

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

To: County Council – 20th February 2017

Subject: Capital Programme 2018-21, Revenue Budget 2018-19
and Revenue Medium Term Financial Plan 2018-20
(including Council Tax setting 2018-19)

Classification: Unrestricted

Summary: This report is a summary of the proposed capital programme for 2018-21, revenue budget for 2018-19, and revenue medium term financial plan 2018-20. All these separate plans are outlined in the draft document released on 15th January (hereafter referred to as the Budget Book). This was a single document bringing together the previous separate documents for the Medium Term Financial Plan (MTFP) and Budget Book. This report is a guide to the published document, a summary of the key issues, and outlines any material changes since its publication.

The County Council has a statutory duty to set an annual budget and the amount to be levied through council tax. In approving the budget, the County Council is not only agreeing the total amounts planned 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 draft (black combed) Budget Book released on 15th January.

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 forthcoming financial year, 2018-19. The accompanying draft Budget Book sets out the detailed proposals. The proposed 2018-19 revenue budget enables the Corporate Director of Finance to satisfy Section 25 of the Local Government Act 2003, which requires an opinion on the robustness of the budget estimates and the level of reserves held by the Council.
- 1.2 An updated draft of KCC's revenue MTFP for 2017-20 was reported to County Council on 19th October (agenda item "Autumn Budget

Statement”). The publication of that report marked the start of a budget communication and consultation campaign launched on 12th October. The consultation closed on 3rd December. A separate report on the results from this campaign is published as a background document to this report. The campaign highlighted the need to further improve communication about KCC’s budget and the financial challenge the Council is facing.

- 1.3 The draft Budget Book (black combed) was released on 15th January 2018. It included updates following the Chancellor’s Autumn Statement on 22nd November 2017, the provisional Local Government Finance Settlement on 19th December 2017, provisional council tax base estimates from districts, as well as updated spending and savings proposals based on the latest plans. It also included the proposed solution to the unidentified £8m of savings in the October report and KCC’s response to consultation feedback.
- 1.4 Publication of the draft Budget Book 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. We have previously recognised that publishing the draft budget this early to facilitate the scrutiny process (and so soon after the provisional funding announcements) exposes the risk that further changes may be necessary. This is preferable to deferring the scrutiny process.
- 1.5 Rather than producing a “revised draft for County Council” version of the Budget Book to incorporate all the up to date information since the January draft was published, this report details all the material changes. These material changes are set out in section 5 of this report. There are also several minor technical adjustments which are not material to the approval of the budget, these are included in the attached appendices (which provide updates to the key sections in the Budget Book) but not covered in detail in the report:
 - Appendix 1 – Revised Council Tax precepts 2017-18 and 2018-19 (table 1 from section 8)
 - Appendix 2 – Summary of Revised Capital Investment Plans 2018-19 to 2020-21 (first two pages of section 9)
 - Appendix 3 – Revised Directorate Revenue Budget Summary (section 10)
 - Appendix 4 – Revised key services summary (first page of section 11)
 - Appendix 5 – High Level 2018-20 Revenue Budget Summary (appendix A(i) of the Budget Book)
 - Appendix 6 – Detailed 2018-19 Revenue Plan by Directorate (appendix A(ii) of the Budget Book)
 - Appendix 7 – Revised Prudential Indicators (appendix B of the Budget Book)Other sections of the Budget Book will be amended as a consequence of the changes in the final version to be published in March, in order to be consistent with the revised summaries above
- 1.6 The County Council motion is based on a combination of the January draft and these subsequent updates. The motion also includes delegated

powers to make any other non-material/technical changes to avoid the need for minor adjustments in the first monitoring report. Any such changes made under these delegated powers will also be reflected in the final Budget Book to be published in March.

- 1.7 The draft Budget Book on 15th January showed a net revenue budget requirement of £946.6m for 2018-19. This was more than the £929.4m we forecast in the October Autumn Budget Statement. This is principally due to a combination of:
 - ↑ Higher than anticipated provisional council tax base (2.16% compared to 1.5% assumed in October)
 - ↑ Higher council tax referendum threshold (3% compared to 2%)
 - ↑ Announcement of 100% business rate retention pilot for Kent & Medway
 - ↑ Net effect of the lower indexation of retained business rates by Consumer Price Index (CPI) and additional compensation grant for loss against Retail Price Index (RPI)
- 1.8 Some changes to the published draft have arisen before we received the final local government finance settlement. The material changes are included in section 5 of this report. These changes include an increase in the provision for staff pay, additional investment in highways drainage and pot-hole repairs, reduction in draw down from reserves, and final estimates of amounts from savings proposals. These changes are funded from the final notification of council tax base and collection fund estimates from districts (as required by 31st January), and revised calculation of KCC proceeds from business rate retention based on final business tax base estimates, business rate collection fund balance, and changes to grant calculations in the provisional settlement. The most significant of these funding changes are higher than forecast estimated council tax collection fund balance (£10.3m), leading to an increase in net funding of £4.3m compared to the published draft, and the better than originally estimated proceeds from the business rate pilot (additional £3m).
- 1.9 The final local government finance settlement was announced on 6th February and included an additional £150m for all upper tier councils to reflect ongoing pressures on social care budgets, and an additional £16m for rural authorities. For KCC the social care announcement equates to an additional £3.85m on top of the revisions summarised in paragraph 1.8, which together with other minor changes in the settlement further increases the net budget requirement to £958.5m. We have increased planned spending on social care in the revised budget proposals for County Council approval following this announcement (although the full detail will need to be developed over the coming weeks as there was not sufficient time between the announcement and the publication of County Council papers). KCC does not benefit from any of the additional funding for rural authorities.
- 1.10 In summary the changes since the black combed draft have increased the net revenue budget requirement for 2018-19 by £11.9m. This has arisen from a combination of higher than estimated council tax collection fund balance, higher than estimated proceeds from the 100% business rate

retention pilot, and additional government funding in the final local government finance settlement. Mainly these are one-off sources for 2018-19. This extra money has been used to fund £6.9m of additional spending, reduce proposed savings by £0.6m and reduce drawdown from central reserves by £4.4m.

- 1.11 The overall capital programme for 2018-21 is unchanged from the published draft at £794.7m. The only minor change is the transfer of the project for community sexual health services (total cost £360k, 2018-19 planned spend £110k) from Adult Social Care & Health to Strategic and Corporate Services.
- 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 Budget Book 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. This 15% limit should be seen as an absolute ceiling, and not a target. The proposed capital programme includes £210.2m of borrowing, which will count against this indicator (although we are more than likely to cover a proportion of this in the short to 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 within the 3% referendum limit. This would increase the County Council's band C charge (the most common band) from £1,047.84 to £1,079.20 (2.993%). Consultation responses from 67% of respondents supported an increase up to, or more than, the referendum limit to cover additional spending demands and protect services from reductions in central government funding.
- 2.3 At the time of the consultation we identified that the referendum limit was currently 2%, although this was subsequently increased to 3% in the provisional local government finance settlement announced on 19th

December. We do not believe that this change in government policy warranted a further consultation as the question specifically sought views on increases against the referendum level, and not a specific percentage.

- 2.4 We are also proposing to levy an additional 2% council tax specifically for adult social care. This would increase the band C charge by a further £20.96 to £1,100.16. 2018-19 is the third year of the social care levy introduced in the 2016-17 local government settlement which allowed councils to levy an additional 2% of their total council tax requirement each year in the four-year settlement. An additional flexibility was introduced in 2017-18 allowing councils to levy up to 3% in any one year up to 2019-20 providing the total increase over the three-year period does not exceed 6%. KCC is not proposing to use this additional flexibility.
- 2.5 Raising the additional 2% social care levy was supported by 66% of respondents to our local consultation. KCC will satisfy the requirement that the social care levy will ensure that spending on adult social care has been supported by at least the extra amount raised in comparison to other council spending. The Corporate Director of Adult Social Care and Section 151 officer will need to make a joint statutory declaration to this effect showing spending on adult social care (excluding the Improved Better Care ring-fenced spending) has increased by more than spending on other un-ring-fenced/non-statutory services i.e. excluding schools, children's social care, public health and youth justice).
- 2.6 Last year we trialled a simple breakdown of council tax showing how much of a typical band C charge contributes to the main areas of council spending. We intend to continue with this approach although to avoid confusion we will only produce this after the budget has been finalised including the late changes identified in this report. This additional analysis of council tax will be included as part of the final budget publication in March. Information on council tax is presented in section 8 of the Budget Book which needs to be updated with the revised table 1 shown in appendix 1 to this report following notification of the final tax base for 2018-19.
- 2.7 The impact of the proposed increases in each Council Tax band is set out in table 2 in section 8 and reproduced below. The total social care levy on a band D property (as shown on tax bills) would be £68.04, comprising of the 2% of council tax for each of 2016-17 2017-18 and 2018-19.

<u>Table 2</u>	2017-18 (incl. Social Care Levy)	2018-19 (excl. Social Care Levy)	2018-19 (incl. Social Care Levy)
Band A	£785.88	£809.40	£825.12
Band B	£916.86	£944.30	£962.64
Band C	£1,047.84	£1,079.20	£1,100.16
Band D	£1,178.82	£1,214.10	£1,237.68
Band E	£1,440.78	£1,483.90	£1,512.72
Band F	£1,702.74	£1,753.70	£1,787.76
Band G	£1,964.70	£2,023.50	£2,062.80
Band H	£2,357.64	£2,428.20	£2,475.36

3. The Budget Proposals

- 3.1 This section of the report provides further background to the construction of the draft 2018-19 budget proposals in the Budget Book published on 15th January. This was based on the provisional local government finance settlement and initial estimates for council tax base, local share of business rates and collection fund balances. The approved budget must include the final local government finance settlement and final tax base and collection fund notifications from district councils.

Realignment

- 3.2 The baseline for the draft budget is the September budget monitoring reported to Cabinet on 11th December 2017. The draft budget includes the realignment of budgets for known issues that have arisen during the current financial year e.g. re-phasing of savings from the original approved budget. The draft budget also includes provision of £12m, held unallocated at this stage to reflect potential spending pressures which cannot be fully quantified at this stage. This provision will be allocated to services when the impact of these pressures has been confirmed. Allocations will be made in compliance with the Council's Financial Regulations and Procedures, including where necessary key decisions. Realignment is necessary to ensure that budgets are up to date for key demand led services to satisfy the statutory declaration that the budget is based on reasonable estimates.
- 3.3 The 2017-18 budget was balanced by £11.3m one-off use of underspends and reserves. We cannot continue to use reserves to support recurring expenditure and the £11.3m must be replaced in 2018-19 with on-going base budget provision (or new one-off initiatives). This should not be confused with replenishing reserves (which we're not doing), which may be necessary in future to ensure the Council has adequate earmarked reserves to smooth expenditure and cover known risks, and general reserves to cover unforeseeable events.

Pay and Reward

- 3.4 The draft budget includes an additional £4.453m contribution towards the pay and reward package for Kent Scheme staff. This contribution is sufficient to ensure the pay and reward package is managed within an overall pot equivalent to 2.8% of pay. The additional budget has been increased from the 15th January draft by £0.6m following a recalculation of the contribution from staff turnover (the net saving from new staff appointed lower in the pay range than staff they replace). This ensures the pot is at the upper end of the range identified in the October County Council report.
- 3.5 A 2.8% pot is likely to result in a payment of around 2.3% to 2.5% for all those staff assessed as 'achieving' under the Council's Total Contribution Pay (TCP) appraisal system. The final rewards will depend on the number and salaries of staff assessed at each level to ensure the cost is contained

within the overall pot. The budget provision is sufficient to ensure pay in the Kent Range (KR) continues to exceed the National Living Wage (NLW) and National Minimum Wage (NMW) requirements and would see all staff in KR2 increase to a single salary of £8.10 an hour. The provision is also enough to ensure the bottom of KR3 continues to be more than KR2, and the top and bottom of all other ranges can be increased by around ½ of the achieving %. The final proposed distribution of the pay and reward pot will be agreed by the Cabinet Member for Corporate & Democratic Services.

- 3.6 The single reward payment either increases an individual's salary via progression through the pay range, or is a non-consolidated lump sum payment for staff on the top of the grade. These arrangements differ from other public sector pay schemes including the National Joint Council (NJC) scheme used by most local authorities. Under the Kent arrangements there is no separate "cost-of living" award. This makes direct comparison impossible, however, the additional contribution in the budget equates to a net increase in KCC's pay costs of 2%, with the remainder of the pay pot being funded through turnover.

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 156 in Appendix A(ii) of Budget Book (an updated version of this analysis is shown in appendix 6 of this report).
- 3.8 We have also included provision for non-specific increases in negotiated contracts. This calculation includes a proportion of the NLW/NMW which the council considers is reasonable for contractors to pass on as price increases. This has been based on the assumed proportion of prices which relate to workers eligible for the increases announced in the Chancellor's Autumn Budget (4.4% NLW/4.68% NMW), an appropriate increase for the proportion relating to staff above NLW/NMW, and general inflation on non-staffing element.
- 3.9 Managers will be expected to negotiate prices within the inflation parameters outlined in paragraphs 3.7 and 3.8. 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

- 3.10 The draft budget includes the forecast impact of population changes and estimated additional demand arising during the forthcoming year. The forecasts not only reflect changes in client numbers/service users but also changes in complexity of need. The major areas of growth forecast for 2018-19 include older persons, adults with learning disabilities, mental health services, children's social care, mainstream home to school transport, transport for children with special educational needs, take-up of concessionary bus travel, and waste tonnage. The draft budget also includes additional staffing to improve adult safeguarding practice.

- 3.11 The draft budget also includes the impact of additional spending imposed by legislation and government, principally in relation to the Deprivation of Liberty Safeguards (DoLS) assessments following the Cheshire Judgement 2014. The legislative changes include the reduction in the additional ring-fenced iBCF allocation for 2018-19 as included in the March 2017 Budget announcement.
- 3.12 The draft budget includes a limited number of service strategies and improvements under local discretion. These include the continued roll-out of KCC Select Committee recommendations on mainstream home to school transport support, staffing increases for Specialist Children's Services in response to the inspection recommendations, investment in establishment of new trading companies, investment in a replacement adults social care performance system, and the changes to Member allowances agreed by the County Council in July 2017.
- 3.13 A summary of all the additional spending proposals is set out on pages 155 to 158 in Appendix A(ii) of the Budget Book (updated by appendix 6 of this report).

Use of Reserves and Debt Repayment

- 3.14 The black combed draft Budget Book included a proposed £11.4m of savings from additional draw down from central/directorate earmarked reserves. This would leave an estimated balance of around £180m (of which £36.7m is in general reserves). The final balance will be determined by the 2017-18 outturn. The general reserve represents a contingency of just under 4% of net revenue budget and is deemed to be sufficient to reflect the risk inherent in the budget and deliverability of savings plans. (See Appendix G of the Budget Book). As part of the late changes to our funding as set out in Section 5, and the potential cliff-edge from it being one-off, we are now proposing a reduced draw-down from reserves.
- 3.15 The criteria for use of our earmarked reserves are maintained by the Finance Division. These are reviewed each year, but few changes generally come from those reviews. There are no significant revisions proposed for 2018-19 budget and the drawdown from central reserves will come from the existing earmarked "reserve to support future year's budget" in accordance with existing criteria. The criteria for use of reserves and the balances, is ultimately a decision for the Council's Section 151 Officer.
- 3.16 The draft budget proposals also include a reduction in the amount we need to set aside for future debt repayments. This reduction is simply a recalculation of the Minimum Revenue Provision (MRP) to cover capital finance requirements based on an updated asset schedule. It does not represent a change to the Council's MRP policy as set out in appendix C of the Budget Book for full council approval.

Savings Proposals

- 3.17 The savings and income proposals in the draft budget are summarised on pages 159 to 162 in Appendix A(ii) of the draft Budget Book. This has

been updated based on the latest phasing and estimates of the amounts that can be achieved as shown in appendices 5 and 6 of this report (with the consequential changes in revenue budgets summarised in appendices 3 and 4). We have not set out all the changes in detail as we have concluded this is unnecessary as County Council is being asked to agree the latest final plans rather than the evolution of plans from earlier drafts. Savings are sub-divided 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 as a guide to the broad impact.

3.18 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 response to detailed consultation and equality impact assessments. Any such changes will be reflected in the monthly monitoring reports to Cabinet.

3.19 To support local authorities to deliver more efficient and sustainable services the government allows revenue spending on transformation projects to be funded up to 100% from capital receipts. This allows 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

The proposed budget includes £2.5m of revenue spending in 2018-19 from using capital receipts in this way. This spending is identified in the capital programme and is the same as the amount supported in 2017-18. This means no change to the revenue budget for 2018-19 compared to 2017-18. At this stage our plan assumes there are not sufficient receipts available to continue this arrangement in 2019-20, and this £2.5m will need to be replaced (and thus represents part of the amount to replace one-offs identified in appendix A(i) of the Budget Book).

Later Years

3.20 The MTFP includes indicative plans for 2019-20. Inevitably these are less well developed than 2018-19 and are liable to change. Spending demands for future years are a forecast (which inevitably has a degree of uncertainty), and not all the savings necessary to balance 2019-20 have yet been identified. The process to identify the additional savings required to balance these years has already begun.

3.21 Although the plan shows the Council's net budget increasing year on year compared to 2017-18 in cash terms, these increases still represent real-term reductions. This is because the increases are less than the amount needed to fund all the additional spending demands thus requiring additional savings. The overall savings needed for 2018-19 and forecast for 2019-20 are less than the amounts we have made in recent years, but will continue to pose a significant challenge as they come on top of the

circa £600m of base budget savings the council has had to find over the last 7 years.

- 3.22 The 2019-20 forecast assumes that the County Council agrees a 2% increase in council tax (i.e. less than the current 3% referendum level) and the final 2% social care precept. These assumed increases combined with estimated tax base growth would increase council tax revenues by 5%. These assumptions leave some headroom while at the same time signalling a clear intention to keep council tax increases as low as possible and as a last resort.

4. Navigating the Budget Book

- 4.1 This section of the report is aimed at helping Members to navigate the Budget Book publication. We have reproduced this section this year as many of our Members are new to the County Council, and to highlight the significant changes to the presentation which are aimed at producing a single slimmer publication, and to align the approved budget with responsibilities of senior managers as reported in monitoring reports throughout the year.
- 4.2 Section 1 of the Budget Book is a short executive summary. It is designed to give a very high-level overview of the spending context for local government, KCC's capital and revenue spending proposals and council tax. We have produced the executive summary as a separate short document for those only interested in the high-level view on KCC's budget website <http://www.kent.gov.uk/about-the-council/finance-and-budget/our-budget>
- 4.3 Section 2 of the Budget Book provides a more comprehensive evaluation of the national financial and economic context and its impact on local authority financial planning. Local government financial planning and spending still contains a fair amount of central influence (it has been described as one of the most centralised systems compared to those in other countries). This section of the document is a reference document and includes links to key government financial announcements including the annual UK Budget, economic and fiscal forecasts from the Office for Budget Responsibility (OBR) which underpin the budget, and the Local Government Finance Settlement.
- 4.4 Sections 3 and 4 set out KCC's overall revenue and capital budget strategies. These provide important context to the proposals in both the capital and revenue budgets including a more detailed examination of the financial challenge, funding sources and the rationale for spending priorities. The revenue strategy will need to be updated in the final publication in March to reflect the changes in the final local government finance settlement announced on 6th February.
- 4.5 Section 5 is the Council's proposed Treasury Management strategy for 2018-19. This strategy sets out the approach to managing the Council's accumulated borrowing from previous and forecast capital investment, and

the investment of cash balances. It is important the treasury strategy complements the budget strategy and sets the right balance between minimising the financial cost of borrowing, optimising financial gains from investments, and risks. Following changes introduced in 2017, formal approval of the Treasury Management Strategy can now be delegated to a Council Committee (pending approval of the capital strategy by full Council), although for 2018-19 we are still seeking full Council approval. The Treasury Management Advisory Group (TMAG) is an advisory Board which scrutinises the treasury strategy and operations and has no decision-making powers.

- 4.6 Section 8 of the Budget Book sets out the estimated tax base notification from each district (with the slight amendment outlined in paragraph 5.3 below and appendix 1 to this report). This section also sets out the proposed changes to the County Council's share of council tax, and the council tax precept on each district. Setting the council tax and the precepts on district councils is a function which must be approved by full council. The proposed council tax does not exceed the limit beyond which a referendum would be required.
- 4.7 Section 9 of the Budget Book sets out the proposed capital investment planned 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 schedules for each directorate, the first sets out a brief description of each programme/project and the planned phasing of spending and funding. Individual projects will only proceed when specific funding has been secured. The second schedule combines the three years of the capital programme and sets out in more detail the funding sources for each programme/project.
- 4.8 Sections 10 to 14 of the Budget Book set out the proposed revenue budget for 2018-19. Revenue spending is that spent on the day-to-day provision of council services. Section 10 provides a high-level summary for each directorate together with the principal sources of funding for the net budget requirement. Gross expenditure is split between staffing (salaries and employer's costs for national insurance and pension contributions) and other costs. Income is divided between service income from charges/contributions/etc. and specific grants from government departments (funding which can only be spent in accordance with specific grant conditions). Expenditure less income produces the net cost of the budget requirement which is funded from the un-ring-fenced sources of council tax, retained business rates and government grants.
- 4.9 Section 11 has been completely revised for 2018-19 to show planned spending on key services lines aligned to the responsibilities of senior managers. This reflects the Council's directorate structures and means budgets are set at the start of the year in the same format as monitoring reports throughout the year. This is a more efficient process requiring less staff time and reduced printing costs than previous year's budgets presented in an A to Z service format. Sections 12 and 14 can only be produced for the final Budget book in March.

- 4.10 The directorate capital and revenue spending plans set out in sections 9 to 11 are part of the formal approval of the budget. This approval is one of the statutory functions of the full council. Sections 12 to 14 provide additional information and are not part of the approval process (and thus will be fully populated in the final publication in March).
- 4.11 The detailed variation statement for each line in the revenue budget showing the impact of additional spending and savings proposals has not been published as a paper document for 2018-19. Instead we have published a searchable database on the Council's budget website (see link above). This database shows the detailed breakdown of how individual budgets have changed between 2017-18 and 2018-19 and provides a direct reconciliation between the Budget Book and the revenue financial plan shown in appendix A(ii) of the Budget Book. Appendix A(ii) has had to be recalculated for latest updates and changes for the final budget approval (as shown in appendix 6 of this report). The on-line database of variation statements will be updated to reflect this revised analysis in advance of the Council meeting on 20th February (with a clear identity from the previous version that reconciles to the black combed draft which will be archived).
- 4.12 The format of appendix A(i) is the same as the previous MTFP. This provides a high level multi-year analysis of the 2018-19 revenue budget plan and forecasts for the following year(s). We would normally show the following two years. However, the current four-year settlement and agreement we have with central government only goes up to 2019-20, and we have no detailed government spending plans or indicative allocations for local authorities for 2020-21 and beyond. Consequently, we have only been able to include a two-year plan for 2018-20.
- 4.13 The black combed draft showed a balanced budget for 2018-19 (meeting the statutory requirement) but an unresolved savings gap of £10.2m for 2019-20. This is not unusual, and the statutory requirement does not apply to future year's forecasts. Appendix A(i) has been updated for the subsequent changes referred to in paragraphs 1.8 and 1.9 (and detailed in section 5 of this report). The updated analysis has been included as appendix 5 of this report, this still shows a balanced budget for 2018-19 but the unresolved gap for 2019-20 has increased to £15m. This is due to the additional one-off funding announcements, and latest updates to forecast spending and savings proposals.
- 4.14 The format of appendix A(ii) is also the same as the previous MTFP. This shows a more detailed breakdown of the 2018-19 revenue plan (the black combed draft had a typing error which incorrectly had the heading 2018-20 plan). Appendix A(ii) shows a detailed breakdown of additional spending pressures and savings proposals by directorate. The reconciliation of this presentation and the key budget lines is shown in the variation statement database described in paragraph 4.11. Appendix A(ii) has been updated for the subsequent changes referred to in paragraphs 1.8 and 1.9 (and detailed in section 5 of this report). The updated analysis has been included as appendix 6 of this report.

4.15 Appendix B shows a range of prudential indicators which we are required to report to, and be agreed by full Council under the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code. Appendix C is the Council's policy for making Minimum Revenue Provision (MRP) to cover capital borrowing. The MRP statement needs to be approved by full Council. The proposed policy for 2018-19 is unchanged, although we have recalculated the required amount based on an updated asset schedule (which delivers a significant revenue saving based on the pre 2018-19 capital spend).

5. Changes since the Draft Budget and MTFP Publication

5.1 We have not re-published the draft Budget Book in full to take account of changes since the original publication on 15 January. Experience has shown this has made the approval process more complex and added confusion, as well as incurring additional printing costs for a whole document which has a very short life between the County Council meeting and the publication of the final Budget Book in March. Instead we have outlined all the material changes in this section of the report and produced revised statements of the key aspects of the Budget Book as the appendices to this report. There are also some minor adjustments which are not material to the approval of the budget, these are included in the appendices but not covered in this section. All the changes have been incorporated into the recommendation to County Council at the end of this report and will be reflected in the final Budget Book to be published in March.

5.2 Much of the information in the Budget Book is unchanged from the draft released on 15th January. This section provides a brief description of the following material changes:

- Council tax base and collection fund balances
- Local share of business rates and collection fund balances
- Grant announcements
- Budget Re-alignment
- Additional spending proposals
- Savings proposals
- Use of Reserves
- Prudential Indicators

Council Tax & Business Rates

5.3 The final council tax base notification from districts shows a minor change from the 15th January draft budget. The tax base estimate is now 100 higher at 537,889.71 band D equivalent properties. This results in a revised council tax precept of £665.735m based on the proposed council tax rates outlined in section 2. This produces an additional £124k towards the net budget requirement.

5.4 We always have an issue with the estimated 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 15th January publication we estimated a council tax collection fund surplus of £6m, and nil for business rate collection fund.

- 5.5 The final notification from districts shows KCC's share is £10.338m of the estimated net surplus on council tax collection funds (an increase of £4.3m). In total, eleven out of twelve districts have identified a surplus ranging from £0.172m (0.36% of the 2018-19 tax base) to £2.954m (6.51% of 2018-19 tax base). 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.
- 5.6 The amount we have included in the budget for the Council's local share of retained business rates is an estimate determined by KCC finance staff. Under the previous 50% retention arrangements KCC's share of the growth in the local tax base would be modest, estimated £0.4m for 2018-19. However, the approval of the Kent and Medway pilot for 100% retention means more of the business rates will be retained by all the councils in the local area. We have not yet had confirmation of KCC's share under these arrangements and this is unlikely to be finalised in time for the budget approval. The KCC estimate represents a prudent amount taking into consideration the business rate tax base estimate from collection authorities (not available until 31st January), the estimated collection fund balance for 2017-18, the pilot agreement and potential risks and opportunities from business rate retention.
- 5.7 Overall the notification of collection fund balances, tax base and business rate retention has contributed significantly (approx. £7.3m) to the increased net funding from £946.6m in the 15th January draft to £958.5m recommendation to County Council in this report. The remainder of this £11.9m increase is from additional grant announcements.

Grant Announcements

- 5.8 As outlined in paragraph 1.9, the final local government finance settlement on 6th February included additional one-off funding for social care with the extension of the Social Care Support Grant (initially this was provided as a one-off in 2017-18). In 2017-18 a total of £241m was made available to all 152 English authorities with responsibility for social care. The extension announcement provides an additional £150m compared to the provisional local government finance settlement announced on 19th December. For KCC this amounts to an additional £3.853m.
- 5.9 The final proposed budget includes additional spending in social care following this announcement. The late timing of the announcement means the detailed allocations cannot be confirmed in time for the publication of this report. Final allocations will be made in compliance with the Council's Financial Regulations and Procedures, including where necessary key decisions.
- 5.10 The final settlement also included a recalculation of the compensation grant for the uplift in the business rate multiplier based on Consumer Price Index (CPI) following a revised calculation of the impact of the 2017

revaluation. The revised calculation for KCC shows an increase of £0.457m in the compensation grant compared to the provisional settlement. The final compensation grant will include other changes to business rates e.g. extension of reliefs for public houses, extension of small business rate relief, etc., which have been granted in UK Budget announcements and have a detrimental impact on local authority retained business rates. We have not yet been notified of the final calculation of these other elements in the business rate compensation grant and thus this grant funding remains an estimate to allow approval of the final budget and council tax. Any changes in the final grant allocation should not be material to this decision.

- 5.11 The final settlement included an additional £16m to be allocated via the Rural Services Delivery Grant. This is allocated to selected authorities based on super sparsity indices. KCC does not qualify for any funding via this grant.
- 5.12 Since we published the draft budget on 15th January we have received notification of the grants for Extended Rights to Free School Travel and Inshore Fisheries and Conservation Authorities (IFCA). These are small un-ring-fenced grants which contribute towards the Council's net budget requirement. The announcements were £0.348m more than the estimates we had included in the draft Budget Book publication.
- 5.13 In total the additional grant allocations contribute £4.6m towards the overall increase in the net budget requirement.

Budget Realignment and Spending Demands

- 5.14 The draft budget released on 15th January included £12m unallocated for a range of known issues but where amounts have not yet been finally quantified (as per paragraph 3.2 of this report). As part of finalising the budget we have re-assessed these risks, and are confident that the £12m is an adequate sum to cover these issues.
- 5.15 As outlined in paragraph 3.4 to 3.6 we have increased the provision for Kent Scheme pay by £0.6m since the 15th January draft publication. This enables the overall pay pot to be set at 2.8%, the upper end of the range reported to County Council in October, and to increase our lowest hourly rate to £8.10. Approx. 2% is funded from the additional funding in the final proposed budget, with the remainder funded through turnover. The final distribution of this pot will need to be agreed by the Cabinet Member for Corporate & Democratic Services.
- 5.16 The final proposed budget includes an additional £3.853m earmarked for social care following the final local government finance settlement announcement. Within this we have initially allocated £1.5m for children's social care in response to increased demand and placements, and the remaining £2.353m for adult's social care to fund the emerging cost of 'sleep nights'. These are draft high-level allocations for the purposes of setting the overall Council budget and council tax. The timing of the announcement has not left sufficient time to determine a more detailed

allocation or precisely how this additional money will be spent within the range of services under these broad headings. Final allocations will be made in compliance with the Council's Financial Regulations and Procedures, including where necessary key decisions.

- 5.17 The final proposed budget includes an additional £2.4m for highways drainage and pot-hole repairs. The proposal is that this funding could be available through a time limited rolling budget reserve to provide additional revenue funding to address urgent and safety critical highway repairs and maintenance, equating to an average of £1.2m per annum additional highways revenue spending over the next 2 years. Alternatively, the Corporate Director and Cabinet Member may offer a differing profile of spend.
- 5.18 In total the additional spending in the final proposed budget amounts to £6.874m more than the draft released on 15th January
- 5.19 It is proposed that of the remaining balance of the £11.9m additional funding, £4.433m is used to reduce the amount of draw-down of reserves, recognising that virtually all the £11.9m is one-off funding and some of the proposed spend of that extra funding is likely to be base budget. By reducing the draw-down from reserves, this can be used in 2019-20 to avoid the cliff-edge of lost one-off funding.

Savings Proposals

- 5.20 Some of the savings proposals in the draft Budget Book released on 15th January have been revised to reflect the latest planned delivery. In total these revisions have reduced or re-phased a total of £0.628m of savings from 2018-19. None of the individual changes are material to the budget and are reflected in the revised revenue budget summaries in appendices 3 and 4 of this report (sections 10 and 11 of the Budget Book), and the revised 2018-19 revenue plan in appendices 5 and 6 of this report (Appendix A(i) and A(ii) of the Budget Book). These changes are essential to ensure the plan is deliverable and based on robust estimates, and were possible following the additional flexibility from collection fund balances.

Prudential Indicators

- 5.21 The revised net budget requirement means some of the prudential indicators in Appendix B of the Budget Book need to be recalculated. The revised statement to take account of the changes outlined in this report is shown as appendix 7 to this report. Any further changes requiring a revised motion to County Council will also need to be reflected in the Prudential Indicators and any such motion will seek approval for the impact on the prudential indicators to be included in the final Budget Book to be published in March.

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) must formally give opinion as to the robustness of the budget estimates and the level of reserves held by the Council.
- 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 Budget Book sets out the main budget risks, alongside the proposed management action for dealing with these.
- 6.3 The Budget Book also clearly sets out the recommended strategy for ensuring adequate reserves. This has been set in consideration 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 2018. 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 can 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.
- 6.5 There are no immediate concerns about the financial sustainability of the Council, although given the pressures on local government funding, the increasing demands, and the uncertain outcomes from the major national funding reviews (business rate retention and fair funding), the sustainability situation needs to be kept under close review.

7. Recommendations

Recommendations:

The County Council is asked to agree the following:

- (a) Net revenue budget requirement of £958.488m for 2018-19
- (b) Capital investment proposals of £794.707m over three years from 2018-19 to 2020-21 together with the necessary funding and subject to approval to spend arrangements
- (c) The Treasury Management Strategy as per section 5 of the draft Budget Book released on 15th January
- (d) Prudential Indicators as set out in revised Appendix B to the draft Budget Book (appendix 7 of this report)
- (e) The Minimum Revenue Provision (MRP) Statement as set out in Appendix C to the draft Budget Book
- (f) The directorate capital programmes as set out in the draft Budget Book released on 15th January as amended by the changes in this report (summarised in appendix 2 of this report)
- (g) The directorate revenue budget proposals as set out in draft Budget Book released on 15th January as amended by the latest updates included in this report (summarised in appendices 3, 4, 5 and 6 of this report)
- (h) Delegate responsibility to Cabinet Members and Corporate Directors to manage the budget within the parameters set out in the Constitution and Financial Regulations (summary delegations to managers as set out in appendix 4 to this report)
- (i) To increase council tax band rates up to the maximum permitted without a referendum as set out in paragraph 2.7 table 2
- (j) To levy the additional 2% social care precept (raising an additional £13,194,425 and taking the total social care precept to £36,598,016 out of precept set out in (k) below)
- (k) The total council tax requirement of £665,735,336 to be raised through precepts on districts as set out in revisions to section 2 of the Budget Book (appendix 1 to this report)

In addition:

- (l) 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 the single value of KR2, within the 2.8% overall funding available
- (m) To delegate authority to the Corporate Director of Finance (in consultation with the Leader, Cabinet Member for Finance 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
- (n) The changes made in (m) above to be reflected in the final version of the Budget Book and MTFP due to be published in March
- (o) To note that final distribution of unallocated amounts will be made in compliance with the Council's Financial Regulations and Procedures, including where necessary key decisions

- (p) To note the financial outlook for 2019-20 with further anticipated funding reductions and additional spending demands offset by provisional council tax increases and additional savings (some of which are yet to be identified)

8. Background Documents

8.1 KCC's Budget webpage

<http://www.kent.gov.uk/about-the-council/finance-and-budget/our-budget>

8.2 KCC's approved 2017-18 Budget and 2017-20 Medium Term Financial Plan

http://www.kent.gov.uk/_data/assets/pdf_file/0006/66534/budget-book-2017-18.pdf

<http://www.kent.gov.uk/about-the-council/strategies-and-policies/corporate-policies/medium-term-financial-plan>

8.3 Autumn Budget Report to County Council 19th October 2017

<https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=113&MId=7567>

8.4 KCC Budget Consultation launched 12th October 2017

<https://consultations.kent.gov.uk/consult.ti/BudgetConsultation2018/consultationHome>

8.5 Chancellor's Autumn Budget 2017 22nd November 2017

<https://www.gov.uk/government/topical-events/autumn-budget-2017>

8.6 Office for Budget Responsibility fiscal and economic outlook 22nd November 2017

<http://obr.uk/efo/economic-fiscal-outlook-november-2017/>

8.7 Provisional Local Government Finance Settlement 19th December 2017

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2018-to-2019>

8.8 KCC Draft Budget Book 15th January 2018

http://www.kent.gov.uk/_data/assets/pdf_file/0005/78170/Draft-BB-and-MTFP-Black-Combed-Version-10012018-FINAL.pdf

http://www.kent.gov.uk/_data/assets/pdf_file/0006/78171/Budget-Exec-Summary.pdf

8.9 Response to Provisional Local Government Finance Settlement dated 15th January 2015

<https://democracy.kent.gov.uk/ecSDDisplay.aspx?NAME=SD5286&ID=5286&RPID=19850579>

- 8.10 Budget reports to Cabinet Committees in January/February
Policy & Resources
<https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=750&MId=7563>
Growth, Economic Development and Communities
<https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=833&MId=7558>
Environment and Transport
<https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=831&MId=7548>
Adult Social Care
<https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=896&MId=7752>
Children's, Young People and Education
<https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=894&MId=7729>
- 8.11 Minutes of Scrutiny Committee 30th January 2018
<https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=752&MId=7524>
- 8.12 Cabinet 5th February 2018
<https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=115&MId=7591>
- 8.13 Final Local Government Finance Settlement 6th February 2018
<https://www.gov.uk/government/collections/final-local-government-finance-settlement-england-2018-to-2019>

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