

From: Paul Carter, Leader of the Council
John Simmonds, Cabinet Member for Finance

To: County Council – 19th October 2017

Subject: Autumn Budget Statement

Classification: Unrestricted

Summary: KCC's 2017-20 Medium Term Financial Plan (MTFP) is based on the four year funding agreement from central government (up to 2019-20). The MTFP shows the financial challenge arising from rising spending demands, reductions in Revenue Support Grant (RSG), phasing in of Improved Better Care Fund (iBCF), changes in other government grants and limitations on the Council's ability to raise council tax. As a result the Council needs to find substantial budget savings each year. This report focuses on progress towards identifying these savings.

The scale of forecast spending demands and consequential savings, on top of seven years of significant real terms reductions in funding, makes 2018-19 and 2019-20 budgets exceptionally challenging, and it is unlikely the Council will be able to continue to protect front-line services from the impact.

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 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 budget plans in the MTFP set out all the significant changes from the current year including additional spending demands, changes to funding, and the consequential savings needed to balance the impact of these. This incremental approach to budgeting and financial planning is adopted by the vast majority of local authorities. This report includes updates to the revenue plans for 2018-19 and 2019-20.
- 1.2 This autumn budget statement enables directorates to start the preparatory work so that savings can be delivered from the start of the financial year so as not to exacerbate the challenge. In some instances we are seeking early Council decisions on the overall policy under which some of the savings proposals are based, this will enable directorates to

undertake consultation about how these can be achieved without the uncertainty of whether the policy decision to support the proposals will be agreed. This is an important step forward in providing a clear mandate.

- 1.3 A second purpose of the autumn budget statement is to provide the basis for formal consultation on the Council's overall budget strategy and proposals. The Council's constitution requires consultation on the budget proposals before they are presented to County Council for final approval. The policy decisions included within this report do not compromise this requirement since they are presented for the reasons outlined in paragraph 1.2 and will only be finally implemented following approval of the Budget in February.
- 1.4 The statutory duty to set a balanced budget under section 32A of the Local Government Finance Act 1992 does not apply to this autumn budget report. This duty only applies to the forthcoming year's revenue budget at the time the County Council sets the council tax. The duty also does not apply to future year's plans in the MTFP. The duty requires authorities to set out their planned expenditure and income for the year in order to determine the "budget requirement" (including transfers to/from reserves). The budget requirement is funded from a combination of central government un-ring-fenced non-specific grants e.g. Revenue Support Grant, the local share of business rates growth and ultimately the council tax requirement. The council tax requirement comprises the estimated band D equivalent tax base multiplied by the band D rate approved by the council. This band D rate is subject to the referendum regulations.

2. Revenue Budget Strategy

- 2.1 The revenue strategy continues to be based on the quantifying the financial challenge arising from additional spending demands, reductions in central government grant and replacing the use of one-offs solutions in the current year's budget. The strategy identifies the solution from council tax (tax base, proposed tax rate increases and one-off collection fund balances), the local share of business rate growth and savings/income.
- 2.2 The updated revenue equations for 2018-19 and 2019-20 are shown in Table 1 below.

Table 1

	Latest Update		Previously Published MTFP	
	2018-19 £m	2019-20 £m	2018-19 £m	2019-20 £m
Budget Challenge				
Grant Reductions				
Revenue Support Grant	28.8	28.2	28.8	28.2
Other Grants	17.5	0.4	4.8	-11.7
Spending Demands ¹ (see also section 4 of this report)	48.0	45.4	34.5	34.0
Replace one-off use of Reserves and Collection Funds	10.8	15.0	7.8	2.5
Total	105.2	88.9	76.0	52.9
Budget Solution				
Council Tax				
Increases in Tax Rate	25.4	26.8	25.3	26.6
Tax Base and Collection Fund balance changes	2.5	0.2	-5.5	5.2
Change in local share of Business Rates	2.1	1.7	1.6	1.7
Savings and Income (see also table 2 and section 5)				
Identified	54.5	20.2	36.3	7.9
Yet to be identified	8.0	28.0	18.3	11.5
Grant Increases				
Business Rate Top-up	4.1	4.7		
Improved Better Care Fund	8.6	7.4		
Total	105.2	88.9	76.0	52.9

- 2.3 Grant reductions are unchanged from the published MTFP. The other grant reductions for 2018-19 include the removal of a number of transitional grants.
- 2.4 The forecasts for additional spending demands have been thoroughly reviewed. This includes significant increases in 2018-19 to the amounts for budget realignment to reflect current year activity, prices and service strategies, and in 2019-20 to the amounts to replace one-offs in 2018-19, prices and services strategies. Despite this thorough review and rigorous attempt to resist pressures the forecast spending demands for 2018-19 and 2019-20 have increased significantly from the published MTFP adding to the financial challenge, principally due to factors outside the Council's control e.g. inflation, the need to find additional capital funding to provide school places, etc.
- 2.5 As well as updating spending demands and council tax base/collection fund, the updated revenue also includes the latest progress on identifying options for savings and income to balance the budget. We have identified further options which would reduce the unidentified gap to £8m in 2018-19. We still have a sizeable gap (£28m) in 2019-20. These need to be considered collectively and require further solutions to find £36m over the next two years, use of reserves are not a solution in themselves although can be used to smooth the impact between the years.

¹ Additional spending demands include the impact of inflation on contracted services, increasing numbers of social care clients and increasing complexity of needs, increased number of households, as well as impact of legislation and KCC service priorities. These increases are largely unavoidable.

- 2.6 The publication of this Autumn Budget Statement marks the start of formal consultation on KCC's 2018-19 budget strategy and council tax. Consultation is required under KCC's constitution. As in previous years the consultation will be available on KCC's website for a period of 7 to 8 weeks. Unlike previous years we are not proposing to undertake separate market research to support the consultation. Instead we are proposing a social media campaign which will encourage people to look at the budget materials to better understand the challenge and engage with their views through responses.
- 2.7 Undoubtedly 2018-19 and 2019-20 look like being the riskiest budgets the Council has faced. Although we have the certainty of a four year grant settlement; the scale of the grant reductions, the magnitude of unfunded pressures, the uncertainty over the economic and fiscal climate, and the emergence of rising spending demands combined with the significant year on year savings in each of the last 7 years all contribute to the risks for the next two years.

3. MTFP Updates

- 3.1 This report includes an update to the high level multi-year view of the MTFP (appendix A(i) of the published plan). This updated view for 2018-19 and 2019-20 is shown in appendix 1 of this report. The full suite of MTFP appendices, including the detailed view of the final proposals will be included in the final draft plan due to be published in January and presented for approval at County Council in February.
- 3.2 Appendix 1 summarises the revised spending, funding and savings proposals and shows the remaining unidentified savings for 2018-19 and 2019-20 compared to the original plan. The £8m unidentified for 2018-19 is a reasonable gap at this juncture bearing in mind the number of estimates that will need to be updated when the final balanced budget is presented to County Council in February.
- 3.3 The main savings options identified to date in for 2018-19 budget in the updated MTFP are shown in table 2 below (£54.5m). Further details of the main considerations within these proposals are covered in section 5 of this report.

Table 2	Paragraph	£m		Paragraph	£m
Efficiency Savings					
Staffing	5.5	6.7	Income		
Contracts	5.6	9.2	Client charges uplift (current policy in line with inflation)	5.3	3.2
Infrastructure	5.7	1.0	Trading Income	5.3	0.9
Other	5.7	1.1	Investment Income	5.3	1.2
			Contributions from other authorities	5.3	0.3
			Other	5.3	0.5
Transformation Savings					
Adult Social Care Phase 2 & 3	5.2	2.9			
Housing Related Support	5.2	2.8	Policy		
Integration of Strategic Commissioning	5.2	1.8	Client charging second homes	5.9	0.6
Other (largely existing programmes e.g. LED streetlights)	5.2	2.7	Subsidised Bus Services	5.10	2.0
			Social Care residential and day in-house	5.11	0.9
			Highways maintenance	5.12	0.7
Financing					
Drawdown from reserves	5.18	11.3	Housing Related Support - offenders	5.13	0.3
Review of MRP	5.17	1.6	District Joint Arrangements		0.2
Additional contribution from Kings Hill reserve	5.17	2.0	Full year impact of existing plans/spending	5.14	0.6
Totals		54.5			

Table may not appear to add-up as each entry (including totals) is shown to nearest £0.1m

4. Spending Demand Assumptions

- 4.1 Additional spending demands include known factors (budget realignment and replace the one-off use of reserves) and forecast future pressures (pay rewards, price increase, increase client numbers/complexity, etc.). The overall assumed pressures for 2018-19 are £16.5m more than the £42.4m included in the published MTFP.

Realignment

- 4.2 These are necessary in order to comply with statutory requirements to set a balanced budget since they represent known changes since the current year's budget was approved. The final budget in February will need to take into account the impact of budget realignments arising out of the 2017-18 budget monitoring (which no doubt will change during the course of the year).

Replacement for Use of Reserves

- 4.3 The 2017-18 budget included £7.844m of one-off solutions from draw down of reserves, contributions to reserves, review of bad debt provision and one-off spending reductions. The published MTFP included a matching pressure in 2018-19 to replace these one-offs which will not change. This replacement for use of reserves has been increased to include use of Public Health reserves. Members should note this pressure is to replace the use of reserves as a funding mechanism, not to replenish the reserves. The updated MTFP also includes a further £15m use of reserves and other one-offs proposed for 2018-19 which requires the matching replacement pressure in 2019-20.

Pay and Reward

- 4.4 The current assumption for pay progression for Kent scheme staff is that the overall "pot" would amount to 2.5% to 2.8% for 2018-19. This is derived from a combination of the additional funding identified in the MTFP and assumed pay regression from staff turnover where new members of staff are generally appointed at the bottom of the pay range.

Price Inflation

- 4.5 Price inflation is generally linked to Consumer Price Index (CPI) and other specific indices included in individual contractual clauses. Some prices are not index linked but are subject to local negotiation which includes contribution towards the additional cost of the National Living Wage. At this stage we assuming CPI will show an annual rate of inflation of 3% towards the end of 2017 when we come to set the budget for next year.

Demography

- 4.6 Demographic demands arise from increases and shifts in the population (including the ageing population), increases in the number of households, and in many cases increasing complexity of client needs. These demographic factors place additional demands on council services. The provision in the budget includes elements for changes which have already

impacted on services as well as forecasts of further changes during the forthcoming year.

Other Spending Demands

4.7 The MTFP also includes the impact of legislative changes and local service strategies and improvements. New legislative requirements include the need to respond to Deprivation of Liberty Safeguards (DoLS) and capping of driver awareness fees. Local service strategies include additional borrowing costs to fund the existing capital programme (and in particular the shortfall in basic need funding for school places) and diversion of capital receipts to fund transformation costs. Other service strategy spending demands include the need to strengthen some children's services in response to recent OfSTED inspection, investment in new trading companies, replacement systems and corporate landlord cost incurred in managing empty schools and other premises.

5. Savings Options

5.1 The overall savings requirement for 2018-19 has increased from £54.6m in the published plan to £63.8m in the latest update. This arises from a combination of the higher additional spending demands partially offset by higher council tax base/collection fund assumptions. The updated plan identifies £55.8m of deliverable savings for 2018-19 (as summarised in paragraph 4.3), leaving an unresolved gap of £8m. As already identified this gap needs to be considered as part of longer term solution to find £26m of additional savings over the next two years.

Transformation Savings

5.2 We have embarked on a number of transformation programmes. These transformation savings seek to provide better outcomes or for clients and residents at lower cost and therefore are the preferred solution to the financial challenge. We have already delivered substantial cashable savings and avoidance of budget pressures from previous transformation programmes. The proposed transformation savings within adult social care and other programmes which are part way through delivery e.g. LED street lighting conversion, are anticipated to contribute £10.2m towards the £63.8m needed in 2018-19. Transformation savings in the plan include phase 3 of adult transformation, there are no further phases from this programme in the pipeline.

Income Generation

5.3 We are proposing updated options to generate an £6.1m of additional income in 2018-19 towards the £63.8m target. Most of this will be achieved from increasing existing charges in line with inflation. Additional income is also proposed to be generated from further trading activity within existing services, and existing treasury management strategy. At this stage the updated plan does not include additional income/profit share from new trading companies (Business Service Centre, Education Services Company, etc., as their business case assume it will take a few years to build up the business).

Efficiency Savings

- 5.4 Proposed efficiency savings of £18.0m have been identified for 2018-19. Each year it becomes increasingly challenging to make additional efficiency savings. Efficiency savings have been subdivided between direct staff savings and savings on contracted and other services.
- 5.5 The proposed staffing efficiencies build on existing programmes and restructuring plans. In the main we will seek to make staffing reductions which avoid the need for compulsory redundancies although these cannot be ruled out. The savings include an estimated amount of £2m from the integration of children's services. The remainder are estimates from restructuring programmes in other units (particularly in CYPE, GET and S&CS). All staffing efficiency savings are estimates and structures will be subject to individual consultation arrangements. This means it is impossible at this stage to identify the impact on the number of posts or full time equivalents. The efficiency savings do not represent the totality of staffing changes as there is also provision within demographic spending pressures for the impact on staff teams to avoid excessive caseloads and transformation and policy savings can also impact on staff numbers where these affect in-house services.
- 5.6 Efficiency savings from contracts include an estimated £1.5m of procurement efficiencies to be identified across a range of contracts to achieve better value on low value/high volume purchases, improved category management, reduced reliance on spot purchasing as well as review of contracts in accordance with renewal and break clauses. Contract efficiencies also include £2.8m saving on externally commissioned Public Health services, and £1m further efficiencies with children's centres. £0.8m of savings are identified from review of contractual arrangements at the Allington Waste to Energy plant.
- 5.7 Infrastructure efficiencies are based on reductions in the Council's property estate from local asset reviews and roll-out of new ways of working. Other efficiencies include a range of options within directorates to achieve better value on a range of discretionary non-contracted services.

Policy Changes

- 5.8 The savings options from local policy choices i.e. changes to KCC's local discretionary choices, amount to £6.5m for 2018-19. A summary of the proposed policy savings are set out in table 2 above. This section of the report highlights the most significant policy issues. Further details will be provided through Cabinet Committees as these proposals are further developed following detailed consultation. All the savings identified are initial estimates at this stage in the process and County Council is not being asked to agree any specific amounts at this stage.
- 5.9 The policy decision taken last year to take account of the capital value of a second home in determining the assets of clients in receipt of non-residential care is proposed to roll-out to existing clients in 2018-19. Initially it was agreed to take into account the value of second homes for

new clients in 2017-18. This is likely to take client's assets above the £23,250 threshold and thus they would become liable to fund the full cost of their non-residential care package. The value of first homes is not taken into account for non-residential charges.

- 5.10 The policy savings options include a significant revision to KCC's subsidy to bus operators for what would otherwise be uneconomic routes. As part of this change we would be looking to develop local community provision to provide an alternative service. The estimated savings include the net effect of reducing subsidies and supporting alternative provision, and allow for a phased approach over two years. Some routes will take longer to establish alternatives.
- 5.11 The savings propose to cease KCC directly operating its remaining in-house older persons residential home and day centres. We will be seeking to transfer these centres to be run by private or voluntary organisations thus saving on KCC's subsidy on the assumption that these facilities can be run at the similar cost to other private and voluntary sector centres and homes.
- 5.12 The policy proposals include further savings from highways maintenance on the presumption of reduced costs from postponing the retendering of the term maintenance contract and extend the existing contract with Amey for up to a further two years.
- 5.13 The savings proposals include a number of transformation and efficiency savings in relation to Housing Related Support (HRS) services. These savings aim to streamline HRS services and Supporting Independence Services (SIS). The only policy change to HRS would see KCC change its support for offenders. This will require consultation and close working with criminal justice agencies and a key decision to end the current contracts for low level supported accommodation during 2018-19 and high level schemes even later. If achieved this would see part-year savings in 2018-19 and full year effect in 2019-20
- 5.14 The original 2017-18 budget included part-year effect of planned changes to Kent Support and Assistance Service (KSAS) and accommodation solutions for the short breaks service for adults with learning disabilities, with a full year effect in 2018-19. An amendment was accepted at the County Council budget meeting re-instated £500k of the KSAS saving in 2017-18 by making further changes to the MRP policy. The 2018-19 element was unaffected by the amendment and can be achieved through embedding under spends in the service in 2017-18. The full year roll-out of short breaks savings is unchanged from the original MTFP and includes the 2018-19 full year effect.
- 5.15 We are seeking member agreement in principle to the policy savings outlined in this report and the relevant section of the updated MTFP. If these can be agreed it will enable service directorates to engage in consultation about how savings can be delivered rather than whether the savings should be pursued. This approach is more likely to achieve more of the savings in 2018-19. In providing agreement in principle members

are not being asked to sign up to the amount as this will emerge for the final draft budget in February following the consultative process. Furthermore, in granting agreement in principle, members are not being asked to commit to these savings should other savings options be subsequently identified, or the funding settlement is better than the existing provisional settlement for 2018-19. Should agreement not be possible in principle then the MTFP would need to be updated to remove the unacceptable savings and consequently increase the unidentified gap which will need to be resolved in the final budget in February.

- 5.16 The policy options do not include any reduction to member community grants other than reversing the one-off use of reserves in 2017-18 which enabled grants to be sustained at £22,000 per member. Retaining the grant at £20,000 would enable members to continue to support some of the local provision which would otherwise be removed if the savings proposals in the 2018-19 updated plan are agreed e.g. subsidised bus services.

Financing Savings

- 5.17 We have undertaken a further fundamental review of the £115m “financing items” budget. The vast majority of this budget is used to repay our borrowing and the current capital programme. A total of £14.9m of financing savings are being proposed, £11.3 from further one-off draw-down from reserves, £2m additional contribution from Kings Hill development to support base budget until the reserve runs out, and £1.6m from the full effect of the revision to the Minimum Revenue provision (MRP) policy agreed as part of 2017-18 budget.

- 5.18 The £11.3m from reserves is the initial assessment of the maximum which could be drawn down whilst leaving sufficient to cover budget risks. This includes, amongst a large number of risks, the risk of unidentified savings for 2018-19 and 2019-20. This assessment will be re-evaluated for the risks in the final budget in February.

6. Conclusion

- 6.1 The updated MTFP plan has made tremendous progress towards being able to set a balanced budget in February. A high number of uncertainties remain, although this is not unusual or unexpected at this stage in the budget cycle. As already identified the 2018-19 and 2019-20 budgets will be by far the most challenging the county council has faced in recent years. This autumn budget statement provides members with an update on the latest position and enables preparatory work and consultation to begin to ensure full year effect can be achieved in 2018-19.

7. Recommendations

The County Council is asked to:

- a) AUTHORISE Corporate Directors to make the necessary arrangements to be able to deliver savings once the final budget has been approved in February, and to develop further proposals to resolve the unidentified gap and resolve the uncertainties should these arise.
- b) AGREE, in principle (not the amount) to the policy savings set out in table 2 (and appendices 1 and 2) relating to:
 - (i) KCC's policy in relation to discretionary subsidies for uneconomic bus routes
 - (ii) In-house social care services
 - (iii) Kent Support and Assistance Service
 - (iv) Housing Related Support for offenders
- c) RECOGNISE the progress made towards setting a balanced budget for 2018-19 based on robust estimates and on reducing the unidentified gap

8. Background Documents

- 8.1 KCC approved 2017-18 Budget and 2017-20 Medium Term Financial Plan
<http://www.kent.gov.uk/about-the-council/finance-and-budget/budget-201718>
- 8.2 Budget consultation materials published on KCC website can be found at
www.kent.gov.uk/budget

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