

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

To: County Council – 14th February 2019

Subject: Capital Programme 2019-22, Revenue Budget 2019-20
and Revenue Medium Term Financial Plan 2019-22
(including Council Tax setting 2019-20)

Classification: Unrestricted

Summary: This report is a summary of the proposed capital programme for 2019-22, revenue budget for 2019-20, and revenue medium term financial plan 2019-22. All these separate plans are outlined in the draft Budget Book published on 2nd January 2019. This was a slimmed down document which only included the financial analysis for these three key elements together with the budget risk register and assessment of reserves. It did not include the previous narrative sections which are summarised in this report. This report is a guide to the published document, a summary of the key issues, and outlines any material changes since its publication.

The County Council has a statutory duty to set an annual budget and the amount to be levied through Council Tax. In approving the budget, the County Council is not only agreeing the total amounts planned to be spent, but is also delegating authority to manage the budget in compliance with the authority's financial regulations.

Members are asked to bring to this meeting the draft (black combed) Budget Book released on 2nd January 2019.

Members are reminded that Section 106 of the Local Government Finance Act 1992 applies to any meeting where consideration is given to matters relating to, or which might affect, the calculation of Council Tax. Any Member of a local authority who is liable to pay Council Tax and who has any unpaid Council Tax amount overdue for at least two months, even if there is an arrangement to pay off the arrears, must declare the fact that they are in arrears and must not cast their vote on anything related to KCC's Budget or Council Tax.

1. Introduction

1.1 The Local Government Finance Act 1992 requires the Council to consult on and ultimately set a legal budget and Council Tax precept for the forthcoming financial year, 2019-20. Setting the Council's revenue and capital budgets continues to be exceptionally challenging in the face of further reductions in central government grants and insufficient funding to cover rising costs and increasing demand for council services. The draft Budget Book sets out the detailed draft capital programme 2019-22, detailed draft revenue budget 2019-20, and high-level indicative revenue estimates for 2020-21 and 2021-22. Section 25 of the Local Government

Act 2003 requires the Chief Financial Officer to report on the robustness of the estimates within the 2019-20 budget calculations, and the adequacy of proposed reserves. This report covers those requirements.

- 1.2 Over the course of the past year, Members agreed to amend the Constitution to specifically define the role of all Members in defining and agreeing the policy and budgetary framework of the Council in accordance with applicable laws providing sufficiency of resources. The budget approval process includes Cabinet Committee meetings, the Scrutiny Committee meeting and Member briefings leading up to the formal Budget meeting and the recommendations set out in this paper. These are the mechanisms by which all Members have the opportunity at today's Council meeting to define, challenge, amend and ultimately vote on the Council's budgetary framework for the next year and in which all Members have a voice and a vital role to play.
- 1.3 An updated draft of KCC's revenue Medium Term Financial Plan (MTFP) for 2018-20 was reported to County Council on 18th October 2018 (agenda item "Autumn Budget Statement"). The publication of that report marked the start of a budget communication and consultation campaign launched on 11th October 2018. The consultation closed on 21st November 2018. A separate report on the results from this campaign was published on 2nd January 2019 and is included as a background document to this report. Overall a lower proportion of respondents supported Council Tax increases than in previous years (this is explored further in section 2 of this report) although in general, suggestions for alternative savings to offset Council Tax increases were insufficient to close the gap and balance the budget.
- 1.4 The draft Budget Book (black combed) was published on 2nd January 2019. This included updates from the Chancellor's Budget Statement on 29th October 2018, the provisional Local Government Finance Settlement on 13th December 2018, provisional Council Tax base and collection fund balance estimates, as well as updated spending and savings proposals based on the latest plans. It also included the proposed solution to the unidentified £16.4m of savings in the October report, and KCC's response to consultation feedback.
- 1.5 The draft Budget Book has been slimmed down from previous years to only include the essential sections for the scrutiny and approval process. Consequently, additional sections are included in this report to help set the scene, additional appendices include information necessary for the statutory approvals of the budget, and additional background documents provide other information previously included in narrative sections of the Budget Book. All of the information to support the Council's budget is published on the web at <https://www.kent.gov.uk/about-the-council/finance-and-budget/our-budget>.
- 1.6 Publication of the draft Budget Book in early January allowed time for consideration by Cabinet Committees in the January round of meetings, endorsement by Cabinet (and subject to scrutiny), as well as allowing a short period for final comment prior to the County Council meeting. We

have previously recognised that publishing the draft Budget Book this early to facilitate the scrutiny process (and so soon after the provisional funding announcements) exposes the risk that further changes may be necessary. This is preferable to deferring the scrutiny process.

- 1.7 The draft Budget Book published on 2nd January 2019 showed a net revenue budget requirement of £988.0m for 2019-20. This is significantly more than the £967.1m we forecast in the October Autumn Budget Statement. This is principally due to a combination of:
- ↑ Higher than anticipated provisional Council Tax base (1.5% compared to 1.0% assumed in October) increasing the overall Council Tax precept by £3.5m
 - ↑ Re-introduction of Kent Business Rate pool increasing retained Business Rate growth by £3m compared to the autumn estimate (although this is still a reduction in retained growth compared to 2018-19 due to the rejection of the 75% pilot bid)
 - ↑ Additional funding for highways maintenance announced in the Autumn Budget and subsequent allocations from Department for Transport (DfT). This funding together with KCC's budget proposals increases total spending on highways (revenue and capital) from £75m in 2017-18, to £88.1m in 2018-19, and £95.7m in 2019-20. This does not include the £28.8m specific grant from DfT for the highways impact of Brexit (see paragraph 5.4)
 - ↑ Additional £10.5m social care support grant announced in the Autumn Budget and confirmed in the provisional settlement
 - ↑ Additional £2.8m grant from government from the surplus Business Rate Levy
 - ↑ Additional £0.6m housing growth within the New Homes Bonus grant
- 1.8 Rather than producing a “revised draft for County Council” version of the Budget Book to incorporate all the up to date information since the January draft was published, this report details all the material changes. These material changes are set out in section 5 of this report and reflected in the revisions to the published Budget Book shown in the appendices listed below. There are also some other minor technical adjustments that are not material to the approval of the budget, these are also included in the attached appendices (which provide updates to sections in the Budget Book) but not covered in detail in this report:
- Appendix 5 – revised Revenue Budget - Summary by Directorate (section 2 of draft Budget Book)
 - Appendix 6 – revised Revenue Budget – Summary by Directorate & Division (first page of section 3 of draft Budget Book)
 - Appendix 7 – High Level 2019-22 Revenue Medium Term Financial Plan (appendix A(i) of the draft Budget Book)
 - Appendix 8 – Detailed 2019-20 Revenue Budget by Directorate (appendix A(ii) of the draft Budget Book)
- 1.9 The key services analysis in section 3 of the Budget Book will be amended to reflect all the changes set out in this report (including the technical adjustments included in the appendices listed above) in the final version to be published in March. This final version will include any amendments agreed by the full Council and further technical changes made under

delegations granted by the Council resolution. It is also envisaged that the key service presentation for Adult Social Care and Health (ASCH) will be recast to reflect the directorate restructure. This will not change the overall budget delegated to the Cabinet Member and Corporate Director approved by the Council but will change the individual detail to be consistent with in-year reporting. The timing of the restructure has meant it has not been possible to reflect it in earlier versions of the Budget Book.

- 1.10 We received final notification of estimated Council Tax base (which increases the 2019-20 Council Tax precept by £0.6m), retained Business Rate growth and collection fund balances (which increases KCC's share by another £0.6m) from each district council after the draft Budget Book was published. We must reflect these in the final approved budget and Council Tax precept.
- 1.11 The final local government finance settlement was announced on 29th January 2019. This was broadly unchanged from the provisional settlement announced on 13th December 2018. It confirmed the allocation of additional grants from the Ministry of Housing, Communities and Local Government (MHCLG) to local authorities for Brexit preparations that were announced the previous day. Details of these allocations are set out in paragraph 5.4. The only other issue affecting KCC's budget was that the additional funding paid to authorities from the Business Rate Levy surplus was confirmed as a 2018-19 allocation. In the draft Budget Book we had assumed this would be as a one-off source of funding in 2019-20. We will now need to pay the 2018-19 grant into reserves and show a separate draw-down in 2019-20. Both of these issues are reflected in the updated 2019-20 budget proposals as shown in appendices 5 to 8.
- 1.12 In summary the changes since the draft Budget Book have reduced the net revenue budget requirement for 2019-20 by £1.6m. This reflects the revised treatment of the Business Rate Levy surplus, Council Tax base and collection fund balances, and the impact of increased spending on staff pay, and revised draw-down from reserves as set out in detail in section 5.
- 1.13 The capital programme for 2019-22 has also had to be changed from the published draft. This has increased planned capital spending over the three years from £819.5m to £999.6m. The principle changes to the capital programme are set out in paragraphs 5.10 to 5.13. Due to the number of late changes across all directorates a revised capital programme is included as appendix 4 of this report.
- 1.14 A new capital strategy as required under the Prudential Code 2017 is included as appendix 1 of this report. The code requires that the strategy is agreed by the full Council and sets out a high-level overview of how capital expenditure, capital financing and treasury management along with an overview of how associated risk is managed and the implications for future financial sustainability. Embedded within this new capital strategy are links to the separate capital programme and treasury management strategy documents (previously included in the Budget Book) and with a new investment strategy document. The new capital strategy includes the

prudential indicators which must be approved by full Council. The Treasury Management Strategy must also be approved. Whilst this can be through another relevant committee, we are proposing this approval should be full Council for 2019-20 and an updated strategy is included as appendix 11.

- 1.15 The Council must also agree the annual Minimum Revenue Provision (MRP) Statement. The MRP statement sets out the Council's policy to make prudent provision for borrowing incurred to finance capital assets. The MRP statement was previously included as an appendix to the budget but is now included as appendix 2 to this report.
- 1.16 The additional flexibility, offered by Government, to be able to use capital receipts from the sale of physical assets to help fund the revenue costs of transformation projects and support the delivery of future savings was originally approved for the three years 2016-17 to 2018-19. KCC's budgets for 2017-18 and 2018-19 included £2.5m of capital receipts in each year to be used in this way. The ability to use receipts has subsequently been extended for a further three years up to 2021-22. KCC is not proposing to use this extension at this stage due to the level of receipts required to fund capital projects, however, the timing of some of the transformation plans means spending has been re-phased into 2019-20. We must report the individual transformation projects that are funded through capital receipts flexibility to full Council. This was first presented to Council in October 2018 and the updated schedule is included as appendix 3 to this report.
- 1.17 The capital programme strategy reinforces the commitment to a fiscal indicator which limits the cost of borrowing to 15% of the net revenue budget. This 15% limit should be seen as an absolute ceiling, and not a target. The proposed capital programme includes £193.9m of borrowing, which will count against this indicator (although we are more than likely to cover a proportion of this in the short to medium term from internal loans from cash balances rather than external borrowing).
- 1.18 The pressure on the High Needs budget has been identified as one of the highest revenue budget risks. The demand for supporting children and young people with Special Educational Needs and Disability (SEND) is rising and the Council is becoming fiscally constrained through minimal annual increases in its High Needs budget, and therefore meeting the needs of these children and young people is becoming increasingly challenging. The High Needs budget sits within the Dedicated Schools Grant and the Council's current policy does not permit topping up this budget from general Council funding. We have implemented a detailed SEN Action Plan which seeks to review all processes, practices and procedures to deliver savings locally, however this alone will not solve the challenge we face. We have raised the profile of this issue with government along with many other councils who are experiencing identical challenges. We believe the government action should be two-fold; increased funding in both the short and medium term, as well as structural changes to government policy to help reduce the demand.

1.19 Any unavoidable late changes to the proposed budget after this report has been published will be reported separately to the County Council meeting.

2. Council Tax and Retained Business Rates

Council Tax

- 2.1 Setting the annual budget is one of the most significant decisions the County Council takes each year. It sets the County Council's share of Council Tax and the overall resource framework in which the Council operates. It also gives delegated authority to manage the budget to Corporate Directors and Directors within the parameters set out in the Council's Constitution and Financial Regulations. Corporate Directors and Directors will be held to account for spending decisions within delegated powers via the budget monitoring arrangements throughout the year.
- 2.2 The budget proposes a Council Tax increase up to the maximum permitted within the 3% referendum limit. This would increase the County Council's band C charge (the most common band) from £1,100.16 to £1,133.12 (2.996%). Consultation responses from 54% of respondents supported a Council Tax increase to protect services and help meet rising demand for council services at a time when government grants are reducing. Over a half of these supported increase up to the referendum (under ¼ supported an increase less than the referendum limit, with slightly more supporting a higher increase with a referendum).
- 2.3 The budget also proposes to levy an additional 2% Council Tax specifically for adult social care. This would increase the band C charge by a further £21.92 to a total of £1,155.04 for 2019-20. 2019-20 is the final year of the current Social Care Levy provision introduced in 2016-17. The current provision allows councils to levy up to 6% over the three years from 2017-18 to 2019-20 to be spent on adult social care services (with no more than 3% raised in either of the first two years). KCC had planned to raise this levy by annual 2% instalments. Raising the additional 2% Social Care Levy was not supported by just over half of respondents to the most recent consultation. However, previous consultation had supported raising the levy and as this was part of three-year strategy it is important not to view responses in isolation of previous years.
- 2.4 In previous years the draft Budget Book included a specific section on Council Tax. This provided more information about the year on year change in the estimated taxbase and Council Tax precept, the individual band charges, and impact of the Social Care Levy over the four years. We also provided additional information about Council Tax for residents and tax payers via an on-line "Council Tax leaflet". Appendix 9 of this report replaces both of these and brings all the information regarding Council Tax into a single publication which will be published on the web site.
- 2.5 The final notified taxbase shows a 1.58% increase on 2018-19, this increases the Council Tax precept by £0.6m compared to the amount in the draft Budget Book. The proposed use of the additional flexibility this

allows in the budget is set out in section 5 (pay and interest costs). The total Council Tax requirement, including the Social Care Levy, is £709,996,344. The individual precepts on each district are shown in appendix 9 to this report.

- 2.6 We have also received notification of the collection fund balance from districts. We must take account of the estimated surplus/deficit from the current year in setting the forthcoming year's budget and Council Tax requirements. In the draft Budget Book we had forecast a £7m surplus. The notification from districts is £475k higher than this forecast. This is still an estimate and we will not know or receive the final balance until the end of the year. Consequently, we have usually reflected the final notification as an adjustment to reserves. The excess £475k will reduce the use of Corporate Reserves from the draft Budget Book as reflected in appendices 5 to 8.

Business Rates

- 2.7 We have received notification of the County Council's 9% retained share of Business Rates. This includes the retained growth over and above the baseline in the settlement. However, this needs to be reconciled with the additional grant we receive to compensate for the change in the calculation of Business Rate multiplier and additional Business Rates reliefs announced in the Chancellor's budget. We have not had sufficient time to complete this reconciliation and therefore the final proposed budget continues to be based on the assumption of no additional growth in the draft Budget Book. We anticipate when the reconciliation is complete that the change to the budget will be marginal and will be reflected through reserves. The Corporate Director of Finance will need to reflect the notification in the Business Rates precepts from districts and will make the necessary changes in the final budget under the technical adjustments delegation in the Council resolution. Should the impact be material this will be reflected in budget monitoring and/or reported back to full Council.
- 2.8 As with Council Tax we also need to include the notification of estimated collection fund balances in the budget requirement. We have received this notification, but as we had the 100% retention pilot for 2018-19 this is more complicated as we need to ensure consistency with all pilot authorities. At this stage we have only included the County Council's 9% share of the collection fund under the standard non-pilot arrangements. This is consistent with how the 2018-19 budget was presented. Any variation when we have the final collection fund balance at the end of the year, and distribution has been agreed with all pilot authorities, will be reported by the Corporate Director of Finance as part of the final closedown of the 2018-19 accounts.

3. National Fiscal and Economic Context

- 3.1 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.

- 3.2 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. We have not produced the same depth of analysis for this year's budget and have removed this section from the Budget Book. This is for two reasons:
- The overall economic uncertainty
 - Information is less meaningful in this the last year of the current Spending Review and four year funding agreement with Government.

Instead we have reported a summary position to Cabinet Committees and Cabinet which is repeated in this full Council report along with some additional information which it is essential to the budget approval process.

Fiscal Context

- 3.3 The Autumn Budget (AB18) was announced on 29th October 2018 (nearly a month earlier than previous years). 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 OBR report suggested 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.
- 3.4 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.
- 3.5 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.

3.6 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.

Local Government Finance Settlement

3.7 The provisional local government finance settlement was announced on 13th December 2018. 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. The provisional local government finance settlement continues to be presented as a spending power calculation for each authority setting out the overall change in funding from central government and Council Tax that the government anticipates for each authority over the years from 2015-16 to 2019-20. The final settlement was announced on 29th January 2019.

3.8 The overall spending power for the whole sector from the final settlement is reproduced in table 1. This shows an increase in spending power over the four years of £1.7bn (3.8%). This is higher than the increase shown in last year's settlement which indicated £0.96bn (2.1%) increase over the same four-year period, and significantly better than the original "flat-cash" outcome in the 2015 Spending Review (SR2015). The increase between 2018-19 and 2019-20 is £1.28bn. This was described at the time as "a cash increase of 2.8% and a real-terms increase in the resources available to local authorities". Whilst this may represent an increase compared to 1.5% GDP growth (see paragraph 3.12 below), it does not represent an increase in local spending power as the increase is significantly less than increases in authorities demand and cost pressures.

Table 1 - Core Spending Power All Authorities

CORE SPENDING POWER					
<i>Please select authority</i>					
England					
Illustrative Core Spending Power of Local Government;					
	2015-16	2016-17	2017-18	2018-19	2019-20
	£ millions	£ millions	£ millions	£ millions	£ millions
Settlement Funding Assessment	21,250	18,602	16,633	15,574	14,560
Compensation for under-indexing the business rates multiplier	165	165	175	275	400
Council Tax of which;	22,036	23,247	24,666	26,332	27,933
<i>Council Tax Requirement excluding parish precepts (including base and levels growth)</i>	22,036	22,858	23,702	24,767	26,031
<i>additional revenue from referendum principle for social care</i>	0	382	948	1,529	1,810
<i>Potential additional Council Tax from £5 referendum principle for all Districts</i>	0	7	16	36	92
Improved Better Care Fund	0	0	1,115	1,499	1,837
New Homes Bonus	1,168	1,462	1,227	947	918
New Homes Bonus returned funding	32	23	25	0	0
Rural Services Delivery Grant	16	81	65	81	81
Transition Grant	0	150	150	0	0
The Adult Social Care Support Grant	0	0	241	150	0
Winter pressures Grant	0	0	0	240	240
Social Care Support Grant	0	0	0	0	410
Core Spending Power	44,666	43,730	44,296	45,098	46,378
Change over the Spending Review period (£ millions)					1,712
Change over the Spending Review period (% change)					3.8

3.9 The spending power closely resembles KCC's budget and includes the main sources of funding but does not include any additional retention from Business Rate growth (including the Kent pilot/pool), collection fund

balances, and a few of the smaller grants. KCC's spending power in the final settlement has been reproduced in table 2 and shows a net £80m (8.9%) increase over the four years. This is unchanged from the provisional 2019-20 settlement but is an improvement on the original four-year settlement of 2.3% in SR2015, and more than the 6.7% shown in updated indicative four-year settlement this time last year. This improvement has come from a combination of Council Tax (taxbase and increases in the referendum threshold), and additional government support for social care. The reductions in Revenue Support Grant (RSG) within the settlement funding assessment (SFA) are unchanged from the original settlement. However, as already identified in paragraph 3.8 this improved four-year settlement is still not enough to cover rising costs and increased demand, and thus continues to represent a significant real terms reduction.

Table 2 – KCC Core Spending Power

Kent					
Illustrative Core Spending Power of Local Government;					
	2015-16	2016-17	2017-18	2018-19	2019-20
	£ millions	£ millions	£ millions	£ millions	£ millions
Settlement Funding Assessment	340.0	283.4	241.9	218.4	194.4
Compensation for under-indexing the business rates multiplier	2.5	2.5	2.6	4.1	6.0
Council Tax of which;	549.0	583.2	620.5	665.6	713.5
<i>Council Tax Requirement excluding parish precepts (including base and levels growth)</i>	549.0	572.0	596.9	628.1	660.5
<i>additional revenue from referendum principle for social care</i>	0.0	11.2	23.6	37.5	53.1
<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	7.3	8.9	7.4	5.8	6.4
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
Winter pressures Grant	0.0	0.0	0.0	6.2	6.2
Social Care Support Grant	0.0	0.0	0.0	0.0	10.5
Core Spending Power	899.4	884.0	911.2	939.0	979.4
Change over the Spending Review period (£ millions)					80.0
Change over the Spending Review period (% change)					8.9

3.10 The changes from the previous spending power have been highlighted in table 2 and include:

- Changes following AB18 and the local government finance settlement highlighted in green
- The final 2018-19 Council Tax base for KCC as per the approved budget shown highlighted in blue
- The government's estimate for 2019-20 Council Tax (base, referendum increases and social care precept) highlighted in orange. It is also worth noting that the government's estimates for Council Tax exceeds the amount we can precept (see paragraph 2.5) in compliance with the Council Tax referendum principles, as their assumed rate of growth in taxbase is higher than the estimated growth in taxbase calculated by Kent districts.

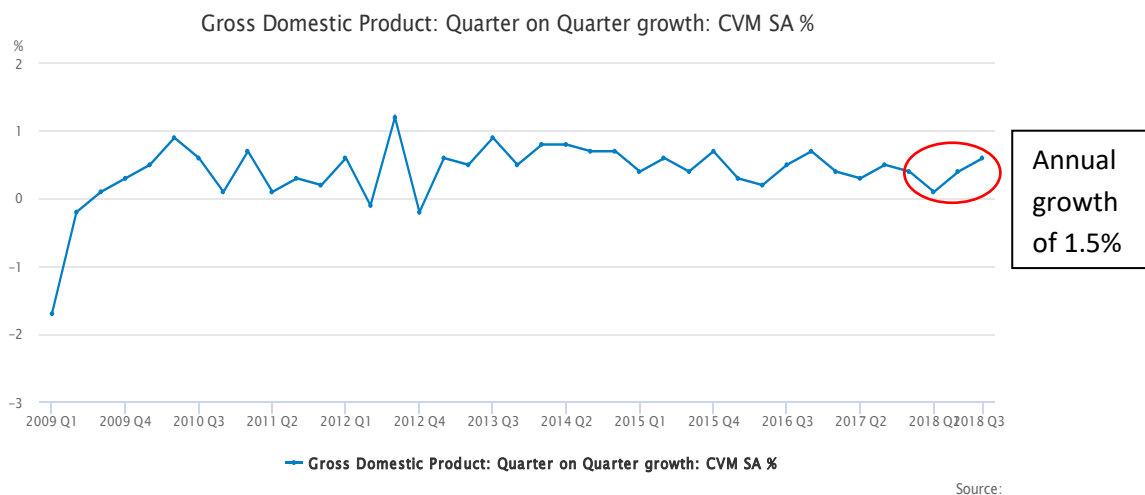
3.11 The spending power provides a reasonable measure of the change in local authority budgets over the settlement period and enables comparison between other authorities and different classes of authority. As well as not including retained Business Rates growth and collection fund balances, the main grants which contribute to KCC's net budget requirement not

included are the Business Rate Levy surplus and extended free school travel. The spending power includes the additional grant for social care winter pressures, although in the KCC draft budget we have treated this as a ring-fenced grant, offsetting additional spending to reduce hospital delayed transfers.

Economic Forecasts

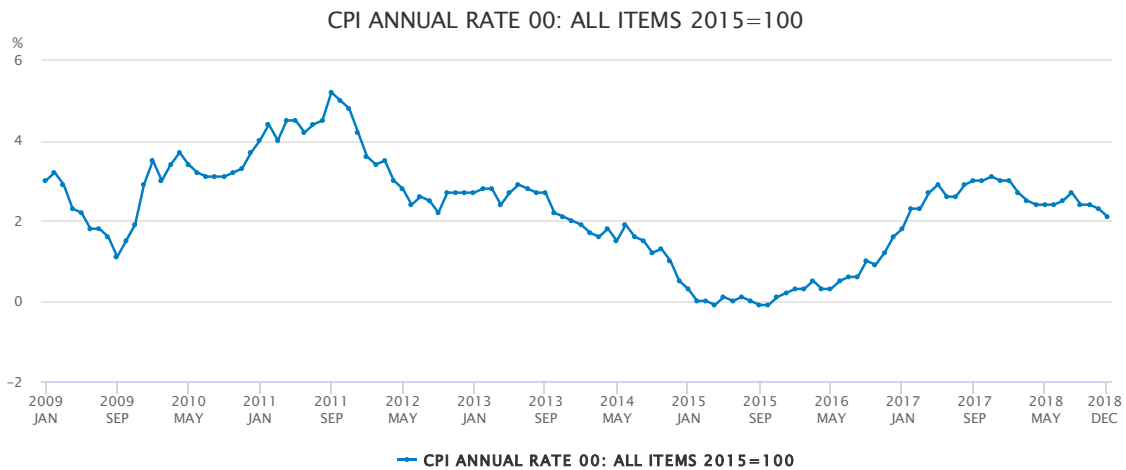
3.12 Overall economic activity is measured according to Gross Domestic Product (GDP). As set out in paragraph 3.3 the Chancellor’s fiscal targets relate to the budget deficit and total debt as a % of GDP. A faster rate of GDP growth helps to achieve/exceed the targets, a slower rate of growth makes the targets harder to achieve. Chart 1 shows the quarterly growth in GDP over the last ten years as published by the Office for National Statistics (ONS). Quarter 1 growth in 2018 was particularly low (0.1%). Growth rates increased in quarter 2 (0.4%) and quarter 3 (0.6%) although many commentators have suggested this is simply catching up from the slow quarter 1 growth rather than recovery and growth rates for quarter 4 and quarter 1 2019 could be lower. A large proportion of GDP is driven by consumer spending and consumer confidence which is at an historic low.

Chart 1



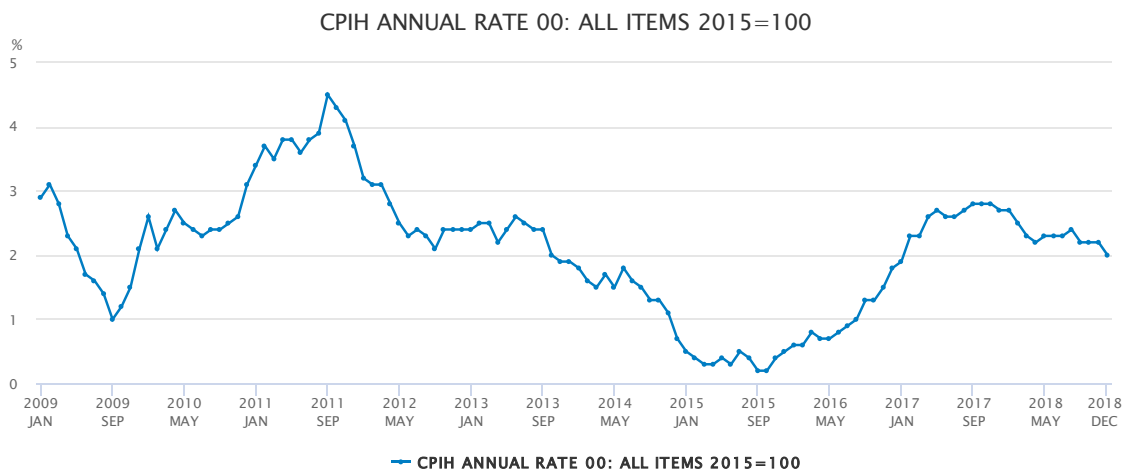
3.13 We have also previously provided information on inflation and wage growth. Chart 2 shows the changes in the annual rate of inflation through Consumer Price Index (CPI), and chart 3 CPIH, over the last 10 years. CPIH is a new measure which includes owner occupier housing costs. We do not reproduce Retail Price Index (RPI) changes following the independent review of inflation indices which concluded public sector bodies should cease using RPI “as soon as practicable”. Both CPI and CPIH have reduced from their peak in November 2017 (CPI 3.1% and CPIH 2.8%) other than a small seasonal increase in summer 2018. Future forecasts for inflation are unpredictable due to uncertainties such as the value of the £ and impact on import prices.

Chart 2



Source:

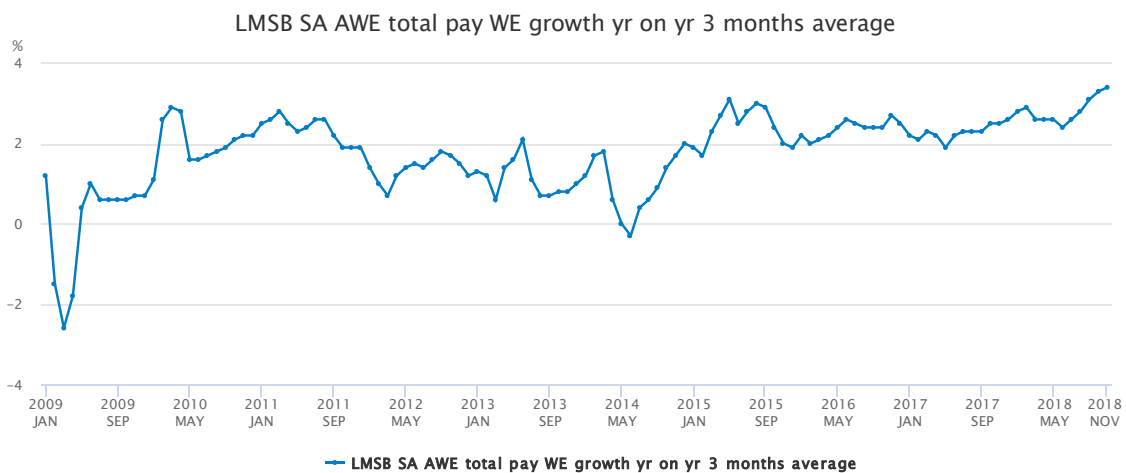
Chart 3



Source:

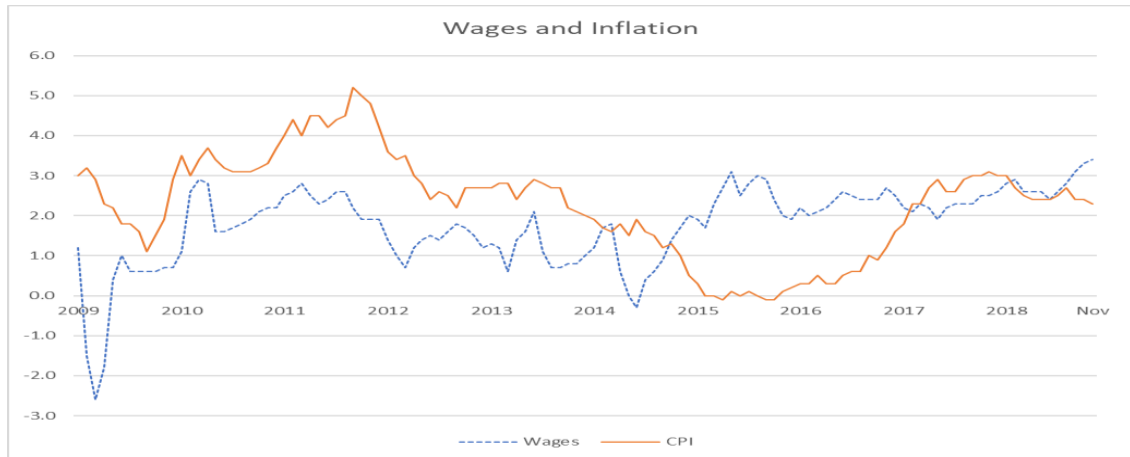
3.14 Wages growth has increased during 2018. Chart 4 shows the annual rate of change in total monthly earnings over the last 10 years from ONS. Chart 5 compares the change in wages with the CPI graph above. Throughout 2018 wages have risen at a faster rate than inflation. In most of the preceding years since the recession wages growth has not kept pace with inflation, other than for a period between October 2014 and January 2017.

Chart 4



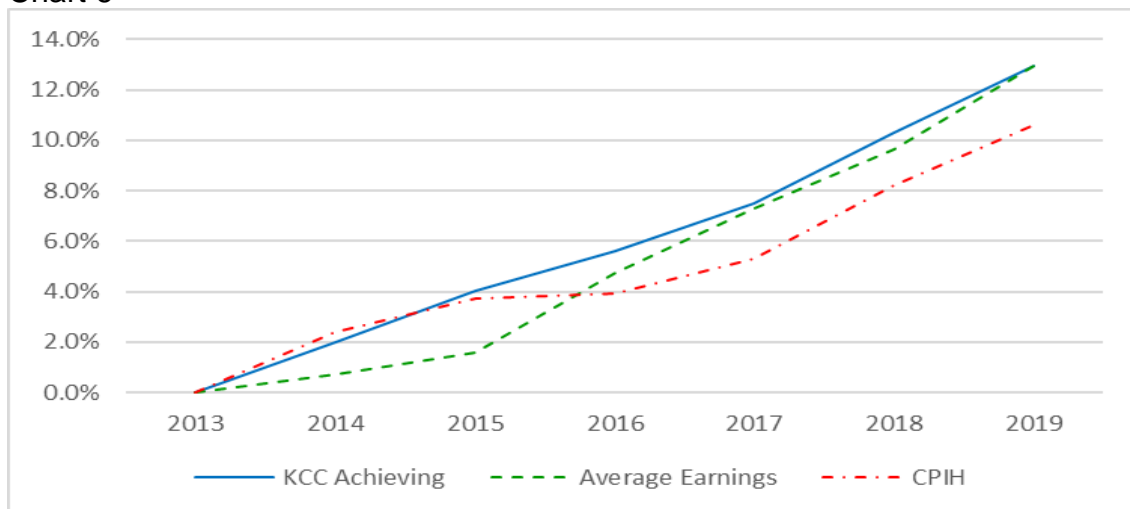
Source:

Chart 5



3.15 We have calculated a comparison of the changes in pay through the Kent scheme compared to inflation and average earnings since the current total contribution pay (TCP) arrangements were introduced in 2014. Under the TCP arrangement all increases in pay are related to performance assessment. To make this comparison we have compared the increase for those assessed as achieving/successful (the most common and median increase). The annual increase and cumulative increase since 2014 compared to inflation and average earnings are shown in chart 6.

Chart 6



4. Revenue Budget Strategy and Proposals

4.1 This section of the report provides further background to the construction of the draft 2019-20 revenue budget proposals. This replaces the revenue budget strategy which was previously included in the Budget Book. The draft Budget Book calculations were based on the provisional local government finance settlement and initial estimates for Council Tax base, local share of Business Rates and collection fund balances. As identified in paragraphs 1.10 and 1.11 the approved budget must include the final local government finance settlement and final taxbase and collection fund notifications from district councils provided these have been notified in

time for the Council meeting. These changes are reflected in appendices 5 to 8 of this report.

- 4.2 The revenue budget strategy continues to be based on an equation which identifies on the one hand the challenge from increasing spending demands (including replacing the use of one-off savings to support the current year's budget e.g. draw down of corporate and directorate reserves, one off income dividends, flexible use of capital receipts, etc.) and reductions in Revenue Support Grant (RSG). On the other hand, the solution comes from changes in Council Tax, locally retained Business Rate growth, other grant increase/changes in the provisional settlement, and savings (including further use of reserves). Table 3 shows the contribution from each of these as per the draft Budget Book. Table 4 shows the updated equation for all the subsequent changes identified in this report and referred to in section 5. The arrows show the direction of changes since the draft publication.

Table 3: Budget Equation as per draft Budget Book

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	- Unidentified	0.0	
• Govt Grant Reductions		28,153.0	• Govt Grant Increases		21,811.1
		100,539.1			100,539.1

Table 4: Latest Budget Equation

FINANCIAL CHALLENGE			SOLUTION		
	£'000	£'000		£'000	£'000
• Spending Demands		60,010.0	• Council Tax		41,397.6
- realignment	-9,491.4		• Business Rates		-4,332.7
- unavoidable	31,249.6		• Savings		44,982.1
- contingent sums	29,055.0		- Identified	32,292.8	
- local decisions	9,196.8		- Use of reserves	12,689.3	
• One-offs 2018-19		12,858.6	- Unidentified	0.0	
• Govt Grant Reductions		28,153.0	• Govt Grant Increases		18,974.6
		101,021.6			101,021.6

- 4.3 The remainder of this section explores each element of this equation to support the detailed one-year revenue plan (published as appendix A(ii) in the draft Budget Book and updated by appendix 8 of this report).

Spending Demands

- 4.4 In the equation we have categorised spending demands between realignment of budgets to reflect current spending, unavoidable spending increases, forecasts for future demand and cost increases (contingent sums), and local choices. We have introduced these categories in response to the increased emphasis on financial resilience across local government to better summarise the underlying causes of the spending demands included in the one-year revenue budget, and whether the amounts are known or forecasts. Realignment and unavoidable pressures are the known knowns and contingent sums are a prudent provision for

the known unknowns. Appendix 10 to this report reconciles the entries in appendix A(ii) with these categories.

4.5 These categories are described as follows:

- **Realignment** – the baseline for the estimates in 2019-20 budget is the September 2018-19 budget monitoring reported to Cabinet on 3rd December 2018. The realignment reflects the “right-sizing” needed for known variances in either cost and/or demand which have arisen during the current year. Realignment can either increase or reduce budgets. This includes significant reductions to remove one-off spending e.g. investment in highways maintenance, compliance with deprivation of liberty safeguards (etc.), and the negative impact of planned smoothing of the additional iBCF grant. Without this realignment the budget would not stand up to the robustness test required under the section 25 assurance referred to in paragraph 1.1. The proposed budget also includes a £1.1m provision held unallocated to cover any other issues that are reported in monitoring throughout the remainder of the year. Allocations from this provision (and other unallocated amounts in the proposed budget) will fall under the delegation to the Corporate Director of Finance to make technical adjustments
- **Unavoidable** – these reflect known increases in costs for 2019-20. These are generally price increases for inflation required under contractual agreements and replacement of one-off funding used to support ongoing spending in the current year’s budget. The unavoidable pressures also include the known impact on either cost or demand from legislation, the spending implications of changes in ring-fenced specific grants, and the additional revenue impact of interest and MRP on previous spending approved in the current capital programme.
- **Contingent sums** – reflect forecasts for future changes in demand, the estimated impact of legislation changes, and contracts that are currently being tendered or retendered and the prices are still uncertain.
- **Local decisions** are spending choices which need to be agreed as part of the budget. This includes the performance increases under the Kent pay scheme, service improvements e.g. the additional spending to support annual pothole blitz campaign, improving caseloads in disabled children’s services, etc., and additional revenue impact of debt interest and setting aside provision for debt repayment on new spending in the proposed capital programme.

4.6 The 2018-19 budget included £12.9m of one-off solutions including the use of corporate and directorate reserves, capital receipts flexibility to fund revenue costs of transformation, and one-off spending reductions within financing items budget. We cannot continue to use one-off solutions to recurring budget issues. The provision to replace one-off solutions should not be confused with replenishing reserves (which we are not doing), which may be necessary in future to ensure the Council has adequate earmarked reserves to smooth expenditure and cover known risks, and general reserves to cover unforeseeable events.

Pay and Reward

- 4.7 The draft budget includes an additional £4.146m contribution towards the pay and reward package for Kent Scheme staff. This contribution is sufficient to ensure the pay and reward package is managed within an overall pot equivalent to 2.8% of pay (including the net saving on pay from new staff appointed lower in the pay range than staff they replace).
- 4.8 A 2.8% pot is likely to result in a payment of around 2.3% to 2.4% for all those staff assessed as 'successful' under the Council's Total Contribution Pay (TCP) appraisal system. The final reward percentages will depend on the number of staff and their current salaries assessed at each level to ensure the cost is contained within the overall pot. The top and bottom of each pay range are uplifted under a separate process (usually by at least ½ of the successful %). This ensures that pay scales are kept up to date whilst at the same time allowing staff to progress through the range to reach the top (which is considered as the "going rate" for staff fully competent in the role). Decisions on final proposed distribution of the pay and reward pot, and uplift to pay ranges, will be agreed by the Cabinet Member for Corporate & Democratic Services, in consultation with the Leader and Cabinet, under powers delegated by the Council.
- 4.9 The reward payment either increases an individual's salary via progression through the pay range or is a non-consolidated lump sum payment for staff on the top of the grade (in reality a combination of both for staff at the top following the annual uplift to ranges). These arrangements differ from other public sector pay schemes including the National Joint Council (NJC) scheme used by most local authorities. Under the Kent arrangements there is no separate "cost-of living" award and incremental progression.
- 4.10 For 2019 we are proposing to make some further reforms to the Kent Scheme which require additional spending to be funded in the budget. This includes improving the amount paid to the lowest ranges (KR2 and KR3) so that we can honour the commitment to match the Foundation Living Wage as and when viable within budget and fiscal constraints. In the draft Budget Book it was proposed to achieve this over two years. The slightly higher than forecast Council Tax base for 2019-20 means this can be updated to achieve parity in April 2019 (see paragraph 5.2). This requires an additional £195k to be added to the £254k already included in the draft Budget Book. This will leave KR2 as a single pay point (as agreed last year to comply with the National Living Wage) and significantly shorten the KR3 range.
- 4.11 We are also proposing other reforms which will shorten other pay ranges to a lesser extent by introducing a 0.5% gap between the bottom of each range and the top of the preceding range. We propose to introduce a reasonable difference between the top of successive ranges of at least £1,200, this will only affect the difference between top of KR3 and top of KR4. These two reforms will not affect KR2 and KR3 as staff in these will benefit more from the reform to match the Foundation Living wage.
- 4.12 County Council will need to agree these reforms for the lowest paid staff.

Price Inflation

- 4.13 The draft budget includes provision for specific contractual price increases. In the main, these are index-linked and summarised on page 57 in appendix A(ii) of the draft Budget Book. These have remained unchanged.
- 4.14 The budget also includes provision for non-specific increases in negotiated contracts. This calculation includes a proportion of the National Living Wage (NLW) and National Minimum Wage (NMW) for under 25s which the council considers is reasonable for contractors to pass on as price increases. This has been based on the assumed proportion of prices which relate to workers eligible for the increases announced in the Chancellor's Autumn Budget e.g. NLW increasing from £7.83 per hour to £8.21 (4.9%), and an appropriate increase for the proportion relating to staff above NLW/NMW, and general inflation on non-staffing element.
- 4.15 Managers will be expected to negotiate prices within the inflation parameters outlined in paragraphs 4.12 and 4.13. The budget does not include any provision for general inflation on goods and services procured by the council, managers will be expected to cover the impact of any such inflation within their overall budget.

Other Spending Demands

- 4.16 The draft budget includes the forecast impact of population changes and estimated additional demand arising during the forthcoming year. The forecasts not only reflect changes in client numbers/service users but also changes in complexity of need. The major areas of growth forecast for 2019-20 include older persons, adults with learning disabilities, mental health services, disabled children, looked after children, home to school transport for children and young people with special educational needs and disabilities (SEND), other council funded spending on SEND arising from significant growth in the number of Education, Health and Care Plan (EHCP) assessments, waste tonnage, and Coroners investigations and associated storage costs.
- 4.17 The draft budget also includes the impact of additional spending imposed by legislation and government, principally in relation to the additional money announced in AB18 to address winter pressures on the NHS from delayed transfers into social care, and the extended duty to support care leavers up to the age of 25. The legislative changes include the reduction in the additional ring-fenced iBCF allocation for 2019-20 included in the March 2017 Budget announcement.
- 4.18 The draft budget includes a limited number of service strategies and improvements under local discretion. These include additional debt costs to finance the capital programme (relating to the capital strategy for 2018-20 to allow up to £100m of additional borrowing and thus is now unavoidable), revised contracts for community care, provision towards an annual pothole blitz campaign, and staffing increases for Disabled Children's Services.

4.19 A summary of all the additional spending proposals is set out on pages 55 to 60 in appendix A(ii) of the draft Budget Book. The only changes to this in the updated appendix 8 of this report are the additional £195k proposed for staff pay (paragraph 5.2), the inclusion of spending associated with the recently announced Brexit grant (paragraph 5.4), the changes to social care market sustainability (paragraph 5.6), and the minor technical changes to base budget adjustments.

Use of Reserves and Debt Repayment

4.20 The Council's reserves in 2013-14 were £196m. 2013-14 was the first year of the current Business Rates retention funding arrangements for local government and thus a reasonable starting point. Total reserves at end of 2017-18 were £199.3m. It is anticipated that after taking into consideration the planned changes in reserves in the current year's budget and the proposals for 2019-20, the level of reserves will remain fairly static at around £199m by the end of 2019-20. This includes taking account of the latest projections on the re-phasing of earmarked reserves to smooth expenditure, contributions such as Kingshill profit share, and higher Business Rates receipts from the 100% pilot, which Cabinet has agreed will be transferred to reserves to smooth future fluctuations in the Business Rates baseline and collection fund, as well as the planned draw-down. Reserves are either categorised as general reserves to cover genuine unforeseen circumstances, or earmarked reserves which are held for specific eventualities (although timing or extent of these eventualities may be uncertain). Earmarked reserves would include those held to smooth expenditure over a number of years, a good example being the elections reserve where an amount is set aside each year in order that the additional costs of Council elections incurred once every four years are smoothed. Table 5 shows the amount held in reserves between 2013-14 and 2017-18.

Table 5

	2013-14 £000s	2014-15 £000s	2015-16 £000s	2016-17 £000s	2017-18 £000s
General	31,725	34,725	36,404	36,671	36,903
Earmarked	157,893	166,203	163,335	159,357	158,542
surplus on trading accounts	3,524	2,949	579	0	223
Public Health	2,906	2,073	1,988	3,825	3,634
Total (excl. schools)	196,048	205,950	202,306	199,853	199,302
Breakdown of Earmarked Reserves					
Directorate	61,276	57,786	51,276	48,690	41,750
Corporate	89,508	100,588	102,799	102,453	108,578
Trading Bodies	7,109	7,829	9,260	8,214	8,214
	157,893	166,203	163,335	159,357	158,542
Breakdown of General Reserves					
Commercial Services	0	0	-809	-542	-310
KCC	31,725	34,725	37,213	37,213	37,213
	31,725	34,725	36,404	36,671	36,903

- 4.21 The 2019-20 budget includes £7.9m draw-down from corporate reserves to support the overall budget. The use of corporate reserves to support the budget has been a feature for a number of years and allows the Council time to deliver the savings which are required from a combination of rising spending demands, reductions in central government support and limits on ability to raise Council Tax. Corporate reserves are also used to avoid making savings in advance of future spending announcements which may enable services to subsequently be re-instated or improved, effectively another form of smoothing. The 2019-20 budget also includes additional contribution from the Kings Hill reserve (£2m) in anticipation of additional receipts (this was included for 2019-20 in the original 2018-20 MTFP and remains unchanged), and £2.8m from the Business Rate Levy surplus from central government which was confirmed as being paid in 2018-19 in the final settlement.
- 4.22 The 2019-20 includes £3.4m use of directorate reserves. This includes £2.9m for adult social care from the planned smoothing of the Improved Better Care Fund (iBCF) previously agreed by Council (and unchanged from previous plans) and £0.5m from Public Health reserves to smooth the impact of savings that would otherwise impact on children's centres.
- 4.23 As with other aspects of the budget the plans to use reserves will need to be adapted to changing circumstances throughout the year. In recent years this has generally meant that the council has not had to use as much from reserves as planned or been able to build up additional reserves. Either can arise from re-phased spending from earmarked reserves or managing in-year underspends. In comparison with other counties, KCC has relied less on reserves to support budgets than the average county in recent years but still has a smaller proportion of the net revenue budget in reserve than other counties. The Council's relative reserves and debt compared to other counties are shown in Assessment of Levels of Reserves Appendix C to the draft Budget Book.
- 4.24 The criteria for use of our earmarked reserves are maintained by the Finance Division. These are reviewed each year, but few changes generally come from those reviews. We are looking to undertake a more thorough review during 2019-20 to include the balance between corporate and directorate reserves, and scope to reduce the number of reserves. The draw-down from corporate reserves to support the 2019-20 will come from the existing "rolling budget" and "local taxation equalisation" earmarked reserves in accordance with existing criteria. The criteria for use of reserves and the balances, is ultimately a decision for the Council's Section 151 Officer.
- 4.25 The draft budget proposals also include a reduction in the amount we need to set aside for future debt repayments. This reduction is simply a recalculation of the Minimum Revenue Provision (MRP) to cover capital finance requirements based on an updated asset schedule. It does not represent a change to the Council's MRP policy as set out in appendix 2 of this report.

Savings Proposals

- 4.26 The savings and income proposals in the draft budget are summarised on pages 61 to 63 in appendix A(ii) of the draft Budget Book. The only changes in the updated appendix 8 of this report are the representation of proposed charging for the disposal of soil/rubble/hardcore/plasterboard as policy rather than income, the additional grant income for Brexit preparations, alternative one-off savings in adult social care to offset the unavoidable delay in our ability to implement changes to the charging policies, the additional use of reserves as a result of the change in the Business Rate Levy surplus, and proposed reduced draw down from reserves arising from the late flexibility from Council Tax base and retained Business Rates. Savings are sub-divided between transformation savings, income generation, efficiency savings, and policy savings, as well as the financing savings referred to above. Inevitably these categories can never be precise but have been developed as a guide to the broad impact.
- 4.27 Detailed consultation and equality impact assessments of specific proposals within each directorate will be undertaken, where necessary, once the budget has been approved and prior to implementation. Approval of the budget includes granting delegated power to Cabinet Members to make changes to the proposals in response to detailed consultation and equality impact assessments. Any such changes will be reflected in the monthly monitoring reports to Cabinet.

Later Years

- 4.28 The MTFP includes indicative plans for 2020-20 and 2021-22. These are shown in appendix A(i) of the draft Budget Book and updated in appendix 7. Some of the final changes for 2019-20 outlined in this report affect the equation for later years resulting a small reduction in the unidentified gap for 2020-21. This small change is not material considering the size of this gap and the considerable uncertainties for later years outlined below. Inevitably these later year plans are less well developed than 2019-20 and are liable to change. Spending demands forecasts for future years are as robust as they can be this far in advance. The potential funding, and therefore the estimated savings are much more uncertain although it is almost inevitable some further savings will need to be found in these later years. The process to identify options for these additional savings has already begun.
- 4.29 The funding uncertainties are due to a combination of the following issues:
- Spending Review – 2019-20 is the last year of the current spending review and four-year funding agreement with MHCLG. This means we have no detailed government spending plans beyond the forthcoming year and no indicative settlement. Whilst the majority of the Council's resources now come from Council Tax and Retained Business Rates the Spending Review is still an essential element of medium-term financial planning setting out the overall resource framework for public sector spending and the local government sector as a whole. At this stage we have no firm date when the 2019 Spending Review (SR2019) will be carried out or reported.

- Fair Funding Review – The government announced a review of the relative needs and relative resources redistribution mechanism in February 2016. This mechanism plays a crucial role in determining government grant allocations and the redistribution of Retained Business Rates through tariffs and top-ups. The potential benefits (or risks) of this review are explored in paragraphs 4.31 and 4.32.
- Business Rate Retention Reforms – The government announced its intention to allow local authorities to retain a greater share of Business Rates raised locally in October 2015. At the time it was stated that this transfer would be fiscally neutral i.e. the additional retention would be matched by devolving additional responsibilities or grants to local authorities. Over time authorities would benefit from the additional growth (and suffer the consequences from any decline). The change to 100% retention requires primary legislation and this legislation fell from the government's programme following the 2017 general election. Reforms which can be introduced without primary legislation are still being considered for 2020-21.
- Social Care Green Paper – the government has promised a green paper on alternative financing arrangements for social care. We have no indication when this will be launched or the implications for local authorities.
- Local Government Finance Settlement – amongst other things the settlement conforms the Council Tax referendum principles. These principles must be agreed by Parliament each year.

4.30 Our overall assumption for later years is based on a 2.5% cash increase over the two-year period 2020-21 to 2021-22. This includes a continuation of some government funding and a phasing out of other grants, and an ability to raise Council Tax by 2% per annum (plus 1% increase in the taxbase). This does not include any assumption on collection fund balances or outcomes from the issues identified in paragraph 4.29.

4.31 We can be reasonably optimistic that the Fair Funding review addresses some of our most significant concerns that we have consistently challenged under the current arrangements. The third stage of consultation was launched alongside the provisional local government finance settlement with a deadline for responses of 21st February. We support the broad objective of a simpler more up to date methodology to inform the redistribution of resources. We also support the guiding principles of simplicity, transparency, contemporary, robustness, sustainability and stability. Whilst these are not always completely compatible with each other the overall mix should produce a fairer and more evidenced distribution than the current system.

4.32 We are also encouraged by the principle of a foundation formula to recognise universal needs, with service specific formulae for demand led areas of spending such as social care. We welcome that legacy capital financing costs are proposed to be one of the service specific elements. We welcome that the consultation seeks views on a broader definition of area costs which does not just take account differences in employment and premises costs (as per the current system), but also considers how population sparsity/density affect the accessibility of services (and

therefore cost), as well as the impact of remoteness. We recognise that transitional damping is a necessity to achieve short-term stability but welcome that this is also a mechanism to achieve material changes in the distribution of funding over the medium-term.

5. Changes since the draft Budget Book

Revenue

5.1 We have not re-published the draft Budget Book in full to take account of changes since the original publication on 2nd January 2019. The changes that are necessary are relatively minor. The changes have changed the overall funding available from the following:

- Final notification of the estimated Council Tax base for 2019-20 increasing the taxbase and net budget by £0.6m
- Estimates for 2018-19 Council Tax and business rate collection fund balances increasing the 2019-20 net budget by £0.6m
- Transfer of Business Rate Levy surplus to 2018-19 reducing the net budget by £2.8m

More details of the Council Tax and Business Rate changes are shown in appendices 7 to 9 of this report.

5.2 As a result of these funding changes there is some additional flexibility to change the final spending and savings plans. We are planning to increase spending plans by £195k. This amount is proposed to be added to staff pay to enable the Council to honour the commitment to match the Foundation Living Wage as and when viable within budget and fiscal constraints. This would increase the pay rate for KR2 to £9 an hour from April 2019. This would also increase the bottom rate for KR3 which would become a much shorter pay range. The top of KR3 would then influence the bottom of KR4 to comply with the new 0.5% gap, and the top of KR4 to comply with minimum £1,200 differential between the top of grades. The final detail will be agreed by The Cabinet Member for Corporate and Democratic Services under the power delegated to finalise the Kent scheme arrangements for 2019-20.

5.3 The balance of the flexibility is reflected in new £2.8m draw-down from Business Rate Levy surplus and reduced draw-down from corporate reserves by £1.0m. The revised draw-down from corporate reserves is £7.9m, the draw-down from Kings Hill reserves and directorate reserves remains unchanged from the draft Budget Book. This reduced draw-down will allow additional flexibility in reserves to help mitigate the substantial budget risks as set out in appendix B of the draft Budget Book. The precise changes to reserves will be agreed by the Corporate Director for Finance in accordance with statutory and delegated powers.

5.4 On 28th January 2019 an additional £56.5m from MHCLG was announced for local authorities to help support preparations for Brexit. This money was to allow support authorities to make general preparations in addition to any specific funding from other departments for specific services e.g. DfT. The MHCLG funding is to be made available over the two years 2018-19 and 2019-20. The distribution is as follows:

- £40m to all authorities (£20m in each of 2018-19 and 2019-20). This is allocated as follows (over the two years):
 - £175k to county councils (so £87.5k for 2019-20 is now reflected in appendices 5 to 8 of this report)
 - £35k to district councils
 - £182k to combined authorities (incl. GLA)
 - £210k to single tier councils (unitaries, London Boroughs and Metropolitan)
- £1.5m to allocate in 2018-19 to authorities with ports (details yet to be announced)
- £5m held by the Department to be split between their teams/local councils/local resilience forums (we have had confirmation that KRF will receive £76k from this in 2018-19 although this is not the total distribution)
- £10m in 2019-20 to help authorities with specific costs which may arise after Brexit (allocation mechanism yet to be agreed)

5.5 We are now proposing to leave adult social care client contributions unchanged for 2019-20 (other than the usual uplift to match uplifts in welfare benefits). It remains a medium-term objective to review client contributions once the new performance system (MOSAIC) is operational and the Social Care Green Paper has been published. In the meantime, the saving earmarked in the draft Budget Book will be replaced by a new saving from a review of current project activity within the directorate. This review will identify opportunities for both one-off savings in 2019-20 and ongoing opportunities in later years.

5.6 The draft budget included £5.2m for the estimated cost of the retender of community care contracts to support market sustainability. There is still more work to do before new contracts can be let. In the meantime we are now proposing to hold this money as an unallocated provision for social care market stabilisation rather than within the delegated budget for Adult Social Care. Once the contracts have been finalised and other stabilisation measures agreed this money will be allocated to social care under the powers delegated to Corporate Director for Finance.

5.7 We are now proposing to not consider options to introduce charges for post 16 SEN transport from September 2019 which would deliver up to the £400k saving identified in the draft Budget Book. This needs to be reconsidered in light of further statutory guidance relating to Post 16 transport and travel support that was published by the Department of Education on 31st January 2019 with no prior consultation. The Directorate is committed to investigating potential charging options for the 2020-23 MTFP. In the meantime, the savings relating to charging will be replaced by a new saving from a review of contract and project spend within the directorate to identify one-off savings in 2019-20.

5.8 We are proposing to make some changes to the payment arrangements for parental contributions for the Young Person's Travel Pass. Currently this is an annual pass which parents apply for and either pay the full contribution in advance before the start of the school year in September, or in two instalments in September and February. We are aware that

these amounts can be difficult for some families to pay in one go and have been exploring options to spread the cost. We are now proposing to still offer this as an annual pass, but parents will have the option to pay in advance as per the current scheme or if needed to pay in 8 equal monthly instalments from August to March. There will be an additional cost to administer monthly payments and as in common with other monthly payment plans this will have to be covered by charging a modest additional administration fee (amount yet to be finalised). The updated budget includes the additional spending to administer the new flexible scheme, matched by the forecast income from the modest administration fee.

- 5.9 There are also some minor adjustments which are not material to the approval of the budget, mainly reflecting revisions to grant and income levels and consequential impact on gross spend. These are included in the appendices but not covered in this section. All the changes have been incorporated into the recommendation to County Council at the end of this report and will be reflected in the final Budget Book to be published in March.

Capital

- 5.10 The schools commissioning plan has been updated including adding in the requirement from the 2018 Kent Commission Plan together with the assumed basic need funding from government for 2021-22 which has not yet been announced. The change also assumes revised developer contributions and has no impact on borrowing. The Council intends to make it clear to Government that it can no longer top-up schools basic need from additional borrowing because of the unaffordable revenue budget consequences.
- 5.11 The highways major enhancement rolling programme now includes the indicative allocations from DfT Incentive Fund and Pot-hole Action Fund in each year. The GET programme also includes a new Fastrack project, which is fully externally funded.
- 5.12 The S&CS programme includes the provision of an additional £100m to fund strategic investments and asset acquisitions as identified in the new capital strategy. These will only be undertaken following a thorough business case evaluation with external support and approval of both Head of Paid Service and Corporate Director of Finance. The cost of servicing the borrowing for these investments must be fully covered from income derived from the acquisitions as set out in the approval process in the capital strategy document (appendix 1 of this report).
- 5.13 The phasing of spending and the profile of funding for other schemes has also been updated. This includes additional external funding and consequently reduced borrowing.

6. Robustness of Estimates and Adequacy of Reserves

- 6.1 As required by the Local Government Act 2003, the Section 151 officer (for Kent this is the Corporate Director of Finance) must formally give opinion as to the robustness of the budget estimates and the level of reserves held by the Council.
- 6.2 The estimates have been produced from a challenging process with Cabinet Members, Corporate Directors and Directors resulting in agreement on the level of service delivery within the identified financial resources. In addition, the draft Budget Book sets out the main budget risks, alongside the proposed management action for dealing with these.
- 6.3 The draft Budget Book also clearly sets out the recommended strategy for ensuring adequate reserves. This has been set in consideration of key factors, such as our continued excellent record on budgetary control, the internal financial control framework, our strong approach to risk management and the expected level of General Reserves at 31st March 2019. The planned net draw-down in 2019-20 is now £16.3m rather than £14.4m identified in section 7 of appendix C of the draft Budget Book as a result of the changes in reserves outlined in this report from the Business Rate Levy surplus and reduced draw-down from corporate reserves. As outlined in paragraph 4.20 the forecast overall level of reserves at the end of 2019-20 is currently about the same as the £199.3m at the end of 2017-18 due to the combination of draw-down, additional contributions and re-phasing of planned use of smoothing reserves. The level of general reserves is in line with best practice as recommended by CIPFA and the Audit Commission.
- 6.4 To conclude, the Section 151 officer can formally report that the budget estimates are robust and the level of reserves adequate, as required by the Local Government Act 2003. The proposed budget has been formulated following a robust process of internal challenge with Cabinet Members and Corporate Directors, public consultation and scrutiny by Members of all political groups.
- 6.5 There are no immediate concerns about the financial sustainability of the Council, although given the pressures on local government funding, the increasing demands, and the uncertain outcomes from the major national funding reviews (Business Rate retention and Fair Funding), the sustainability situation needs to be kept under close review.

7. Recommendations

Recommendations:

The County Council is asked to agree the following:

- (a) Net revenue budget requirement of £986.374m for 2019-20.

- (b) Capital investment proposals of £999.573m over three years from 2019-20 to 2021-22 together with the necessary funding and subject to approval to spend arrangements.
- (c) The new Capital Strategy as set out in appendix 1 of this report including the Prudential Indicators.
- (d) The Minimum Revenue Provision (MRP) Statement as set out in appendix 2 of this report.
- (e) The flexible use of capital receipts referred to in paragraph 1.16 and as set out in appendix 3 of this report.
- (f) The directorate capital programmes as set out in section 1 of the draft Budget Book published on 2nd January 2019 as amended by the changes in this report (see appendix 4 of this report).
- (g) The directorate revenue budget proposals as set out in draft Budget Book published on 2nd January 2019 as amended by the latest updates included in this report (summarised in appendices 5, 6, 7 and 8 of this report).
- (h) Delegate responsibility to Cabinet Members and Corporate Directors to manage the budget within the parameters set out in the Constitution and Financial Regulations (summary delegations to managers as set out in appendix 6 to this report).
- (i) To increase Council Tax band rates up to the maximum permitted without a referendum as set out in table 2 in appendix 9 to this report.
- (j) To levy the additional 2% social care precept (raising an additional £14,052,783 and taking the total social care precept to £50,650,799 out of precept set out in (k) below).
- (k) The total Council Tax requirement of £709,996,344 to be raised through precepts on districts as set out appendix 9 to this report.
- (l) The Treasury Management Strategy as set out in appendix 11 of this report.
- (m) The reforms to the lowest Kent Scheme pay ranges (KR2 and KR3) to meet the commitment that the lowest pay in the Kent Scheme matches the £9 per hour Foundation Living Wage from 1st April 2019.
- (n) The new flexible payment scheme for the Young Persons Travel Pass allowing eight equal monthly instalments from August to March.

In addition:

- (o) To note that the Cabinet Member for Corporate and Democratic Services, in consultation with the Leader and Cabinet, will determine the TCP reward thresholds for staff assessed as successful, excellent, and outstanding, and the uplift to the Kent Ranges in accordance with the 0.5%/£1,200 principles.
- (p) To delegate authority to the Corporate Director of Finance (in consultation with the Leader, Cabinet Member for Finance & Traded Services and the political Group Leaders) to resolve any minor technical issues for the final budget publication which do not materially alter the approved budget or change the net budget requirement. This includes approving the distribution of unallocated amounts within the approved budget.
- (q) Changes made in (p) above to be reflected in the final version of the Budget Book (blue combed) due to be published in March.
- (r) To note the uncertain financial outlook for later years with the likelihood that spending demands exceed the available funding and the necessity for further savings (largely unidentified at this stage).

8. Background Documents

- 8.1 KCC's Budget webpage
<https://www.kent.gov.uk/about-the-council/finance-and-budget>
- 8.2 KCC's Corporate Risk Register and Risk Management Policy & Strategy
<https://democracy.kent.gov.uk/documents/s88701/Item%2009%20Review%20of%20KCCs%20Risk%20Management%20Policy%20and%20Strategy.pdf>
<https://democracy.kent.gov.uk/documents/s88720/Item%2009%20Appendix.pdf>
<https://democracy.kent.gov.uk/documents/s88699/Item%2008%20Corporate%20Risk%20Register.pdf><https://democracy.kent.gov.uk/documents/s88707/Item%2008%20Appendix.pdf>
- 8.3 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
- 8.4 Autumn Budget Report to County Council 18th October 2018
<https://democracy.kent.gov.uk/documents/s86875/Autumn%20Budget%20Statement%20Final%20version.pdf>
- 8.5 KCC Budget Consultation launched 11th October 2018
<https://www.kent.gov.uk/about-the-council/finance-and-budget/our-budget>
- 8.6 Chancellor's Autumn Budget 2018 29th October 2018
<https://www.gov.uk/government/topical-events/budget-2018>
- 8.7 Office for Budget Responsibility fiscal and economic outlook 29th October 2018
<https://obr.uk/efo/economic-fiscal-outlook-october-2018/>
- 8.8 Provisional Local Government Finance Settlement 13th December 2018
<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2019-to-2020>
- 8.9 KCC report on 2018 Budget Consultation
https://www.kent.gov.uk/_data/assets/pdf_file/0008/89891/Budget-campaign-and-consultation-report-2019-20.pdf
- 8.10 KCC Draft Budget Book 2nd January 2019
https://www.kent.gov.uk/_data/assets/pdf_file/0006/89889/Draft-budget-book-2019-20.pdf
- 8.11 Response to Provisional Local Government Finance Settlement
https://www.kent.gov.uk/_data/assets/pdf_file/0014/91112/Budget-report-response-to-provisional-local-government-finance-settlement-.pdf

8.12 Budget reports to Cabinet Committees in January
Policy & Resources

<https://democracy.kent.gov.uk/documents/s88614/Item%205%20-%20Capital%20Programme%202019-22%20Revenue%20Budget%202019-20%20and%20Medium%20Term%20Financial%20Plan%202019-22.pdf> Growth, Economic Development and Communities

<https://democracy.kent.gov.uk/documents/s88418/Item%209%20-%20Capital%20Programme%202019-22%20Revenue%20Budget%202019-20%20and%20Medium-Term%20Financial%20Plan%202019-22.pdf>

Environment and Transport

<https://democracy.kent.gov.uk/documents/s88536/Item%2012%20-%20Capital%20Programme%202019-22%20Revenue%20Budget%202019-20%20and%20Medium-Term%20Financial%20Plan%202019-22.pdf>

Adult Social Care

<https://democracy.kent.gov.uk/documents/s88677/Item%209%20-%20Adult%20Social%20Care%20and%20Health%20Budget%20and%20Medium%20Term%20Financial%20Plan%202019-2020.pdf>

Children's, Young People and Education

<https://democracy.kent.gov.uk/documents/s88448/Item%209%20-%20Final%20agreed%20Budget%20Report.pdf>

Health Reform and Public Health

<https://democracy.kent.gov.uk/documents/s88484/Item%2012%20-%20Capital%20Revenue%20and%20MTFP.pdf>

8.13 Minutes of Scrutiny Committee 15th January 2019

<https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=752&MId=7911&Ver=4>

8.14 Cabinet 28th January 2019

<https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=115&MId=7839&Ver=4>

8.15 Final Local Government Finance Settlement 29th January 2019

<https://www.gov.uk/government/collections/final-local-government-finance-settlement-england-2019-to-2020>

9. Contact details

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Appendices:

Appendix 1 – Capital Strategy

https://www.kent.gov.uk/_data/assets/pdf_file/0010/91099/Budget-report-appendix-1-capital-strategy.pdf

Appendix 2 – Minimum Revenue Provision (MRP)

https://www.kent.gov.uk/_data/assets/pdf_file/0011/91100/Budget-report-appendix-2-annual-minimum-revenue-provision-statement.pdf

Appendix 3 – Flexible use of Capital Receipts

https://www.kent.gov.uk/_data/assets/pdf_file/0012/91101/Budget-report-appendix-3-flexible-use-of-capital-receipts-policy.pdf

Appendix 4 – Updated Capital Programme

https://www.kent.gov.uk/_data/assets/pdf_file/0013/91102/Budget-report-appendix-4-updated-capital-investment-plans-2019-20-to-2021-22.pdf

Appendix 5 – Revised Revenue Budget - Summary by Directorate

https://www.kent.gov.uk/_data/assets/pdf_file/0014/91103/Budget-report-appendix-5-updated-revenue-budget-summary-by-directorate.pdf

Appendix 6 – Revised Revenue Budget – Summary by Directorate & Division

https://www.kent.gov.uk/_data/assets/pdf_file/0015/91104/Budget-report-appendix-6-updated-revenue-budget-summary-by-directorate-and-division.pdf

Appendix 7 – High Level 2019-22 Revenue Medium Term Financial Plan

https://www.kent.gov.uk/_data/assets/pdf_file/0016/91105/Budget-report-appendix-7-updated-high-level-2019-22-revenue-medium-term-financial-plan.pdf

Appendix 8 – Detailed 2019-20 Revenue Budget by Directorate

https://www.kent.gov.uk/_data/assets/pdf_file/0017/91106/Budget-report-appendix-8-updated-detailed-2019-20-revenue-budget-by-directorate.pdf

Appendix 9 – Council Tax

https://www.kent.gov.uk/_data/assets/pdf_file/0018/91107/Budget-report-appendix-9-council-tax.pdf

Appendix 10 – Revenue Spending Pressure by Category

https://www.kent.gov.uk/_data/assets/pdf_file/0019/91108/Budget-report-appendix-10-detailed-2019-20-revenue-spending-pressure.pdf

Appendix 11 – Treasury Strategy

https://www.kent.gov.uk/_data/assets/pdf_file/0020/91109/Budget-report-appendix-11-treasury-management-strategy-2019-20.pdf