From: **Roger Gough, Cabinet Member for Children, Young People and Education**

Matt Dunkley, CBE, Corporate Director of Children, Young People and Education

To: **Children's, Young People and Education Cabinet Committee – 11 January 2019**

Subject: Capital Programme 2019-22**,** Revenue Budget 2019-20 and Medium-Term Financial Plan 2019-22

Classification: Unrestricted

Summary:

County Council received a report and presentation on the Autumn Budget Statement on 18th October 2018. That report set out an update to the Medium-Term Financial Plan (MTFP) for 2019-20 including progress on proposals to resolve the unidentified gap in the original plan and high level outline plans for 2020-21 and 2021-22. The report marked the start of a communication and consultation campaign to support decisions on the final budget in February.

The final draft budget proposals were published on 2nd January 2019 to support the scrutiny and democratic process through Cabinet Committees, Cabinet and culminating in the annual County Council budget setting meeting on 14th February. This report provides Children's, Young People and Education Cabinet Committee with an opportunity to comment on the draft budget proposals and make recommendations to Cabinet Members as part of this process.

Members are asked to bring to this meeting the draft (black combed) 2019-20 Budget Book document published on 2nd January 2019 as information from this document is not repeated in this report.

Recommendation:

Members of the Children's, Young People and Education Cabinet Committee are asked to:

a) NOTE the draft capital and revenue budgets and MTFP, including responses to consultation and government provisional settlement; and
b) SUGGEST any changes which should be made before the draft is presented to Cabinet on 28th January and full County Council on 14th February.

1. Introduction

1.1 The Local Government Finance Act 1992 and KCC Constitution requires the Council to consult on and ultimately set a legal budget and council tax precept for the forthcoming financial year, 2019-20. The accompanying draft Budget Book and MTFP document (hereafter referred to as the Budget Book) sets out the detailed draft proposals. This document is designed as a reference document and includes a number of sections/appendices. This report is produced as a guide to help navigate the document. We have reduced the amount of information included in the draft Budget Book for Cabinet Committees to help focus on the key budget issues.

1.2 The democratic process through Cabinet Committees, Cabinet, and ultimately full Council is the culmination of the budget setting process which takes almost a year to evolve beginning almost immediately after the budget is approved in February. This starts with the forecasts for the subsequent year(s) in the MTFP as set out at the same time as the approved budget for the forthcoming year, including the indicative central government settlement. These are based on estimates and subject to regular revision and refinement. It has become common that the MTFP usually has an unidentified savings gap for the future years which needs to be resolved, particularly so when future years are in a new spending review period.

1.3 In the last three years we have reported an interim update of the MTFP to County Council through the Autumn Budget Statement report. This includes updates to the forecasts and progress on identifying solutions to the unresolved gap. This also marks the launch of formal consultation as required under the Council's Constitution and is necessary to set a legal budget and council tax. The draft budget published in January for the final democratic process reflects the response to this consultation, further updates to forecasts, and final proposed resolution of any outstanding gap. Even then, this final draft can be subject to further changes leading up to the full Council meeting in February (including any amendments agreed at the meeting).

1.4 The final approved budget and MTFP is published in March.

2. Fiscal and Economic Context

2.1 The national fiscal and economic context is an important consideration for the Council in setting the budget. This context does not just determine the amount we receive through central government grants but also sets out how local government spending fits in within the totality of public spending. This latter aspect essentially sets the government's expectations of how much local authorities would raise through local taxation.

2.2 In previous years we have set out a full analysis of the national economic and fiscal context in section 2 of the draft Budget Book. This analysis has been based on the Chancellor of the Exchequer's Autumn Budget and the Office for Budget Responsibility's (OBR) economic and fiscal outlook. The Autumn Budget is now the government's main annual tax and spend policy instrument. The March statement is now just an update to economic and fiscal forecasts.

2.3 The Autumn Budget 2018 (AB18) was announced on 29th October (nearly a month earlier that previous years) and was made against a highly uncertain economic climate. Consequently, we are not convinced of the value of publishing the full analysis in the draft Budget Book publication in January bearing in mind the risk of further changes by the time of the February Council meeting. Instead we will include a short summary in this report for cabinet committees and provide the fuller analysis closer to the County Council meeting in February.

2.4 The Chancellor retained his two main fiscal rules in AB18; the cyclically adjusted budget deficit to be below 2% of Gross Domestic Product (GDP), and total debt as % of GDP to be falling, both by 2020-21. The latest OBR report suggests a stronger fiscal performance with total debt already peaking at 85.2% in 2016-17 and reducing to 83.7% forecast for 2018-19 and 79.7% for 2020-21. The annual deficit is predicted to reduce from 1.9% in 2017-18 to a forecast 1.2% in 2018-19. This improved performance is derived from higher than previously forecast economic growth (despite poor performance in first quarter of 2018 due to adverse weather), lower than planned public spending in 2017-18, and higher forecast tax yields for 2018-19 and beyond.

2.5 This improved performance allowed the Chancellor additional headroom to increase public spending plans and reduce some taxes in AB18. Most of the additional spending was allocated to the NHS, although some additional monies were allocated to local government including extra funding for social care in 2018-19 and 2019-20, road maintenance in 2018-19, one-off injection for schools in 2018-19, and removing the borrowing cap on local authority social housebuilding. There was also additional spending to support the implementation of Universal Credit and defence spending.

2.6 The tax reductions included increases in personal allowances on income tax, freezing fuel and alcohol duties, increases in business investment allowances and new buildings allowances, and reductions in business rates for medium sized high street premises. Some additional tax is planned to be raised from extending the reforms to off-payroll working (IR35) to larger private sector organisations, and introduction of new digital services tax on the revenues of digital businesses, both from April 2020.

2.7 The changes result in the forecast budget deficit initially increasing from £25.5bn in 2018-19 to £31.8bn in 2019-20 (1.2% of GDP to 1.4% of GDP), before then reducing in later years. The Chancellor retained £15.4bn (0.7%) of the headroom to the 2% deficit target to hedge future economic and fiscal uncertainty.

2.8 The provisional local government finance settlement was announced on 13th December. This announcement is one of the key elements of the Council's budget process as it includes several significant grants and council tax referendum principles.

2.9 In previous years the settlement has included changes to the distribution of government grants. The 2019-20 settlement had only minor changes to the indicative allocations for 2019-20 in the 2018-19 settlement, notably affecting business rate top-up following the 2017 revaluation and New Homes Bonus (supported by additional money to maintain the 0.4% baseline). The settlement included an additional distribution to all authorities from the excess business rates levies paid to central government and additional Rural Services Grant (the latter does not affect KCC).

2.10 The provisional settlement confirmed the additional money announced in AB18 for social care. The 2019-20 settlement includes further substantial reductions to the Revenue Support Grant (RSG) as per previous indicative allocations (KCC's RSG is reducing from £37.6m to £9.5m in 2019-20) although the negative RSG for 162 has been redressed, indexation uplift in business rate top-up, the final tranche of the Improved Better Care Fund, and additional compensation for the business rate reliefs announced in AB18.

2.11 The settlement also confirmed that the council tax referendum threshold for 2019-20 will be 3% (unchanged from last year's announcement), and the final year of the social care council tax precept is also unchanged (this allowed for a 6% increase over the three years 2017/20, with no more than 3% in each of the first two years). The Autumn Budget Statement report included KCC's proposals for an increase up to but not exceeding the referendum threshold, and final 2% social care council tax precept. The settlement means the council tax proposals in the final draft budget are unchanged from that report. The only changes to council tax from the Autumn Statement are the notification of the estimated council tax base and collection fund balances from districts (the Autumn Statement was based on KCC's own forecasts).

2.12 The settlement also confirmed that the Kent business rate pool between KCC, 10 Kent district councils, and Kent and Medway Fire and Rescue Authority, will be re-instated following the 2018-19 100% retention pilot and the failed bid for a further pilot in 2019-20. The pool announcement increases the County Council's share of retained business rates from the assumption included in the Autumn Statement report. The Kent and Medway bid for a further business rate retention pilot for 2019-20 was not approved.

2.13 We have no indicative grants or council tax referendum limits for 2020-21 and beyond. We will not know these until after the outcome of the Spending Review anticipated sometime during 2019. We are also awaiting further details on the proposed 75% business rate retention arrangements, and the reforms following the Fair Funding review. These are likely to have a significant impact on future year's budgets and the Council's MTFP, this uncertainty makes forward financial planning very imprecise. The high-level three-year plan (appendix A(i)) in the final draft Budget Book is based on prudent assumptions about the outcome of the Spending Review, additional business rate retention, Fair Funding review, and council tax referendum principles consistent with the OBR assumptions in their latest fiscal and economic outlook report.

3. Revenue Budget Strategy and Proposals

3.1 The Council's revenue expenditure is what we spend on the provision of day to day services e.g. care for the elderly and vulnerable adults, supporting children in care, maintain and managing the road network, library services, etc. It includes the cost of salaries for staff employed by the Council, contracts for services commissioned by the Council, the costs of servicing debt incurred to support the capital programmes, and other goods and services consumed by the Council. Revenue spending priorities are determined according to the Council's statutory responsibilities and local priorities as set out in the MTFP, with the ultimate aim of delivering the vision set out in the Strategic Statement.

3.2 The final draft budget book includes the following sections in relation to the revenue budget proposals:

- Section 2 – Revenue Budget Summary by Directorate
- Section 3 – Key Service Analysis by Directorate
- Appendix A(i) – High Level 2019-22 three-year Revenue Plan
- Appendix A(ii) – Detailed 2019-20 Revenue Plan by Directorate
- Appendix B – Budget Risk Register
- Appendix C – Assessment of Levels of Reserves

The revenue budget sections set out the planned spending on services, the revenue plans in the appendices show the main reasons for year on year changes.

3.3 In order to meet the legal requirement to set a balanced budget the Corporate Director of Finance must be satisfied that it is based on robust estimates and includes adequate provision for reserves to cover risks and uncertainties. The 2019-20 draft budget includes provision for £59.5m of additional spending demands (realignment of existing budgets plus forecasts for future demand and cost increases) and £12.9m to replace the use of one-offs on the 2018-19 approved budget. This combined £72.4m of spending demands together with the £28.1m reduction in RSG (referred to in paragraph 2.9) make up the total £100.5m budget challenge for 2019-20.

3.4 The spending demands have only marginally increased from the £52.85m forecast in the Autumn Statement report to County Council on 18th October (after taking account of the additional £6.2m of spending from the extra ring-fenced adult social care winter monies). This reflects the very latest update in order to satisfy the robustness requirement. These spending demands include the need to realign budgets based on current activity/costs, future known unavoidable cost increases (including contractual price increases, legislative changes and financing capital programme), contingent sums for future eventualities (including estimated demand, non-specific price increases and contract retender), and local choices (including investment in services, and Kent pay scheme).

3.5 The 2019-20 draft budget includes savings and income proposals of £42.9m. This is less than the £57.5m identified in the Autumn Statement report to County Council and resolves the £16.4m unidentified gap reported at the time. The reduced savings are possible following the additional grant announcements in AB18 (paragraph 2.9 above), as well as a higher than forecast council tax base estimate (paragraph 2.10) and the additional proceeds from the reapproval of the business rate pool (paragraph 2.11).

3.6 The revenue budget can be summarised in the updated version of the equation reported to County Council in the Autumn Statement and presentation by the Acting S151 Officer at the meeting (as shown below). This equation assumes the Council agrees the proposed council tax precept increases up to but not exceeding the 3% referendum limit and the 2% social care levy. Section 6 of this report sets out the main revenue spending demands and savings/income proposals for the Children's Young People and Education directorate.

FINANCIAL CHALLENGE			SOLUTION		
	£'000	£'000		£'000	£'000
• Spending Demands		59,527.5	• Council Tax		40,355.1
- realignment	-9,491.4		• Business Rates		-4,482.4
- unavoidable	31,249.6		• Savings		42,855.3
- contingent sums	28,967.5		- Identified	32,005.3	
- local decisions	8,801.8		- Use of reserves	10,850.0	
• One-offs 2018-19		12,858.6			
• Grant Reductions		28,153.0	• Grant Increases		21,811.1
		100,539.1			**100,539.1**

3.7 The 2020-21 and 2021-22 plans are presented at a high level for the whole council in appendix A(i). As identified in paragraph 2.12 this represents a prudent estimate of future funding following the Spending Review and possible changes to the funding distribution for local government as a whole. The plans also include forecasts for future spending pressures, replacing the use one-offs to balance the previous year's budget, forecast council tax base and council tax referendum limits, and the estimated need for further savings (including full year effect of previous years, future identified options and unidentified gap). There are so many uncertainties that there is little to be gained from setting future plans in any more detail at this stage.

4. Budget Consultation

4.1 As described in paragraph 1.3 consultation on the Council's revenue budget and council tax proposals was launched on 11th October to coincide with the publication of the Autumn Budget Report to County Council. The consultation closed on 21st November. This consultation sought views on council tax and KCC's budget strategy. The consultation was web based supported by a social media campaign. This approach achieved the aim of increased engagement at lower cost and received a total of 1,717 responses (compared to 965 responses last year). Furthermore, there were fewer numbers who started a response but did not complete (698 compared to 953 last year).

4.2 The campaign also aimed to increase public understanding of the Council's budget and the financial challenge arising from rising demand for/cost of providing Council Services, reductions/changes in central government funding, the need to find cost savings whilst at the same time protecting valued services, and impact on council tax. We will need to undertake further evaluation of the extent to which these aims were achieved.

4.3 Overall there were fewer proportion of respondents supporting council tax increases than in previous years although in general the suggestions where the Council could make alternative savings would not balance the budget equation. In relation to the budget strategy a significant majority either agreed or strongly agreed that this should support delivery of the three strategic outcomes outlined in the Council's Strategic Statement. A comprehensive report on consultation activity and responses is published on the Council's website (see link in background documents).

5. Capital Programme

5.1 Capital expenditure is spent on the purchase or enhancement of physical assets where the benefit will last longer than the year in which it is incurred e.g. school buildings, roads, economic development schemes, IT systems, etc. It includes the cost of purchasing land, construction costs, professional fees, plant and equipment and grants to third parties. As with revenue, capital spending plans are determined according to the Council's statutory responsibilities and local priorities as set out in the MTFP, with the ultimate aim of delivering the vision set out in the Strategic Statement.

5.2 Capital spending has to be affordable as the cost of interest on borrowing and setting aside sufficient provision to cover the initial investment funded by loans over the lifetime of the asset, are borne as revenue spending each year over a very long period. This affordability would also apply to invest to save schemes which need to have a reasonable payback.

5.3 Section 1 of the draft Budget Book sets out the proposed 2019-22 programme and associated financing requirements. The summary provides a high-level overview for the whole council, and the individual directorate pages provide more detail of rolling programmes and individual projects.

5.4 The 2018-21 programme was developed assuming a limit of no more than £100m of additional borrowing for new schemes over the three-year period. All of this capacity was used up in the three-year plan leaving no room for new schemes in subsequent years. Since the original programme was agreed some new projects have been committed e.g. additional capital spending on highways schemes approved by full Council in July 2018. We have also re-evaluated the programme where spending can be reduced or can be fully externally funded.

5.5 However, some further additional capital spending is essential to meet statutory responsibilities or will be an invest to save for the future. This spending would have to be funded from additional borrowing of £64.5m over the three-year programme. We can fully mitigate the revenue impact over this period through refinancing other schemes, but in the longer term beyond 2021-22 this additional borrowing would have an estimated £4.5m additional revenue cost for another 20/30 years.

6. Headline Directorate Proposals

6.1 The 2019-20 draft budget for Children's Young People and Education Directorate of £194.3m includes a provision for £10.8m of additional spending demands and savings and income proposals of £3.0m including the use of one-off reserves.

Main Additional Spending Pressures

6.2 The provisional budget recognises the key demand pressures faced by the Children's, Young People and Education Directorate. A total of £3.5m has been identified to fund unavoidable cost increases in Children Social Services. The proposals address the current 2018-19 financial pressure from the need to place children in more expensive placements due to the increasing complexity of children entering care in addition to more expensive legal proceedings. The estimated pressure of future demand for both social work and the placing of looked after children is also considered, along with estimated contractual price increases for both external providers and in-house foster carers. £1.2m funding has also been identified for the Care Leavers Service to support the current numbers of young people by supplementing the shortfall in Government funding to cover the extended duty to support Care Leavers up to the age of 25.

6.3 The additional costs of supporting the unprecedented growth in the number of statutory Education, Health and Care Plans assessments has been reflected in the budget proposals with an additional £2.5m proposed to support both the Education Psychology and Special Education Needs Service. The continuing pressure on Home to School Transport Services has also been recognised with £3.5m proposed to fund contractual price increases and continuing increases in demand, particularly for special educational needs transport.

Main Savings and Income

6.4 Saving plans for Children's, Young People and Education are mainly centred around the positive impact of the Change for Kent Children Programme, an additional £1.25m has been added to the existing target saving of £2m, allocated in the 2018-21 MTFP. This is expected to be delivered from the move to a new service delivery model which brings teams together to work in an efficient and integrated way without losing vital front-line services. The remainder of the savings are expected to be delivered through increased trading with schools (£0.5m), particularly with The Education People, and the proposal to introduce charging for post 16 Special Educational Needs Transport, in order to bring in line with the Kent 16+ Travel Card (£0.4m).

Dedicated School Grant (DSG)

6.5 One of the biggest challenges for this Council is managing the rising pupil population, particularly those pupils with Special Educational Needs and Disabilities (SEND). The support for these pupils is funded from the Dedicated Schools Grant High Needs block. Our High Needs block initially received a modest increase of 2% for general pupil population increase, however demand for SEND funded places continues to rise at a much higher rate than the increase we have received. We have discussed this position with this Committee at the last meeting and the Schools' Funding Forum on 30 November. Both this Committee and the Schools' Funding Forum supported the transfer of funding from the Schools block into the High Needs block of approx. £8.8m (which equates to 1% of the Schools' block) made up of 0.5% (£4.4m) for 2018-19 and a further 0.5% (£4.4m) for 2019-20. However, even after this transfer, a significant funding gap for 2019-20 exists. As the size of the proposed transfer exceeds 0.5%, we are required to submit an application to the Secretary of State for his approval. This request was submitted on 30 November 2018.

6.6 On 17 December 2018, the Secretary of State announced an additional £250m of funding for High Needs, £125m in 2018-19 and £125m 2019-20. The additional funding has been distributed to LAs based on the population projections for 2 to 18 year olds. Kent's allocation for each year is just over £3.5m, so just over £7m in total. Alongside the announcement the DfE have issued a statement regarding the impact of movement between blocks. It states that, in light of this additional funding, local authorities are now expected to review existing proposals to move funding from the school's block to the high needs block of the DSG in 2019 to 2020. This is something that we are currently undertaking with the School's Funding Forum and will need to be considered in terms of the overall pressure on the school's high need block. We have until 15 January 2019 to inform the DfE of any changes to our request and we hope to be able to verbally update this committee on this matter.

6.7 We cannot meet this funding gap from reserves as we no longer have a surplus balance in our DSG reserve. The Council's policy is to not "top up" DSG with Council funding so we are therefore considering what further action we can take to help manage demand so that we continue to fulfil our statutory responsibilities whilst also remaining within our available annual DSG funding.

7. Recommendations

Recommendations:
Members of the Children's, Young People and Education Cabinet Committee are asked to:

a) NOTE the draft capital and revenue budgets and MTFP, including responses to consultation and government provisional settlement

b) SUGGEST any changes which should be made before the draft is presented to Cabinet on 28th January and full County Council on 14th February.

8. Background Documents

8.1 KCC's Budget webpage
https://www.kent.gov.uk/about-the-council/finance-and-budget

8.2 KCC's approved 2018-19 Budget and 2018-20 Medium Term Financial Plan
https://www.kent.gov.uk/__data/assets/pdf_file/0010/79714/medium-term-financial-plan-and-budget-information.pdf

8.3 Autumn Budget Report to County Council 18th October 2018
https://democracy.kent.gov.uk/documents/s86875/Autumn%20Budget%20Statement%20Final%20version.pdf

8.4 KCC Budget Consultation launched 11th October 2018
https://www.kent.gov.uk/about-the-council/finance-and-budget/our-budget

8.5 Chancellor's Autumn Budget 2018 29th October 2018
https://www.gov.uk/government/topical-events/budget-2018

8.6 Office for Budget Responsibility fiscal and economic outlook 29th October 2018
https://obr.uk/efo/economic-fiscal-outlook-october-2018/

8.7 Provisional Local Government Finance Settlement 13th December 2018
https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2019-to-2020

8.8 KCC report on 2018 Budget Consultation
https://consultations.kent.gov.uk/consult.ti/DraftBudgetStrategy201920/consultationHome

8.9 KCC Draft Budget Book 2nd January 2019
https://www.kent.gov.uk/about-the-council/finance-and-budget/our-budget

9. Contact details

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