From: Mike Whiting (Cabinet Member for Planning, Highways, Transport and Waste)

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To: Environment & Transport Cabinet Committee – 17th 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 the Environment & Transport 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.

Recommendations:

Members of the Environment & Transport 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.

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 19-20) 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 but does resolve 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 services within the Growth, Environment and Transport directorate that fall within the remit of this Environment & Transport Cabinet Committee.

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 Included within the ***additional spending demands*** of £59.5m (See 3.3) are new pressures totalling £6.9m for the Growth, Environment and Transport (GET) directorate, a large number of which fall within the remit of this Committee.

£3.4m of these pressures relate to price and contract inflation, with £1.4m relating to demographic growth and/or changes in activity. For 2019/20, 70% plus of gross spend is commissioned or contracted and many of which have indexed linked inflationary increases built into the contract and therefore each year additional funding is required just to maintain existing service levels. The demographic growth indicates further pressures on these budgets/services due to housing and population growth.

These two funding areas account for 70% of the total pressures within the GET directorate and relate primarily to Highways, Waste and Public Transport (the latter comprises Young Persons' Travel Pass, English National Concessionary Travel Scheme (ENCTS) and Subsidised Bus schemes).

There are also new legislative requirements (£0.5m) that services are obliged to comply with – that come without additional funding – as well as budget re-alignment/replacement of one-off funding streams (£1.6m) e.g. amending budgets based on current activity levels. The legislative pressures fall outside the remit of this committee.

6.2 Included within the new ***<u>savings and income proposals</u>*** of £42.9m (See 3.5) for KCC are net budget reductions totalling £4.8m for the GET Directorate, a large number of which fall within the remit of this Committee.

The two significant proposals relate to the introduction of charging for the haulage and disposal of non-household waste (£1m) and the additional income (£0.8m) to be generated from an increase to the cost of the Young Persons' Travel Pass, over and above the annual inflationary increase.

These two budget options are subject to Cabinet Member decision and County Council approval. Should the decision not be taken then the budget for 19-20 will need to be reviewed and alternative options to balance the budget identified.

The change in policy to charge for non-household waste is intended to cover the cost of haulage and disposal of this waste, administering the new policy as well as estimating to deliver a 'surplus' of £1m. This in turn partially funds a significant proportion of the additional spending demands for the Waste service that are included in 6.1 above. These include waste demography adding £0.8m to the budget, price pressures of £1.9m and other pressures - including new household waste recycling centre (HWRC) capacity, reduced recycling income and contributions to renewals reserves - totalling £1m, that could otherwise not be afforded.

In relation to the Young Persons' Travel Pass, in addition to the contributions of parents/users, KCC subsidises the cost of the pass to in excess of £8m each year meaning, on average, £300 subsidy per pass. In the current financial climate, this level of subsidy is not sustainable and regrettably an increase in price from £290 per annum to £350 per annum is being proposed in the draft budget for 2019-20.

Approximately £20 of this increase is to cover off the inflationary pressures caused by bus operator fare increases, with the remaining £40 uplift generating approximately £0.8m to help balance the funding equation shown in section 3.6. The level of subsidy is expected to be in the region of £280 still, with approximately 4,000 users still receiving a free or discounted £100 pass.

Total savings and income proposals within the GET directorate amount to £4.8m, with the above two options contributing £1.8m (the c£20 inflationary increase to YPTP contributing a further £0.6m).

The remaining options relate primarily to efficiencies, income generation and transformation, including the final year of savings (£0.5m) delivered by the LED Streetlight Replacement Programme. This scheme has delivered in excess of £5.5m of base savings as well as mitigating two-thirds of future unfunded inflationary energy costs. The scheme has also been primarily funded (c75%) by interest free loans and has helped the authority reduce its carbon footprint.

6.3 Section 5.5 above references additional borrowing of £64.5m over the next three years and there are two primary areas within the remit of this Committee that will benefit from ***additional capital investment***, namely Highways and Waste.

Highways will see an additional £10m of KCC funding that will be used, in conjunction with Department for Transport (DfT) grants, to further establish an Asset Management Strategy for all highway assets. This KCC investment is expected to increase to £15m in both 2020/21 and 2021/22.

In addition to this, there will be £7.5m made available in both 2019/20 and 2020/21 towards key strategic routes that require improvement and could not otherwise be afforded from the DfT grant funding available.

The Waste service will benefit from an investment of £1m to replace the majority of its Waste Compactors, which significantly reduce the size – and ergo cost – of the haulage and disposal of residual waste. A number of these Compactors are now life expired, inefficient or failing and this investment both reduces the cost of waste disposal as well as helping with capacity issues given the infrastructure within Kent is near full capacity given the significant growth (housing and population) in recent years.

7. Recommendations

Recommendations:

Members of the Environment & Transport 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

8.9 KCC Draft Budget Book 2nd January 2019

9. Contact details

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