinet Members are asked to bring the black comb-bound final draft Budget Book 2017-18, Medium Term Financial Plan 2017-20 (published on 10<sup>th</sup> January) 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 (particularly Revenue Support Grant) is reducing by the amounts announced in November 2015 Spending Review (SR2015) and the indicative allocations for 2017-2020 in last year's Local Government Finance settlement. The RSG reductions include the changes to the distribution methodology announced in last year's settlement. The overall settlement for local government, taking account of government funding, and assumed retained business rates and council tax, remains the same "flat cash" between 2015-16 and 2019-20.
- 1.2 Whilst central funding is reducing we continue to face additional spending demands and we cannot fully compensate for these demands and loss of grants through council tax. As a result the authority needs to make substantial savings in order to balance the budget for 2017-18 of a similar magnitude to those made in each of the last 6 years. The magnitude of savings in the later years of MTFP (2018-20) are forecast to be less on the presumption that additional money through the improved Better Care Fund (iBCF) will be un-ring-fenced and does not come with any additional spending conditions.
- 1.3 The 2017-18 provisional Local Government Finance settlement on 15<sup>th</sup> December included three key changes from the previous indicative allocations:
  - A one-off Social Care Support Grant, worth an additional £6.2m for KCC in 2017-18;
  - Planned changes to the New Homes Bonus (NHB) grant in 2018-19 brought forward a year to fund the social care grant, resulting in a £1.5m reduction compared to previous MTFP forecast for 2017-18;
  - Flexibility to raise more of the social care council tax levy earlier, providing it does not exceed 6% over the three year period 2017-20, nor 3% in any one year.
- 1.4 KCC's draft 2017-18 budget book and 2017-20 MTFP were published on 10<sup>th</sup> January. These built on the Autumn Budget Statement to County Council on 20<sup>th</sup> October which updated the published 2016-19 plan. The draft revenue budget satisfies the statutory requirements under the Local Government Finance Act 1992 to set a balanced budget and includes the following:
  - Proposals to resolve the £5.2m gap which was still outstanding at the time of the Autumn Budget Statement;

- Further updates to spending and savings estimates;
- Council tax base estimates from districts
- Impact of the Local Government Finance Settlement and other grant announcements

There are some grants which have not yet been announced and we have not received the final tax base or estimated collection fund balances from districts. Consequently there could be some further last minute adjustments to present to County Council on 9<sup>th</sup> February together with final proposals on the social care council tax levy.

- 1.5 The draft MTFP equation based on the published proposals is summarised in table 1. Full details are set out in section 3 of the MTFP (Revenue Strategy) and appendices A(i) (high level 3 year plan) and A(ii) (detailed 1 year directorate plans). Sections 4 to 9 of the budget book set out how the 2017-18 proposals affect the proposed revenue budgets for individual services using the established A to Z format and delegated budgets to managers. Detailed variation statements for each A to Z line will be produced in time for the formal publication of County Council papers on 1<sup>st</sup> February.

Table 1 - Revenue Budget Equation	2017-18 £m	2018-19 £m	2019-20 £m
<b>Financial Challenge</b>			
Spending Demands	66.3	56.7	45.3
Net Government Funding Reductions	46.4	25.0	7.6
<b>Total</b>	<b>112.7</b>	<b>81.8</b>	<b>52.9</b>
<b>Financial Solution</b>			
Council Tax & Business Rates	34.5	28.6	33.5
Savings, Income and Reserves	78.2	53.2	19.4
<b>Total</b>	<b>112.7</b>	<b>81.8</b>	<b>52.9</b>

- 1.6 The capital budget is also under significant pressure. The capital programme has increasingly relied on government grant allocations, developer contributions, external funding and capital receipts over recent years. 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. As a consequence of the further reductions in revenue funding it is unlikely any significant new borrowing will be able to be considered (funding commitments to existing projects and programmes in the capital budget will be honoured) and new schemes will generally be limited to resources available from capital grants and external sources/receipts. Section 4 of the MTFP describes KCC's capital strategy, section 3 of the budget book sets out the proposed capital programme 2017-20.

## 2. Financial Implications

- 2.1 The provisional Local Government Finance Settlement includes a spending power calculation for each authority setting out the overall change in funding from central government and council tax that the government anticipates for

each authority over the years from 2015-16 to 2019-20. This spending power calculation is reproduced in table 2 below.

Table 2 – Spending Power

Kent					
Illustrative Core Spending Power of Local Government;					
	2015-16	2016-17	2017-18	2018-19	2019-20
	£ millions	£ millions	£ millions	£ millions	£ millions
Settlement Funding Assessment*	340.015	283.386	241.948	218.757	197.047
Council Tax of which;	549.034	583.181	617.995	654.906	694.040
<i>Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)</i>	549.034	571.976	594.465	617.855	642.184
<i>additional revenue from referendum principle for social care</i>	0.000	11.205	23.530	37.051	51.856
<i>Potential additional Council Tax from £5 referendum principle for all Districts</i>	0.000	0.000	0.000	0.000	0.000
Improved Better Care Fund	0.000	0.000	0.301	17.525	33.683
New Homes Bonus	7.886	9.306	7.813	5.645	5.417
Rural Services Delivery Grant	0.000	0.000	0.000	0.000	0.000
Transition Grant	0.000	5.682	5.685	0.000	0.000
The 2017-18 Adult Social Care Support Grant	0.000	0.000	6.192	0.000	0.000
<b>Core Spending Power</b>	<b>896.935</b>	<b>881.555</b>	<b>879.934</b>	<b>896.834</b>	<b>930.186</b>
Change over the Spending Review period (£ millions)					33.3
Change over the Spending Review period (% change)					3.7%
Please see the Core Spending Power Explanatory note for details of the assumptions underpinning the elements of Core Funding					
*2019-20 Settlement Funding Assessment has been modified to include a provisional tariff or top-up adjustment					

- 2.2 The settlement funding assessment (SFA) 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 spending power includes the government's estimate of increases in council tax base derived from the 2016-17 base in last year's approved budget, and assumed increases in council tax rates for inflation and social care levy. The spending power also includes NHB grant, iBCF, new Social Care Support Grant for 2017-18, and transitional grant announced for two years in last year's final settlement.
- 2.3 The spending power gives a broad approximation of KCC's MTFP. There are some other departmental grants which are not included e.g. the transitional Education Services Grant (ESG) for 2017-18, and KCC's MTFP includes our own estimates for council tax and local share of business rates. The Spending Power for 2017-18 is higher than the indicative figure in last year's final settlement, this is partly due to higher council tax base in 2016-17 (and thus in future projections) and partly due to the change for Social Care Support Grant and NHB grant.
- 2.4 The overall picture from 2015-16 to 2019-20 is also slightly better than last year's final settlement (£33.3m increase in cash rather than £20.4m estimated last year). This is slightly better than flat cash (a reflection of the focus on social care authorities in the original 2016-17 settlement) and virtually all of the improvement on last year is due to the higher council tax base in 2016-17 and revised business rate baseline following this year's revaluation. None of the changes are due to central government funding.

- 2.5 The provisional council tax base notified by districts has increased by 2.32% on 2016-17 due to a combination of factors. We will produce an analysis of the underlying reasons identifying separately the effect of new households, changes in discounts and exemptions, and collection rates. This analysis will become increasingly more important as council tax makes up an ever increasing contribution towards the council's net budget requirement needed to set a balanced budget. Section 2 of the draft budget book shows the individual district contributions to the tax base.
- 2.6 Section 2 of the draft budget book also includes the proposed council tax rates to precept for 2017-18. It is proposed to increase council tax up to the maximum allowed without exceeding the 2% referendum threshold and by the further 2% for the social care levy. The impact of the proposed increases to individual band rates is shown in Table 3. Overall this amounts to 3.99% increase to the county council's share of each band. At this stage the proposals are the same as those set out in the October Autumn Budget Statement (and in our budget consultation). The final decision on council tax, including the new flexibility in the social care levy, will be presented to County Council on 9<sup>th</sup> February.

<u>Table 3</u>	2016-17	2017-18 (excl. Social Care Levy)	2017-18 (incl. Social Care Levy)
Band A	£755.70	£770.76	£785.88
Band B	£881.65	£899.22	£916.86
Band C	£1,007.60	£1,027.68	£1,047.84
Band D	£1,133.55	£1,156.14	£1,178.82
Band E	£1,385.45	£1,413.06	£1,440.78
Band F	£1,637.35	£1,669.98	£1,702.74
Band G	£1,889.25	£1,926.90	£1,964.70
Band H	£2,267.10	£2,312.28	£2,357.64

- 2.8 The additional proposed spending demands for 2017-18 are outlined in more detail in appendix A(ii) of the MTFP. This has been presented in a chronological order, firstly identifying additional spending consequences of factors which have already happened and affect 2016-17 (spending pressures identified in monitoring reports and replacing the one-off use of reserves and underspends in the 2016-17 base budget). Forecasts for new demands arising in 2017-18 are split between those affecting the price of goods and services (including KCC staff pay), and demographic pressures from population changes (including increasing complexity). The impact of legislative changes is identified separately. The final set of additional spending demands relate to local decisions including funding the capital programme and investment in service transformation and service improvements.
- 2.9 Savings proposals for 2017-18 are also set out in more detail in appendix A(ii) of the MTFP. These are categorised into transformation savings, efficiencies, financing, income generation and policy changes. In some cases the savings represent the full year effect of actions taken in the current year and others are

forecasts for new actions either at the start or during the forthcoming financial year. The revenue budget strategy continues to focus on transformation, efficiency and financing savings in order to minimise detrimental impact on outcomes and to protect front-line services.

### **3. Budget Consultation**

- 3.1 The budget communication and consultation campaign was launched on 13<sup>th</sup> October to coincide with the publication of Autumn Budget Statement papers for County Council. The deadline for responses was 27<sup>th</sup> November. The campaign was supported by independent market research. The campaign was aimed at reaching a wide audience of Kent residents, businesses and other interested parties to better inform them of the financial challenge, particularly around the growing demand for our services, reductions in central government funding and proposed council tax increases consistent with the “flat cash” for local government in SR2015 and Local Government Finance Settlement outlined above. This is not to presume KCC supports flat cash (we have commented on this in our response to SR2015 and the settlements), but to put the Council’s budget into context expected from central government.
- 3.2 The campaign was primarily delivered through the council’s website. <https://www.kent.gov.uk/about-the-council/have-your-say/budget-201718>. This dedicated page provided a very 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 13<sup>th</sup> October and 27<sup>th</sup> November (489 accessed from internal users and 927 external visits). In total 512 responses were received on-line with 3 separate written submissions.
- 3.3 The results from the consultation responses and market research were reported to January Cabinet Committees. These have been summarised in a separate collective report which is available as a background document for Cabinet Committees, Cabinet and County Council. This report includes an executive summary of the findings from independent market research, with the full report published separately.
- 3.4 The headlines are that responses supported proposed council tax increases up to the referendum level, and for the social care levy, in order to invest in and protect services, although a minority would prefer no increase (with the consequence of the Council making greater savings). Views about KCC’s budget strategy and spending priorities were mixed. The market research resulted in similar findings, although the research noted significantly higher levels of support for KCC and council tax increases once participants had been better informed about the council’s budget and the services provided.

#### **4. Response to the Provisional Settlement**

- 4.1 The Chancellor's Autumn Statement on 23<sup>rd</sup> November had very little impact on KCC's budget. Although he announced an additional £122bn of borrowing this was largely in response to additional capital investment plans and lower economic forecasts. Government departmental spending plans (which includes local government), were unchanged from SR2015. We were particularly disappointed and concerned that the Autumn Statement made no reference to the growing problems in social care. Section 2 of the MTFP sets out the national context and in particular the key aspects of the Office for Budget Responsibility (OBR) economic and fiscal outlook which underpins the Autumn Statement. Section 2 also includes a fuller national analysis of the provisional Local Government Finance Settlement.
- 4.2 Responses to the provisional settlement needed to be submitted by 13<sup>th</sup> January. We anticipate the final settlement will be announced late January/early February. We hope this is announced before the County Council meeting on 9<sup>th</sup> February. KCC's response (agreed by the Leader and Cabinet Member for Finance & Procurement) inevitably focusses on the social care issues. In the response we have also repeated the following issues:
- Concerns that flat cash settlement is not sufficient to cover local government spending demands;
  - Changes made to RSG distribution in the 2016-17 settlement did not fully meet their objectives;
  - The unjustifiable negative RSG for some authorities
  - Concerns that future 100% business rate retention may not deliver sufficient funds to cover new responsibilities
  - Support for a needs led review of funding distribution between authorities and the opportunity this presents for bold reform
  - Spending power is still misleading as it ignores additional spending demands
  - The impact of late settlement announcements

#### **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 published in March. Where these do not materially affect the budget we will seek delegated authority to make the necessary changes in the final publications.
- 5.2 There are some amounts which have been held unallocated in the draft publications on 10<sup>th</sup> January as it was not possible to finalise the allocation of these amounts in time for the printing deadlines. These are identified in appendix A(ii) of the MTFP and include the following significant elements:
- £3.9m additional spending for pay and reward. 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 previous years. These new scales would only apply to new appointments during 2017-18 as payments for existing appointments are subject to the single reward arrangements. Increases to the lowest scale (KR2) will need to take account of increases in the National Living Wage

- £1.0m saving from management tiers and spans of control. This saving will be allocated to managers for the start of the year but the allocation can only be finalised following a number of restructure consultations which have not yet been completed.
- £3m of procurement savings which can only be allocated once contract changes have been agreed.
- £2.1m from internal commissioning from Public Health pending agreement which services will contribute to public health outcomes

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 Setting the 2017-18 budget has proved to be extremely challenging due to significant funding reductions in government spending plans, greater economic uncertainty, the growing problems in social care and the need for a 7<sup>th</sup> year of unprecedented budget savings. The budget campaign in the autumn was based on our best assumptions and has been proved to be fairly accurate (the draft budget identifies £78.2m of savings in 2017-18, the Autumn Budget Statement indicated £80.4m). Most of the slight reduction arises from higher than anticipated council tax base although some of this is needed for higher spending demands, particularly price increases due to rising inflation during the autumn.

6.2 The published draft budget takes account of views expressed in consultation. In particular the majority of respondents supported the proposed council tax increase up to the referendum threshold and the social care levy in order to contribute towards additional spending demands and provide some protection for local services from reductions in central funding. Further work is needed to improve communication of the financial challenge and how the Council spends public money.

6.3 The forecasts for 2018-19 and 2019-20 look to be slightly less challenging than in recent years. This is mainly based on the assumption that council tax base

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<sup>1</sup> this not only includes the additional £3.9 m 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



will continue to rise and modest council tax increases continue to be supported. The slightly better outlook also assumes that the iBCF can be used to address social care issues within the budget and will not come with additional spending conditions.

- 6.4 The 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 taking into account any proposed amendments from Cabinet Committees and any late changes to the draft Budget and MTFP published on 10<sup>th</sup> January 2017. Cabinet is asked to note that final decision on council tax precept will be presented at the County Council meeting on 9<sup>th</sup> February to allow time to consider the additional flexibility on the social care levy.

## 8. Background Documents

- 8.1 Budget campaign materials published on KCC website can be found at <http://consultations.kent.gov.uk/consult.ti/BudgetConsultation2017/consultationHome>
- 8.2 The report on outcomes from consultation can be found at [http://consultations.kent.gov.uk/gf2.ti/f/747714/24341061.1/PDF/-/Report\\_on\\_KCC\\_Budget\\_Campaign\\_Consultation.pdf](http://consultations.kent.gov.uk/gf2.ti/f/747714/24341061.1/PDF/-/Report_on_KCC_Budget_Campaign_Consultation.pdf)
- 8.3 Full market research report from MMR International Ltd [http://consultations.kent.gov.uk/gf2.ti/f/747714/24335397.1/PDF/-/Budget\\_Consultation\\_MMRI\\_KCC\\_Report\\_09.12.16.pdf](http://consultations.kent.gov.uk/gf2.ti/f/747714/24335397.1/PDF/-/Budget_Consultation_MMRI_KCC_Report_09.12.16.pdf)
- 8.4 The Chancellor of the Exchequer's Spending Review and Autumn Statement on 23<sup>rd</sup> November 2015 and OBR report on the financial and economic climate Statement <https://www.gov.uk/government/publications/autumn-statement-2016-documents>  
<http://budgetresponsibility.org.uk/efo/economic-and-fiscal-outlook-november-2016/>

8.5 Provisional Local Government Finance Settlement on 15<sup>th</sup> December  
<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2017-to-2018>

8.6 KCC's 2017-18 budget page <https://www.kent.gov.uk/about-the-council/have-your-say/budget-201718>, including executive summary of draft Medium Term Financial Plan 2017-20, full draft Medium Term Financial Plan 2017-20 and draft budget book 2017-18  
[http://www.kent.gov.uk/\\_data/assets/pdf\\_file/0007/66553/medium-term-financial-plan-2017-20-executive-summary.pdf](http://www.kent.gov.uk/_data/assets/pdf_file/0007/66553/medium-term-financial-plan-2017-20-executive-summary.pdf)  
[https://www.kent.gov.uk/\\_data/assets/pdf\\_file/0007/66535/draft-medium-term-financial-plan-2017-20.pdf](https://www.kent.gov.uk/_data/assets/pdf_file/0007/66535/draft-medium-term-financial-plan-2017-20.pdf)  
[https://www.kent.gov.uk/\\_data/assets/pdf\\_file/0006/66534/draft-budget-book-2017-18.pdf](https://www.kent.gov.uk/_data/assets/pdf_file/0006/66534/draft-budget-book-2017-18.pdf)

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