

From: Mike Whiting, Cabinet Member for Planning, Highways, Transport and Waste
Mike Hill, Cabinet Member for Community and Regulatory Services
John Simmonds, Cabinet Member for Finance
Barbara Cooper, Corporate Director for Growth, Environment and Transport

To: Environment and Transport Cabinet Committee – 31 January 2018

Subject: Draft 2018-19 Budget and 2018-20 Medium Term Financial Plan

Classification: Unrestricted

Summary:

County Council debated the authority's Autumn Budget Statement on the 19 October 2017.

The Autumn Budget Statement report set out an update to the Medium Term Financial Plan (MTFP) for 2018-19 and 2019-20, 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 2018-19 Budget and 2018-20 MTFP published on 15th January.

Recommendation(s):

The **Environment and Transport Cabinet Committee** is asked to note the draft budget and MTFP and is invited to make suggestions to: the Cabinet Member for Finance; the Cabinet Member for Planning, Highways, Transportation and Waste; and the Cabinet Member for Community and Regulatory Services on any other issues which should be reflected in the draft budget and MTFP prior to Cabinet on the 5 February 2018 and County Council on the 20 February 2018.

1. Introduction

- 1.1 The draft Budget and MTFP publication, published on 15 January, 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 revenue budget plan, a more detailed one year plan by directorate, prudential and fiscal indicators, as well as an assessment of KCC's reserves.

The financial plans in this publication 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.

2. Fiscal Environment and KCC Financial Strategy

- 2.1 Cabinet Committees need to have regard to the overall fiscal environment in which the Council has to operate, and the Council's overall budget strategy, when considering individual Directorate proposals.

The revenue budget and Medium Term Financial Plan (MTFP) and the capital investment programme have been proposed based on the spending plans set out from central government in the 2015 Spending Review (SR2015) and subsequent annual Budget Statements and Local Government Finance Settlements. SR2015 represented an extension of the period of austerity on public spending from 2010 in response to the need reduce the national budget deficit and control the total public sector borrowing. SR2015 allowed individual authorities to agree to a four year budget plan setting out intended medium term efficiencies in return for greater certainty of government grant allocations.

- 2.2 SR2015 represented a 'flat cash' settlement for local government for the period 2016-17 to 2019-20. Effectively this means that the whole sector could expect to have the same amount in total to spend on local services in 2019-20 as it had in 2015-16, in cash terms. This 'flat cash' settlement included phased reduction in the main Revenue Support Grant (RSG) and transitional grants to mitigate the impact in 2016-17 and 2017-18; the phased introduction of Improved Better Care Fund (iBCF) from 2017-18 onwards; and annual council tax increases to cover inflation/referendum limit, estimated increases in the tax base, and the introduction of an 8% social care precept over the four year period (2% per annum).

In reality 'flat cash' represents a significant reduction in real terms as it provides no additional funding to cover rising costs and demand for local government services, and requires all councils to find substantial spending reductions/income generation in order to set balanced budgets (a statutory requirement). The only viable alternative to budget savings/income generation is to seek agreement to higher council tax increases under the referendum arrangements introduced under the Localism Act 2011.

- 2.3 The settlement for 2017-18 was improved for social care, allowing greater flexibility over the social care council tax precept (enabling up to 3% to be levied in any one year but no more than 6% over the period 2017-18 to 2019-20) and the introduction of a one-off social care support grant in 2017-18. These changes allowed councils to support additional spending in the short term but had no impact on the medium term flat cash settlement.

The March 2017 Budget included additional monies in the iBCF in 2017-18 (with lesser increases for 2018-19 and 2019-20). This announcement enabled the council to address urgent issues around delayed transfers of care and market sustainability and marginally improved the flat cash equation over the four year settlement.

- 2.4 The provisional local government settlement 2018-19 did not include any substantial changes to the grant settlements from previous announcements i.e. substantial reductions in RSG, removal of transitional grants in 2018-19, and phased introduction of iBCF over three years. This when combined with council tax increases (base, referendum limit and social care precept) maintained the flat cash equation.

The settlement did however, allow for an increase of 1% on the council tax referendum limit (3% for 2018-19 and 2019-20) and the announcement of 10 additional areas to pilot 100% business rate retention as a one-off for 2018-19.

3. **Specific Issues for the Environment and Transport Cabinet Committee and the Growth, Environment and Transport (GET) directorate**

3.1 Full details of the Directorates budget proposals are included within the draft 2018-19 Budget Book and 2018-20 Medium Term Financial Plan which was published on the 15 January. This document sets out the whole council budget and MTFP.

Individual committees will need to refer to the individual directorate tables in the Book for the budgets and savings that relate to this committee. The pertinent sections are:

- Capital programme (section 9) on pages 120 – 128 for GET;
- Revenue budget (sections 10/11) on pages 135 and 140 – 141 for GET;
- Appendix A(ii) to the MTFP on pages 153 – 164.

3.2 In addition to the above references, there are a number of financial issues concerning the Growth, Environment and Transport (GET) directorate that we wanted to bring to your attention and these include:

3.2.1 **Additional spending demands** – given that in excess of 75% of the gross costs within the GET directorate relate directly to contracts and commissioned services, it will be of no great surprise that nearly £7m (£6,976 – page 158) of financial pressures exist in relation to price, demography, legislation and service strategies.

3.2.2 **Policy savings** – despite the fact that 83% of the £6.55m (page 162) of savings are due to be met from additional income generation, efficiencies (staffing, non-staffing and contracts/procurement) and transformation, there is a residual 13% (£1.145m) that relate to a change in policy. The most significant change from the Autumn Budget Statement, and the most relevant to this Committee, was the reduction to the Subsidised Bus saving from £2m down to £0.45m (page 162).

3.2.3 **Capital programme** – the capital investment plans for GET shows an aggregate project spend of £762m (page 124) and notable additions for 2018/19 that are within the remit of this committee include a number of LGF/LEP and NPIF funded schemes, Streetlight column replacements, Windmill Weather Proofing, Medway Flood Storage and £7.5m into Highways Improvements that is in addition to the Department for Transport (DfT) grant funding.

4. **Recommendation(s):**

The **Environment and Transport Cabinet Committee** is asked to note the draft budget and MTFP and is invited to make suggestions to the Cabinet Member for Finance; the Cabinet Member for Planning, Highways, Transport and Waste and the Cabinet Member for Community and Regulatory Services on any other issues which should be reflected in the draft budget and MTFP prior to Cabinet on the 5 February and County Council on the 20 February.

5. Background documents

5.1 Consultation materials published on KCC website and the outcome report.

Budget Consultation Materials - <http://www.kent.gov.uk/about-the-council/have-your-say/our-budget>

5.2 The Chancellor of the Exchequer's Spending Review and Autumn Statement on 22 November 2017 and OBR report on the financial and economic climate.

Autumn Budget Statement - <https://www.gov.uk/government/publications/autumn-budget-2017-documents/autumn-budget-2017>

OBR Forecasts <http://budgetresponsibility.org.uk/download/economic-and-fiscal-outlook-november-2017/>

5.3 The provisional Local Government Finance Settlement 2018-19 announced on 19 December 2017 - <https://www.gov.uk/government/speeches/provisional-local-government-finance-settlement-2018-to-2019-statement>

5.4 The 2018-19 Dedicated Schools Grant settlement – <https://www.gov.uk/government/publications/dedicated-schools-grant-dsg-2018-to-2019>

6. Contact details

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