

From: Paul Carter, Leader of the Council
Peter Oakford, Deputy Leader and Cabinet Member for
Finance & Traded Services

To: County Council – 18th October 2018

Subject: Autumn Budget Statement

Classification: Unrestricted

Summary: KCC's published Budget Book includes the Council's capital programme 2018-21, annual revenue budget 2018-19, and revenue Medium Term Financial Plan (MTFP) 2018-20. The final document (blue combed) was published on 31st March 2018 based on the budget approved by full Council on 20th February. Further one-off changes to the 2018-19 budget were approved at the County Council meetings on 17th May and 12th July.

KCC's 2018-20 MTFP is based on the four-year funding agreement from central government (up to 2019-20). The 2019-20 equation shows the financial challenge arising from rising spending demands and costs, reductions in Revenue Support Grant (RSG), phasing in of Improved Better Care Fund (iBCF), changes in other government grants, one-off business rate funding from the 2018-19 pilot, and the impact of limits on the Council's ability to raise council tax without a referendum. This combination means the Council will need to make further significant savings to comply with the statutory requirement to set a balanced budget. At the time the blue combed plan was published it was estimated that £49.8m of savings would be needed for 2019-20, of which £15m were still to be identified. The update in this report reveals a bigger savings requirement following refresh of spending demands, savings plans and council tax, and identifies strategies to close the gap.

The scale of forecast spending demands and grant reductions means that the consequential savings for 2019-20 are exceptionally challenging and comes after eight years of significant real terms reductions in spending. We have no detailed government spending plans beyond 2019-20 and are unlikely to have any indication of the Spending Review in time for the budget setting process. However, we will need to still make plans for 2020 and beyond, even if these are based on assumptions. The scale of challenge and future uncertainty mean it is important that the 2019-20 budget does not overly rely on one-off solutions and consequently the Council may not be able to continue to protect front-line services.

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 the latest revisions to the revenue plans for 2019-20 and context for the capital programme.
- 1.2 The main purpose of this autumn budget statement is to give Members an early update on the likely budget equation i.e. rising demand/cost and reduction in government grants vs council tax and savings. In its simplest terms the latest update shows that the estimated challenge is £94m (£66m spending demands and £28m net reduction in government grant/retained business rates) and the latest proposed solution is £37m from council tax and £57m from savings (of which £16m still need plans to be identified). This update is shown as a revised high level summary published as appendix A(i) of the MTFP. The main purpose is so that Members can consider the extent to which rising demand/costs are unavoidable and the savings options which have to be considered to balance next year's budget.
- 1.3 This autumn budget statement also enables directorates to start the preparatory work so that savings can be delivered as early as possible. It is essential that we can achieve the maximum possible from savings in 2019-20 through early delivery to avoid exacerbating the challenge. In many cases possible savings will require detailed consultation and impact assessment meaning we can only provide outline amounts at this stage.
- 1.4 The final purpose of the autumn budget statement is to provide the basis for formal consultation on the Council's overall budget strategy and council tax proposals. The Council's constitution requires consultation on the budget before it is presented to County Council for final approval.
- 1.5 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.
- 1.6 KCC has an good record of financial management. Not only have we been able to set a balanced budget each year as required by the legislation, but in each of the last 18 years we have ended the year delivering the budget and returning a small underspend. Achieving this is not without its own challenges, and inevitably spending demands arise during the year which we could not have foreseen, and some savings plans may be over or under delivered. A rigorous in-year budget monitoring regime ensures that variances are identified early, and

corrective action implemented including identifying the future years' implications for the MTFP. Robust medium-term financial planning and rigorous monitoring regime are the main factors which have enabled us to this maintain this record of financial management.

- 1.7 The latest budget monitoring report for 2018-19 (as at July) showed a forecast overspend of £6.7m after roll forwards. This is less than the reported overspend at the same time last year and we are confident that the spending pressures can be contained by further management action and more up to date forecasts as the year progresses. It is imperative that the 2018-19 budget is balanced, and we aim to deliver an underspend which could be rolled forward to provide additional short-term support to sustain services in 2019-20 pending the outcome from the 2019 Spending Review which would inform settlements for 2020-21 onwards.
- 1.8 Given the scale of the challenge for 2019-20 (£94m out of a net revenue budget of £958m) and future uncertainties it is vital that the budget that is set is not overly optimistic about what's achievable or provide inadequate provision for in-year eventualities such as forecast demand. There have been two high profile cases of counties which have run into severe difficulties due to inadequate financial planning and control (including one statutory intervention), several other authorities have sounded alarm warnings that they are facing similar problems. KCC must do all that it can to address the budget challenge in ways that do not risk our inclusion among these authorities, which as we have seen from recent cases can happen all too quickly.
- 1.9 Section 2 of this report includes an update on national economic context since the Chancellor's Autumn Budget, and the potential future changes to the local government funding arrangements. In summary the rate of inflation has initially fallen from its peak in November 2017, but not as fast as median forecast by the Office for Budget Responsibility (OBR), and has started to rise again since April. Economic growth has been close to the median forecast, but the net public sector deficit and total public debt, as a proportion of economy, are both lower. 2019-20 is the last year of the current four-year settlement for local government, the government has consulted about technical aspects of this settlement which did not include any changes which would benefit KCC. We are awaiting decision on business rate retention pilots and pools for 2019-20 which could increase the share of business rates to support the county's budget. We are also awaiting the full details of the additional social care funding announced on 2nd October and a response from the Home Office on the asylum grant. It is too early to make assumptions about the impact of 75% business rate retention or the Fair Funding review which will influence the distribution of retained business rates, both of which will take effect until 2020-21
- 1.10 There are no changes proposed to the published capital programme at this stage. We are considering new bids and any that are deemed suitable will be included in the final budget presented to County Council in February together with any associated revenue implications. However, the Council should be aware that the scope for additional capital funding is limited; grants are available for highways and schools although these are not always adequate, the scope to raise developer contributions and

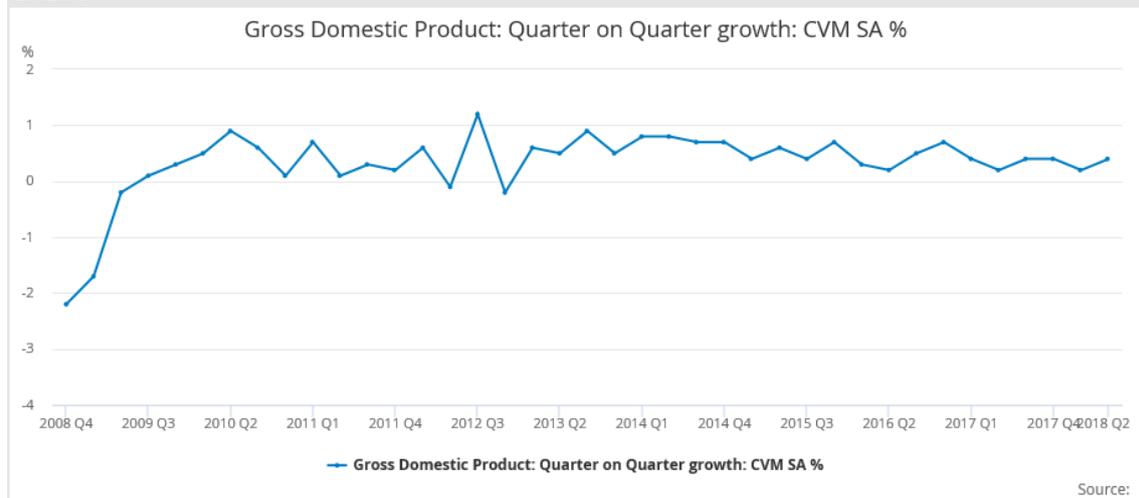
capital receipts is restricted, this leaves additional borrowing as the only viable mechanism which creates an added revenue budget pressure to service the debt (interest costs and repayment provision), and treasury management implications for cash balances and debt profile.

2. National Economic Context and Local Government Settlement

- 2.1 The national economic context included in the published MTFP was based on the Chancellor's 2017 Autumn Budget. The Autumn Budget has replaced the March Budget as the government's main tax and spend policy statement. This switch aids financial planning as central government taxation and spending plans are announced earlier. The 2017 Autumn Budget is covered in depth in the National Financial and Economic Context section of the MTFP. The March statement is now simply an update and response to latest economic and fiscal forecasts.
- 2.2 The March 2018 statement showed higher tax receipt forecasts than the previous estimate in the Autumn Budget, leading to a lower forecast annual deficit. The March statement also included higher economic growth than previously forecast meaning that for the first time since the 2009 recession total debt is falling as a proportion of the whole economy. These two aspects mean that the Chancellor continues to be on course to exceed his fiscal targets (annual deficit no more than 2% of GDP, and total debt falling as % of GDP, by 2020-21).
- 2.3 The latest economic and fiscal forecasts show further encouraging signs with the largest monthly surplus reported for July 2018 since the millennium. We will not know the Government's response, particularly whether there will be a boost to public spending until the Autumn Budget 2018, which has now been confirmed will take place on 29th October. Should there be a boost for local government the detail would not be available until the provisional local government finance settlement likely to be announced early in December. In the meantime, the latest MTFP refresh in this report continues to be based on the indicative amounts for 2019-20 in the 2018-19 settlement i.e. unchanged from the published MTFP. Should there be a better settlement this would reduce the budget gap providing it does not come with conditions or additional spending requirements.

Economic Growth

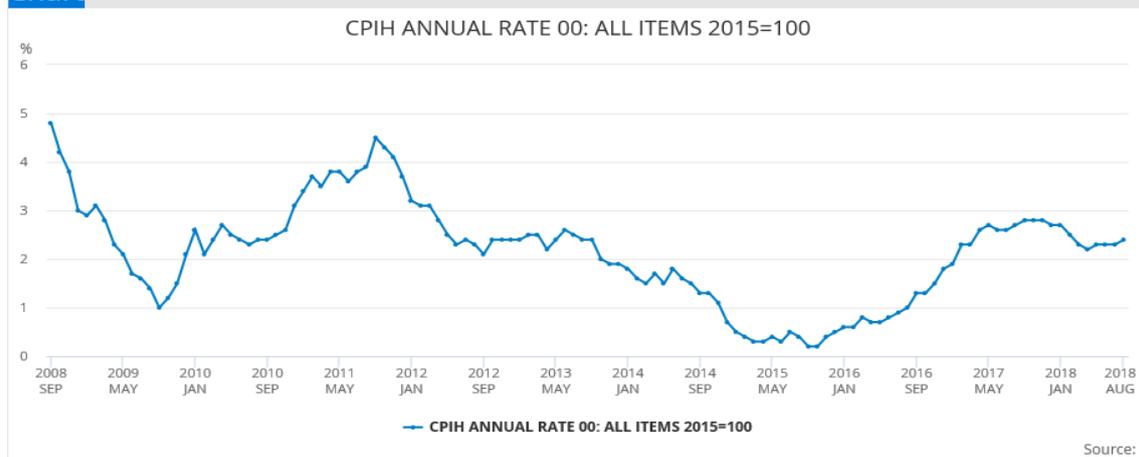
Chart



2.4 The 2015 Spending Review (SR2105) assumed “flat-cash” for local government spending. Whilst this has improved a little due to subsequent changes in the settlement (most notably higher council tax referendum threshold and additional iBCF) it still means local government spending is not keeping pace with the growth in the overall economy and thus is falling in “real terms”. When measured against the actual spending pressures on local authority services the real terms reduction is much greater. It is important that the Council’s budget is viewed against this backdrop of falling spending in real terms.

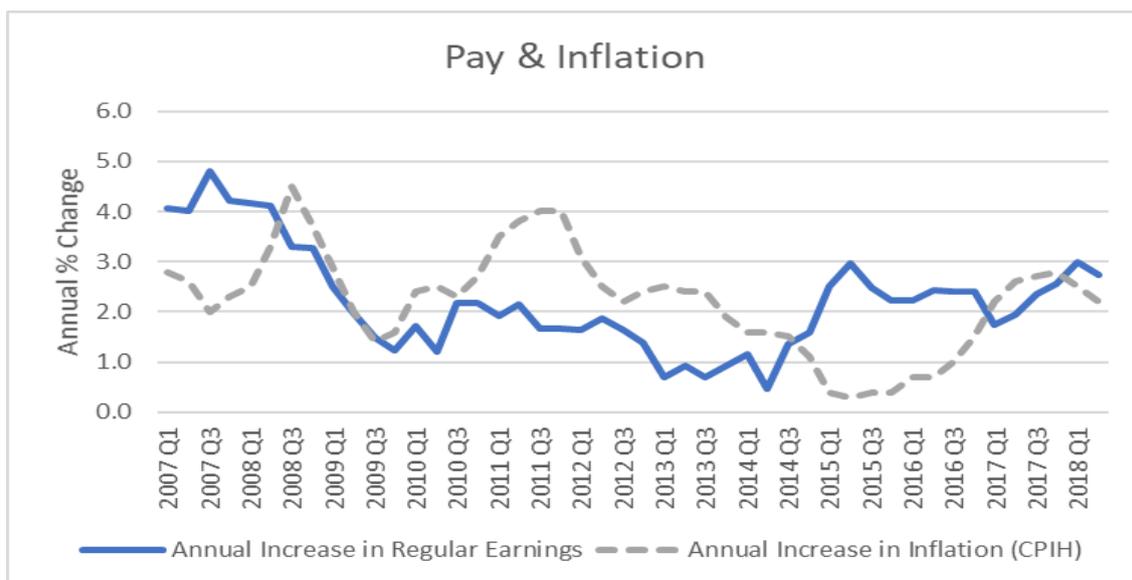
Inflation

Chart



2.5 The chart above shows the new preferred measure of inflation CPIH. We have explained CPI and CPIH in sections 2.65 to 2.72 of the blue combed MTFP and have not repeated this explanation in this report. Until recently the rate of inflation has been declining since it peaked at 2.8% in November 2017 (mainly due to the impact of fall in the value of the £ since the Brexit referendum having worked through into import prices over the preceding 16 months). However, since April 2018 we have seen inflation starting to creep up again from its low of 2.2%. This included an unexpected increase in August 2018 when many forecasters had been predicting a slight fall. These most recent increases have been attributed to fuel prices and seasonal fluctuations in some goods and services .

- 2.6 The rate of inflation is one of many variables which affects KCC's budget. The recent increases mean inflation is closer to wage growth in the whole economy. Wages growth in the whole economy has exceeded inflation in 2018, having previously lagged behind for several preceding quarters. Inflation and wages growth not only affect KCC staff but also have a much more significant impact on commissioned services many of which have automatic inflationary uplifts (others have negotiated increases which include an element for wage increases, most notably social care contracts).



- 2.7 Our conclusion from all the evidence is that despite encouraging signs on the public sector budget deficit and debt, and recent GDP performance, we should still remain prudent about the future economic prospects. Low consumer confidence coupled with a significant decline in the rate of retail sales growth and levelling off for consumer credit indicate we could be entering a period of stagnation in the near future. Whilst the better than forecast performance since last year's Autumn Budget allows the Chancellor some room for manoeuvre in this year's Autumn Budget it is more likely that any stimulus in public spending would be targeted for health rather than local government. Consequently, we have not made any assumptions about a better settlement for 2019-20 in this latest update.
- 2.8 County councils and the County Council Network have been lobbying that the current settlement is particularly hard for county councils as upper tier authorities. County councils have endured the largest percentage reductions in RSG per head of population, and the smallest increases in iBCF per head. At the same time county councils have faced significant demand and cost led spending pressures, and do not have the same capacity to raise alternative sources of income as single tier councils. As an absolute minimum we have been urging ministers to preserve the Social Care Support Grant which was added as a one-off measure in the 2017-18 settlement (from bringing forward reforms to the New Homes Bonus) and subsequently extended (albeit at a reduced level) in 2018-19.

- 2.9 The government has been undertaking a fundamental Fair Funding review of the distribution of funding between authorities. In our view this review is long overdue and offers a once in a generation opportunity to address significant deficiencies in the current distribution methodology (which could favour county councils). This review is not scheduled to make any changes to the distribution of funding until 2020 at the earliest. Even then changes to distribution would be subject to transitional damping and thus would be phased in over several years. To date this review has sought views via a call for evidence in 2017, and a consultation on the redesign of measuring relative spending needs in 2018. KCC has responded to both. We are anticipating further consultation with a final announcement expected sometime in 2019. We have been encouraged by progress so far, and we are optimistic that this will redress long terms concerns we have raised with the current settlement e.g. the withdrawal of RSG for legacy capital financing costs incurred under the previous supporting borrowing regime. We are also encouraged that the redistribution of funding should end up being simplified with a focus on specific formulas for the significant areas of spending, resulting in a more equitable distribution of retained business rates which better reflects current and future spending needs.
- 2.10 The government has also announced its intention to introduce 75% business rate retention from 2020-21 onwards. The additional retention would be fiscally neutral; authorities would no longer receive some grants and expenditure would be funded from retained business rate income. This too has been subject to an initial call for evidence and further consultation, both in 2017, although originally these were to support 100% retention. 100% retention would require primary legislation and has currently been shelved following the 2017 general election. 75% retention can be introduced via secondary legislation although no timetable has been published. 75% retention would not itself provide local authorities with any additional funding to redress the real terms reductions of recent years but would enable authorities to benefit from retaining additional future business rate growth.
- 2.11 In advance of additional business rate retention the government has approved a limited number of pilots. The first tranche in 2017-18 allowed six pilot areas to retain 100% of business rates in their local area (including growth) to support the devolution of additional responsibilities. A separate greater London pilot was subsequently approved during the year. An additional 10 areas were approved to pilot 100% retention in 2018-19. These 2018-19 pilots were slightly different in that they allowed pilot areas to retain only the growth and did not pilot additional devolution. The pilot areas were largely two-tier areas (including Kent and Medway area) and tested how authorities across a wider economic area could work together and use business rate growth to improve financial sustainability and promote future growth. The 2018-19 pilots will not automatically continue in 2019-20 and in July 2018 the Government published its prospectus inviting bids to pilot 75% retention.
- 2.12 Kent and Medway submitted a pilot bid for 2019-20. At this stage we have not made any assumption regarding whether this bid will be successful and have not included any additional retained business rate growth in the

updated MTFP. The updated plan also assumes a neutral impact from the Fair Funding review and 75% retention pending Government announcements. These are prudent planning assumptions.

- 2.13 The government announced that an additional £240m will be made available to authorities with adult social care responsibilities during the current year (2018-19). This will come in the form of a ring-fenced section 31 grant from Department for Health and Social Care (DoHSC), meaning it will come with conditions which will impact on how the grant is spent. At this stage we do not know the precise conditions, it is therefore too early to assess whether this can help to resolve the 2019-20 budget challenge. The grant will be allocated via a formula, KCC's share is estimated to be £6.2m.
- 2.14 We are still pursuing the Home Office for a better recognition of the costs of supporting unaccompanied asylum seeking children (UASC), and more pertinently the costs we incur to support them as care leavers. The Children and Social Care Act 2017 extended support for care leavers up to the age of 25. We contend that the Department for Education (DfE) have substantially underestimated the take-up of additional support by UASC care leavers. Bearing in mind the overall reduction in UASC numbers we believe that the Home Office has plenty of scope to address this issue without putting pressure on their budget. We have informed the Home Office that if additional funding for the National Transfer Scheme (NTS) Reception Centre at Millbank is not forthcoming this will close at the end of November 2018.
- 2.15 We are still awaiting Government announcements on the promised social care green paper. Social care accounts for by far the most significant proportion of spending for county councils. Any changes to social care funding and service expectations will have a significant impact on the MTFP. At this stage we have not included any assumptions in advance of the green paper other than the social care council tax levy would not be extended beyond 2019-20 and iBCF allocations would not be removed or changed. Once again these represent prudent planning assumptions.

3. KCC Revenue Budget Strategy

- 3.1 The overall revenue strategy is unchanged from that set out in section 3 of the published MTFP. This continues to be based on quantifying the financial challenge arising from additional spending demands, reductions in central government grant and replacing the use of one-off solutions in the current year's budget. The strategy identifies the solution from council tax, the local share of business rate growth and savings/income. The equation for 2019-20 presented in the published 2018-20 MTFP was summarised as follows:

FINANCIAL CHALLENGE		SOLUTION		
	£'000		£'000	£'000
• Spending Demands	33,460.3	• Council Tax		23,161.9
• One-offs 2018-19	13,158.6	• Business Rates		-5,669.1
• Grant Reductions	32,100.4	• Savings		49,820.9
		- Identified	27,395.7	
		- Use of corporate reserves	7,450.0	
		- Unidentified	14,975.2	
		• Grant Increases		11,405.6
	78,719.3			78,719.3

3.2 Over the summer we have been working on refreshing the assumptions which underpin this equation. We have updated both forecast spending demands and identified savings. The latest equation is shown below. This shows higher forecast spending demands and identified savings. The latest update also increases the council tax assumptions (see paragraph 3.12).

FINANCIAL CHALLENGE			SOLUTION		
	£'000	£'000		£'000	£'000
• Spending Demands		52,850.6	• Council Tax		36,860.4
- realignment	-12,247.8		• Business Rates		-7,519.4
- unavoidable	28,233.7		• Savings		57,363.0
- contingent sums	27,909.0		- Identified	35,180.6	
- local decisions	8,955.7		- Use of reserves	5,750.0	
• One-offs 2018-19		13,158.6	- Unidentified	16,432.4	
• Grant Reductions		32,100.4	• Grant Increases		11,405.6
		98,109.6			98,109.6

3.3 The spending demands are split between amounts for:

- realignment (known variations during the current year which impact on 2019-20 including the negative impact of removing one-off spending agreed for 2018-19 (potholes, iBCF, etc.) as well as other issues which have already been identified from current year budget monitoring);
- unavoidable pressures (forecasts for contractual price increases, impact of legislation, commitments to fund the capital programme);
- contingent sums (estimates for future demand, non-contractual prices, estimated impact of contract retendering);
- local choices (Kent pay scheme, service enhancements).

These splits are designed to help members better understand the reasons for additional spending demands.

3.4 At this stage we have assumed the rate of inflation will return closer to the government 2% target and that current levels are influenced by seasonal factors identified by the ONS. We have also assumed that growth in the National Living Wage (NLW) will be in line with the forecasts from the Office for Budget Responsibility (OBR) (£7.83 to £8.20 in April 2019). Both these assumptions could be understated based on the analysis included in section 2 of this report, and these pressures could be higher when we come to publish the final draft budget in January. We have already included higher estimates for energy prices and transport contracts based on the impact of higher fuel prices. Demand forecasts are

based on population estimates and will be refined as we have better data on actual trends during the current year.

- 3.5 Savings are split between those where plans have been identified, use of reserves, and unidentified. Many of the identified amounts are provisional at this stage and are subdivided between efficiencies (doing the same job for less money), transformation (improving outcomes at lower cost), income generation, financing, and policy savings. The use of reserves is lower than the original plan due to the additional one-off monies for potholes agreed for 2018-19. This maintains a two-year S151 assurance on levels of reserves. This assurance took account of the late one-off funding changes for 2018-19 (increased locally retained business rates, council tax collection fund, and government grants). Any further drawdown from reserves would need to take account of revised assurance following evaluation of financial risks. This evaluation can only be completed for the final budget in January/February.
- 3.6 The identified savings in the updated table above include the following new savings:
- £5.750m further use of reserves outlined in paragraph 3.5
 - £3.400m of other financing savings from review of amounts set aside for Minimum Revenue Provision (MRP) and interest costs on outstanding debt
 - £2.225m from further transformation in social care and investment in trading companies
 - £6.135m further efficiency savings on staffing and commissioned services
 - £3.250m additional income from review of charging policies
- In addition to these there is £11.9m of savings which are a continuation and full year effect of actions agreed in previous budgets.
- 3.7 The updated 2019-20 plan includes a provisional amount of £7m which Corporate Management Team have advised as reasonable aspiration from a range of cross cutting themes which have been considered by service directors. Five themes were identified (reducing spending pressures, managing expectations, contract management, partnership working and raising additional income) and directors were asked to identify possible opportunities within these themes which would not require policy changes - effectively further efficiency/transformation savings. Rather than setting individual directorate targets, working groups were established with cross directorate representation. The groups were asked to challenge current budget assumptions and share examples of recent approaches to savings which could be applied to other services. As well as identifying a range of options which are feasible for 2019-20, the groups have also identified other opportunities which require further work and could lead to additional savings in the later years of the plan.
- 3.8 The equation still shows a sizeable unidentified gap for 2019-20 (with larger gaps in 2020-21 and beyond as shown in appendix 2). If we do not get a better settlement, this gap will need to be closed through further savings. This would require some significant policy savings which could impact on front-line services, and further could include areas of

discretionary spend and reducing spend on statutory services. Some of the policy areas being considered to close the £16m gap include:

- Reducing member grants
- Reviewing charging policies for Council services
- Further efficiency savings on Special Education Needs & Disability (SEND) transport
- Some reductions in Children's Centre budget
- Partnership funding for Community Warden Service (e.g. Parish Councils)
- Closing the NTS Reception Centre for unaccompanied asylum seeking children if this is not funded through the Home Office grant

3.9 Over the six years since 2013-14 KCC has budgeted for £471m of savings in response to the budget challenge. Of this 33% have been classified as efficiency savings, 29% from transformation and 23% from financing (including one-off use of reserves). Only 5% has been delivered from policy savings (changing the offer from front line and support services). The remainder has come from income and removing one-off spending. However, despite this challenging situation we have been able to maintain a range of discretionary services which make significant difference to the day to day lives of Kent residents and businesses (which we will endeavour to continue to support), such as:

- Young Persons Travel Pass (YPTP) - the only universal scheme for subsidised home to school transport for young people outside of major cities. This pass enables families of over 20,000 children to benefit from KCC subsidy of around half their home to school travel costs (est. approx. £300 benefit per child) and a further 4,000 low income families to receive a bigger subsidy (over £500 per child). A KCC total subsidy of £8.7m per annum
- Family Support Services – these provide a range of short breaks to support families with children with disabilities to enable parents to enjoy a break from caring and the children to have a safe inclusive play environment
- Adult Social Care – commission a range of services with the voluntary sector that provide a direct access to advice, information and support which builds resilience, maintains independence and avoids risk of isolation for a number of vulnerable people living in Kent
- Community Wardens – providing a first line of support for many vulnerable residents within their local communities
- Subsidised Bus Services – subsidies that help support bus routes servicing isolated communities and off-peak services which would otherwise be uneconomic for bus operators to maintain. A KCC total subsidy of £6.0m per annum
- Locate in Kent/Visit Kent – contributions which has help to attract new businesses and visitors into the county

3.10 The amounts we have included in the updated MTFP for un-ring-fenced government grants are unchanged from the Core Spending Power (CSP) calculation included in the 2018-19 settlement. Members should be aware that the CSP is a national comparison of the resources the Government plans to be available to individual authorities. The local elements (principally council tax and retained business rates) could be slightly different in individual authority plans e.g. we have slightly different council

tax assumptions in the draft MTFP. The CSP does not include ring-fenced specific grants from other government departments. The provisional settlement for 2019-20 included a £1.785m reduction in the ring-fenced grant for Public Health, reducing this grant from £67.584m in 2018-19 to £65.799m indicative for 2019-20. This is on top of £5.2m worth of reductions over the last 3 years. Spending on public health services has to be managed within this ring-fenced grant with no additional support from KCC.

CORE SPENDING POWER ¹					
Please select authority					
Kent					
Illustrative Core Spending Power of Local Government;					
	2015-16	2016-17	2017-18	2018-19	2019-20
	£ millions				
Settlement Funding Assessment ²	340.0	283.4	241.9	218.4	194.2
Compensation for under-indexing the business rates multiplier	2.5	2.5	2.6	4.1	5.6
Council Tax of which;	549.0	583.2	620.5	670.9	711.7
<i>Council Tax Requirement excluding parish precepts (including base and levels growth)</i>	549.0	572.0	596.9	627.1	658.9
<i>additional revenue from referendum principle for social care</i>	0.0	11.2	23.6	43.8	52.9
<i>Potential additional Council Tax from £5 referendum principle for all Districts</i>	0.0	0.0	0.0	0.0	0.0
Improved Better Care Fund	0.0	0.0	26.4	35.0	42.4
New Homes Bonus ³	7.3	8.9	7.4	5.8	5.8
New Homes Bonus returned funding	0.6	0.4	0.4	0.0	0.0
Rural Services Delivery Grant	0.0	0.0	0.0	0.0	0.0
Transition Grant	0.0	5.7	5.7	0.0	0.0
The Adult Social Care Support Grant	0.0	0.0	6.2	3.9	0.0
Core Spending Power	899.4	884.0	911.2	938.1	959.8
Change over the Spending Review period (£ millions)					60.4
Change over the Spending Review period (% change)					6.7%
Please see the Core Spending Power Explanatory note for details of the assumptions underpinning the elements of Core Spending Power.					
¹ The figures presented in Core Spending Power do not reflect the changes to Settlement Funding Assessment made for pilot authorities. For information about pilots please refer to the Pilots Explanatory Note. For the Settlement Finance Assessment figures after adjustments for pilots please see Key Information for Local Authorities.					
² 2019-20 Settlement Funding Assessment has been modified to include a provisional tariff or top-up adjustment.					
³ New Homes Bonus allocations for 2019-20 are for illustration purposes only. Actual payments will depend on housing delivery and are subject to change.					

3.11 The government published a technical consultation on the 2019-20 settlement over the summer although the only change proposed was to compensate those authorities which would otherwise have had a negative RSG (and effectively lose some of their business rate retention). KCC was not one of the authorities which would gain from this change (9 Kent districts would gain).

3.12 The latest draft MTFP assumes that the Council agrees to a general increase in council tax up to, but not exceeding, the anticipated 3% referendum threshold (the original published MTFP assumed 2%) and the final 2% tranche of the social care levy. These assumptions need to be set out in the budget communication and consultation campaign which we launched alongside the publication of this report. The updated MTFP also assumes there will be an in-year surplus on council tax collection of £7m and an estimated 1% increase in the tax base for 2019-20 from new housing. We will be notified of individual district estimates for collection fund and tax base later in the year.

3.13 The updated MTFP assumes that business rates (local share and top-up) will be increased through the national multiplier in line with the assumptions built into the CSP calculation. We are already compensated to reflect that this uplift is based on the CPI increase rather than Retail Prices Increases (RPI), as shown by the increase in compensation in the

2019-20 CSP above. If inflation is higher than the estimates in CSP our available funding could increase. We have not assumed any proceeds from a business rate pool or pilot for 2019-20 (these would be subject to ministerial approval in the provisional settlement in December). If either were approved this would increase KCC's funding from retained business rates and reduce the need for savings.

- 3.14 The publication of this Autumn Budget Statement marks the start of formal consultation on KCC's 2019-20 budget and council tax. Consultation is required under KCC's constitution. The consultation will be available on KCC's website for a period of 6 weeks, commencing on 11th October. Building on the success of last year's consultation we are continuing to use a social media campaign to highlight our budget strategy. The aim of the campaign is to encourage people to look at the budget information to better understand the challenge we face and engage with their views through responses to five questions.
- 3.15 The 2019-20 budget continues to be exposed to some significant financial risks and uncertainties. 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 significant year on year savings over a sustained period since 2010-11 all contribute to the risks. We have always included an assessment of risks when determining the level of reserves, but since 2018-19 we have included a more detailed register of the main specific budget risks. A first draft of this register, based on an initial assessment through a peer review process with Cabinet Members and Corporate Directors, is attached as appendix 1 to this report.

4. Use of Capital Receipts

- 4.1 SR2015 allowed local authorities additional flexibility to use capital receipts to fund revenue costs to support delivery of future savings. This represented a significant departure from the previous requirements which restricted the use of receipts from asset sales to funding new capital investments.
- 4.2 KCC's 2017-18 budget and 2017-20 MTFP included the planned use of £5m of capital receipts to fund transformation projects over two years. We are required to report how such receipts have been applied and the anticipated savings to full Council or equivalent committee. Table 1 below shows the receipts which were applied in 2017-18 and those approved to date for 2018-19. A further £1.1m will be applied to other suitable projects in 2018-19. The full table will be included as an appendix to the 2019-20 Budget and MTFP.

Table 1

Use of capital receipts for transformation									
	cost		planned savings						
	2017-18 £'000	2018-19 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	Later years £'000
Adults phase 3 transformation	1,989.7	355.0	-2,700.0	-2,722.6	-4,200.0	-2,200.0			
0-25 phase 2 transformation	386.6				-1,250.0	-1,250.0			
Kent Scientific Services - development of toxicology service (increase laboratory space & purchase of specialist instruments)	181.2	18.8			-14.0	-29.0	-29.0	-45.0	-45 per year
LED Street lighting - upgade of luminaires		750.0			-90.0	-90.0	-90.0	-90.0	-90 per year
Community Learning Service - temporary relocation to Tonbridge site during the development of Tunbridge Wells Culture Hub		200.0			-15.0	-15.0	-36.0	-39.0	-41 per year
	2,557.5	1,323.8	-2,700.0	-2,722.6	-5,464.0	-3,479.0	-29.0	-45.0	-176.0

4.3 At this stage there are no plans to use further receipts to balance the 2019-20 revenue budget on the basis that we already have an ambitious capital receipts target needed to fund the 2018-22 capital programme.

5. Authorities in Financial Difficulty

5.1 Over the last year we have seen increasing number of councils getting into financial difficulty. The highest profile of these was Northamptonshire where a statutory section 114 notice was issued in February 2018. A section 114 notice is issued by the Chief Financial Officer (CFO) under powers in the Local Government Finance Act where they judge that the authority is unable to set or maintain a balanced budget. Such notices are extremely rare and only issued in the gravest of circumstances. Once a notice has been issued the full Council must consider its response within 21 days. The extent of financial challenge for all authorities from the current settlement is such that we anticipate more councils getting into financial difficulty, and section 114 notices could become more regular.

5.2 In the case of Northamptonshire, the Secretary of State decided to intervene and called for an independent inspection. The inspectors conducted a thorough review and concluded that the Council had made a series of mistakes which had culminated in the section 114 notice. The findings included failure to heed earlier warnings, inadequate business cases to support major initiatives, inadequate compliance with statutory guidance on the use of capital receipts, inaccurate medium-term financial planning, inappropriate advice in setting and managing budgets, systemic failure to maintain and control expenditure, and inadequate governance. A second section 114 notice was issued in July 2018.

5.3 Several other authorities have also raised significant concerns about their ability to set or maintain a balanced budget for 2019-20 without radical action. KCC is not yet in this position but the MTFP outlook for the near future could see the Council start to exhibit similar signs to those

authorities which are now in difficulty. One of the most common causes is over reliance on use of reserves and one-offs to balance the budget and increasing levels of debt. To date KCC has avoided reducing reserves or increasing debt but we are still carrying a high level of legacy debt and have relatively modest reserves compared to other authorities. We must ensure that the 2019-20 revenue budget does not overly rely on reserves, that the reserves we have are appropriate to mitigate risks, and the capital programme does not require unsustainable levels of borrowing.

6. MTFP Updates

- 6.1 This report includes an update to the high level multi-year view of the MTFP (appendix A(i) of the published plan). The updated plan for 2019-22 is shown in appendix 2 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.
- 6.2 Appendix 2 summarises the revised spending, funding and savings proposals and shows the remaining unidentified savings for 2019-20 compared to the original plan. The £16.4m unidentified for 2019-20 will largely need to be resolved from policy savings unless the Council receives a better than anticipated settlement from government, the business rate retention pilot/pool is approved, or council tax base/collection fund balances notified by districts are higher than we have estimated. The gap will need to be resolved when the final balanced budget is presented to County Council in February.

7. Robustness of Estimates and Adequacy of Reserves

- 7.1 Under 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. As with the statutory duty to set a balanced budget this requirement does not apply to the autumn budget. However, we have set out below the tests which the Corporate Director applies when endorsing the budget estimates.
- 7.2 The estimates are 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 MTFP sets out the main budget risks, alongside the proposed management action for dealing with these.
- 7.3 The MTFP also clearly sets out the recommended strategy for ensuring adequate reserves. This is set in consideration of a number 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 2019. The level of general reserves is in line with best practice as recommended by the

Chartered Institute of Public Finance and Accountancy (CIPFA) and the Audit Commission.

- 7.4 Many of the spending demands, funding assumptions and savings proposals are very early estimates at this stage and are likely to change by the time the final draft budget is published and approved by County Council in February. These uncertainties include the impact of inflation on the price we pay for goods and services, impact of demographics on the demand for services, delivery of a balanced budget in 2018-19 and the need to realign budgets in light of current year performance, economic factors, legislative requirements, phasing and timing of proposed savings, etc.
- 7.5 CIPFA has launched a draft Resilience Indicator for local authorities. This provides a useful broad dashboard indicator of the financial risks and mitigations within the budget approved for the current year. This indicator, together with further analysis of the ratio of debt to reserves, will be included in the 2019-20 Section 151 assessment.

8. Conclusion

- 8.1 The updated MTFP has made some progress towards being able to set a balanced budget for 2019-20. However, a high number of uncertainties remain, although this is not unusual or unexpected at this stage in the annual budget cycle. The level of savings where no plans have yet been identified is a major concern. We will continue to work with Cabinet Members and Corporate Directors to find solutions in time for the final draft budget and MTFP which will be published in early January, following the anticipated announcement of the local government finance settlement in December. This autumn budget statement provides members with an update on the latest position and enables preparatory work and consultation on the overall strategy and council tax.

9. Recommendations

The County Council is asked to:

- a) ENDORSE the application of capital receipts in 2017-18 and to date in 2018-19 to fund revenue costs as set out in table 1
- b) RECOGNISE the progress made towards setting a balanced budget for 2019-20 based on robust estimates and the remaining unidentified gap
- c) NOTE that Corporate Directors will need to be authorised to make the necessary arrangements to be able to deliver savings once the final budget has been approved in February
- d) NOTE that Cabinet and Corporate Directors need to develop further proposals to resolve the unidentified gap and resolve additional issues which may arise.

10. Background Documents

10.1 KCC approved 2018-19 Budget and 2018-20 Medium Term Financial Plan

10.2 Budget consultation materials published on KCC website can be found at www.kent.gov.uk/budget

10.3 KCC responses to calls for evidence and consultation on the Local Government Finance Settlement, Fair Funding review, and business rate retention

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Budget Risk Register 2019-20

These are the main budget risks highlighted during the development of the 2019-20 Budget.

Directorate	Risk Title	Source/Cause of Risk	Risk Event	Consequence	Current Likelihood (1-5)	Financial Impact (if known) £m's
CYPE	High Needs Demand	Statutory responsibility for providing High Needs top up funding to schools, academies, colleges and independent provision.	Demand for top up funding for pupils with Special Educational Needs and Disabilities exceeds the annual DSG High Needs budget.	Alternative options need to be considered to stay within budget. Any change could have an adverse impact on schools, academies, colleges and independent providers. (Continuation of policy of not using general KCC reserves to top up DSG).	5 ?	£10m ?
CYPE	Asylum	The Council requires full reimbursement from Central Government for the cost of Asylum seeking children and care leavers.	Full reimbursement not received.		4	£2.3m (based on July mon)
ALL	Capital borrowing	Additional bids for capital funding	Insufficient capital funding available therefore requiring additional prudential borrowing	Nothing included in the MTFP for the impact on the revenue budget of repayment of borrowing & interest costs.	5 ?	£1.3m based on minimum statutory additional capital spend up to £8.4m based on all bids
ASCH	Sleep in Nights	Awaiting Supreme court ruling				£3m ?
ALL	Budget realignment	Currently forecasting overspend.	Overspend at Outturn which we have to right-size in order to set a legal budget		3	£8.5m after roll forward (June monitoring)
ALL	Capital Costs	Pre-Capital Works Expenditure.	Scheme doesn't proceed as planned and capital costs are transferred to revenue.	Unfunded Budget Pressure. Urgent alternative savings need to be found which could have an adverse impact on service users and/or Kent residents.	3	
ALL	Inflation	The Council must ensure that the Medium Term Financial Plan (MTFP) includes robust estimates for spending demands.	Inflation rises above the current MTFP assumptions.		3	£8.5m per 1% based on all commissioned spend or £3.5m per 1% based on contractual commitments
ALL	Demand	The Council must ensure that the Medium Term Financial Plan (MTFP) includes robust estimates for spending demands.	Demand for services exceeds the Budget available e.g. children's services, older people, waste, winter impact, public transport, coroners etc.		3	
ALL	Income	The Council must ensure that the Medium Term Financial Plan (MTFP) includes robust income estimates relating to savings plans.	Income is less than that assumed in the MTFP.		2	
S&CS	Operational Estate	Delays to the exiting of operational buildings due to operational service requirements.	KCC cannot reduce our asset base	Overspend due to non-delivery of savings target	2	
ALL	VAT Partial Exemption	KCC VAT Partial Exemption Limit almost exceeded.	Additional capital schemes which are hosted by KCC result in partial exemption limit being exceeded.	Loss of ability to recovery VAT and increased budget pressure.	2	£9.0m

Appendix A (i) - High Level 2019-22 Revenue Plan

2018-19			2019-20		2020-21		2021-22	
£000s	£000s		£000s	£000s	£000s	£000s	£000s	£000s
	932,976.8	Revised 2018-19 Base Budget		958,487.9		967,134.1		973,135
		Additional Spending Pressures						
12,881.2		Net budget realignments from previous year	2,615.6		433.0		584.0	
11,343.7		Replacement of one-off use of reserves to fund base budget	13,158.6		13,375.9		4,000.0	
1,784.0		Reduction in Grant Funding	1,785.0					
24,638.4		Pay & Prices	25,489.3		26,441.8		24,058.1	
17,242.9		Demand & Demographic	17,913.0		15,831.1		15,831.1	
-6,895.0		Government & Legislative	-4,063.6		-168.0		9.0	
14,718.0		Service Strategies and Improvements	9,111.3		3,464.3		3,449.3	
	75,713.2	Total Pressures		66,009.2		59,378.1		47,931.5
		Savings & Income						
		<u>Transformation Savings</u>						
-3,788.2		Adults Transformation Programmes	-4,594.8		-2,200.0			
-4,054.4		Other Transformation Programmes	-2,400.6		-3,535.9		-894.4	
-6,036.5		Income Generation	-4,530.5		-2,219.4		-2,214.9	
		Increases in Grants & Contributions	0.0		0.0		0.0	
		<u>Efficiency Savings</u>						
-6,402.4		Staffing	-2,331.3					
-980.5		Premises	-80.0		-110.0		-1,500.0	
-10,802.5		Contracts & Procurement	-3,584.1		-99.0			
-1,092.5		Other (incl thematic savings target)	-7,828.0					
-14,256.6		Financing Savings	-13,045.8					
-2,788.5		Policy Savings	-2,535.5		-378.1			
	-50,202.1	Total Savings & Income		-40,930.6		-8,542.4		-4,609.3
	0.0	Unidentified		-16,432.4		-44,835.2		-22,323.9
	958,487.9	Net Budget Requirement		967,134.1		973,134.6		994,132.9
		Funded by						
37,640.1		Revenue Support Grant	9,487.1		4,743.6			
3,852.8		Social Care Support Grant						
133,568.9		Business Rate Top-Up Grant	136,111.6					
35,018.9		Improved Better Care Fund (incl additional Adult Social Care allocation announced in Chancellor's Spring 2017 budget)	42,379.7		42,379.7		42,379.7	
13,531.9		Other un-ringfenced grants	14,939.4		7,665.5		7,665.5	
59,048.9		Local Share of Retained Business Rates	51,282.2		191,141.7		194,964.6	
-247.3		Business Rate Collection Fund						
629,137.3		Estimated Council Tax Yield (including increase up to referendum limit)	655,573.1		676,843.1		698,762.1	
36,598.0		Social Care Levy	50,361.0		50,361.0		50,361.0	
10,338.4		Estimated Council Tax Collection Fund	7,000.0					
	958,487.9	Total Funding		967,134.1		973,134.6		994,132.9

(Figures subject to rounding)

The figures in this table reflect the assumption that in 19-20 we are no longer part of a business rates pool or pilot, therefore this reflects 50% business rates retention with KCC's share at 9%. There are also no assumptions regarding additional business rate retention or the consequential transfer of additional responsibilities from Government in 20-21 and 21-22