KCC Medium Term Financial Plan

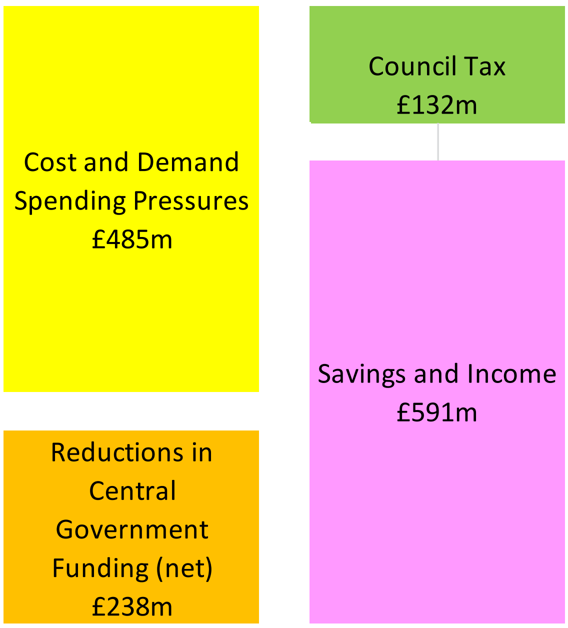
SECTION 1

Executive Summary

Introduction

1.1 Kent County Council (KCC) has a tremendous financial management track record. The Council has delivered a small net surplus on its revenue budget in each of the last 17 years up to 2016-17. This is built on a robust budget setting and medium term financial planning, combined with a rigorous budget management and monitoring regime. Together these are designed to ensure the budget reflects the Council's core strategic objectives but at the same time builds in financial prudence and resilience. The Council is determined to continue to develop and improve this financial management record so that spending decisions yield excellent value for money for Kent residents, businesses and taxpayers.

1.2 In recent years, and for the foreseeable future, KCC has faced an enormous and unprecedented financial challenge. This challenge arises from a combination of rising spending demands, reductions in central government funding and freezes/limits on raising council tax. Combined, this has led the Council to make annual savings in the region of £80m to £90m per annum each year since 2010. A simple depiction of the scale of this challenge over the last 7 years up to 2017-18 is represented in the graphic below

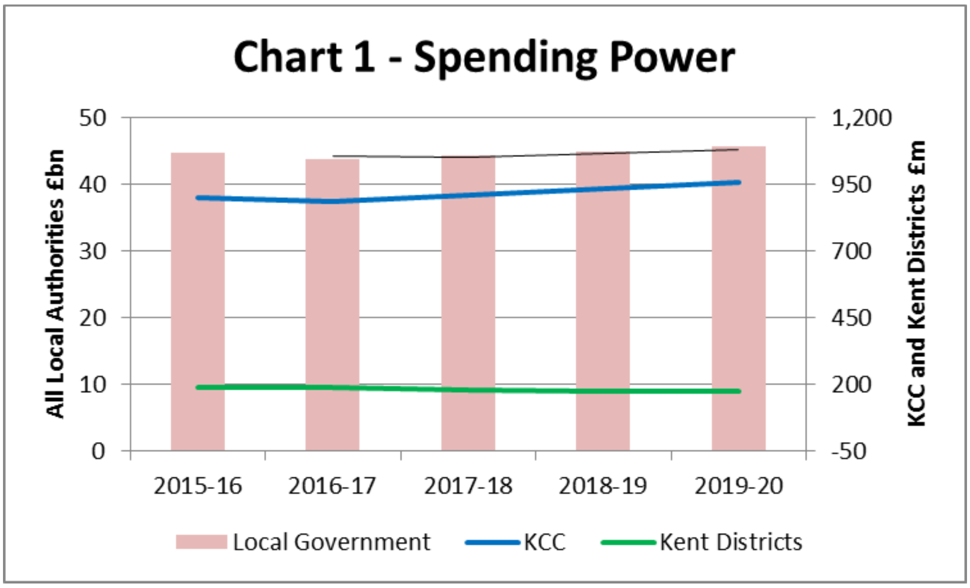


Spending Context for Local Government

1.3 The overall spending context is based on the outcome of the 2015 Autumn Spending Review as amended by subsequent updates in local government finance settlements and Budget statements in the intervening years. The Spending Review set out a "flat cash" plan for revenue spending between 2015-16 and 2019-20, meaning that local government as a whole sector would have the same amount to spend in cash terms in 2019-20 as it had in 2015-16. This includes the amounts received from the Department for Communities and Local Government (DCLG) grants, council tax, and locally retained share of business rates. There are no detailed Government spending plans beyond 2019-20 and thus KCC's revenue spending in the Medium Term Financial Plan (MTFP) can only include 2018-19 and provisional figures for 2019-20.

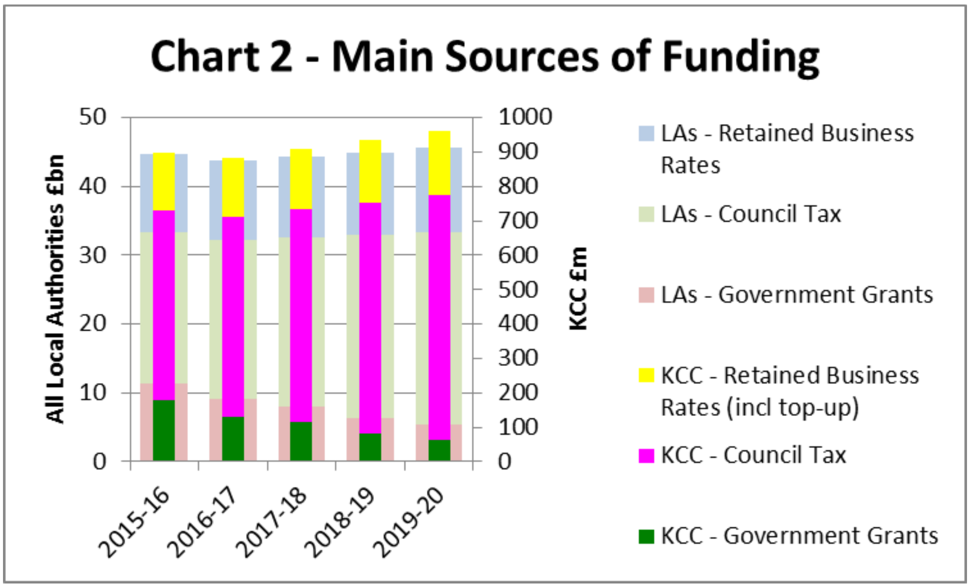
1.4 This flat cash represented a substantial real terms reduction as local government has no additional money to pay for rising demand for services, rising cost of delivering services due to inflation and other market factors, or additional demands imposed by legislation or local service priorities. Flat cash does not take into account any changes in grants from other government departments e.g. Department for Education, Department for Transport, etc.

1.5 The subsequent changes have marginally improved the flat cash equation and the latest 2018-19 settlement shows a spending power increase of £0.956bn (2.1%) over the 4 years to 2019-20 for the whole sector. This excludes the additional local retention for 100% business rate pilots. The increase is largely due to higher than originally forecast tax base, the ability to raise more council tax without a referendum than originally planned, and additional money for adult social care services announced in the March 2017 Budget. The national totals are depicted in chart 1 against left hand axis in £bn. This shows a small net rise over the period (black line). The spending power for KCC (blue line) and Kent districts (green line) is shown in £m against the right hand axis.



1.6 The overall spending context is based on the government reducing its contribution through central grants and expecting local authorities to increase council tax in line with inflation and the social care levy[1], and that retained business rates will increase in line with inflation. The forecast amounts for each are shown in chart 2; the total for all local authorities is shown as the fatter bar against the left hand vertical axis in £bn and KCC is shown as the thinner bar against the right hand vertical axis in £m.

[1] Additional 2% per annum levy introduced in 2016. Under new powers from 2017 up to 3% per annum can be raised in any year provided the 3 year levy between 2017-20 does not exceed 6%



1.7 Chart 2 demonstrates the government's assumption that a greater proportion of KCC's spending will be funded by council tax (74.2% by 2019-20) than the average for all authorities (61.5% by 2019-20). Charts 1 and 2 do not include any additional income from business rates growth under retention arrangements, both for those authorities piloting 100% retention (which includes Kent & Medway) and the 50% arrangements for all other authorities.

KCC Revenue Budget

1.8 The Council's revenue strategy is set out in section 3 of the MTFP. The revenue budget relates to the day to day spending on services provided by the Council. The budget strategy is based on identifying the scale of the budget challenge i.e. the amounts needed to cover the impact of rising spending demand and rising costs, combined with the impact of reductions in central government funding. To offset this challenge the budget solution is based on identifying the amount that can be raised through council tax[2] and local share of business rates[3]; increases in government grants[4]; and savings that need to be made from reducing costs/generating income/use of reserves. The equation for 2018-19 and forecasts for 2019-20 are set out in Table 1.

[2] The amount raised through increases in estimated tax base, proposed council tax increases subject to County Council approval on 20th February (including increases under the referendum arrangements and social care levy), and estimated collection fund balances
[3] The locally retained share under the existing 50% retention arrangements (9%), and the estimated proceeds from the 100% retention pilot (final amount still to be determined with all the pilot authorities) and collection fund balances.
[4] The planned net increase in Improved Better Care Fund, indexation of business rate top-up, and additional compensation for the lower indexation of business rates

Table 1 - Revenue Budget Equation	2018-19 £m	2019-20 £m
Spending Demands	66.9	52.9
Government Grant Reductions	46.2	28.2
Total	113.1	81.1
Government Grant Increases	15.2	12.3
Council Tax & Business Rates	44.6	24.2
Savings, Income and Reserves	53.3	44.6
Total	113.1	81.1

1.9 The additional spending demands include the following:

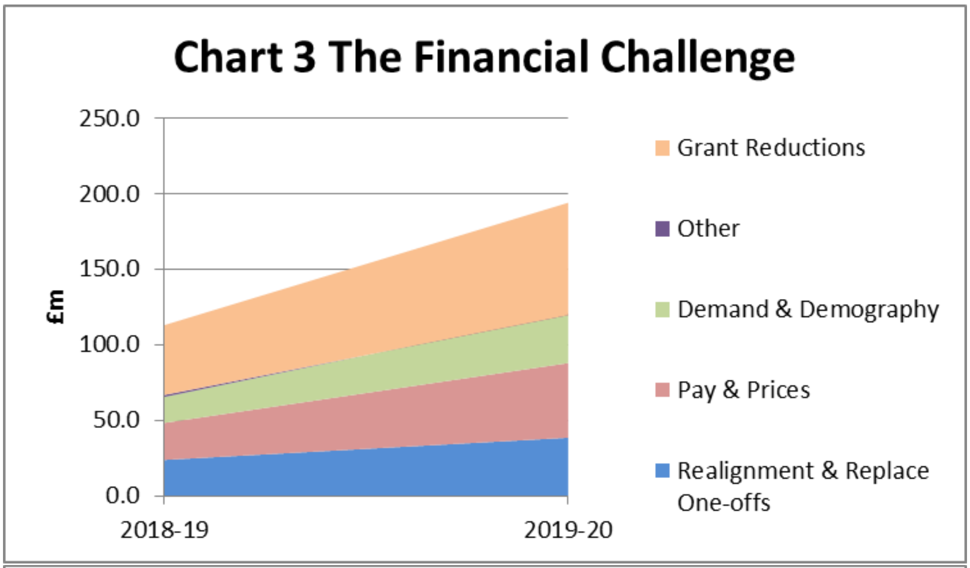
- Budget Realignment – Adjustments to base budgets to reflect over/under performance in the current year, including a provision for realignment for emerging pressures which cannot yet be allocated to individual services as it is dependent on the outcome of current management actions
- Replacing Use of One-Offs – The current year's budget includes a number of one-off actions e.g. draw down from reserves, which cannot be repeated in subsequent years. Consequently the base needs to be adjusted to reflect this (not to be confused with replenishing reserves)
- Pay and Prices – Provision for staff pay awards for the forthcoming years and increases in contract prices. Some contracts are index linked, others are negotiated. Both pay and prices include the impact of escalation in National Living Wage and National Minimum Wage
- Demand & Demography – Impact of changes in the number of clients/service users due to demographic trends. This also includes increased costs due to clients with ever more complex needs
- Other – Includes impact of new legislation and local policy decisions e.g. revenue impact of capital investment

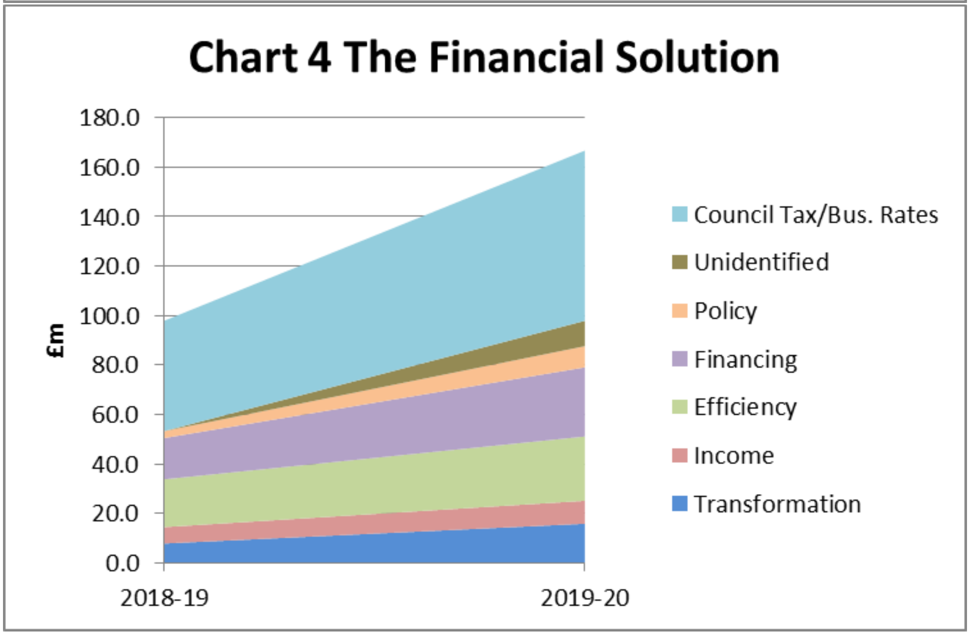
1.10 The reductions in government funding include the elements listed below (as included in the core spending power calculation in the provisional local government finance settlement) plus the removal of the transitional Education Services Grant (ESG) paid in 2017-18:

- Phased removal of Revenue Support Grant (RSG) as originally identified in the 4 year funding agreement
- Removal of Transitional Grant available in 2016-17 and 2017-18
- Removal of Social Care Support Grant for 2017-18
- Reform and update of the New Homes Bonus Grant

1.11 Any subsequent changes to these provisional grant allocations would need to be reflected in a revised budget for approval at County Council. The cumulative impact of spending demands and grant reductions which make up the financial challenge are shown in chart 3. The cumulative elements of the financial solution are shown in chart 4. Further details of both the financial challenge and the solution are set out later in this new combined MTFP and Budget Book.

1.12 All the amounts in table 1 and charts 3 and 4 represent net cost as reflected in the MTFP. KCC's annual revenue budget shows both gross expenditure i.e. the total amount spent on staff, buildings, contracts, goods and services, etc., and net cost. Net cost is gross expenditure less income from charges, specific government grants, etc. This equates to KCC's net budget requirement i.e. the amount needed to be raised through council tax, local retention of business rates and un-ring-fenced government grants.





KCC Capital Investment Programme

1.13 The capital strategy is set out in section 4 of the MTFP. Capital spending relates to investment in new or enhanced infrastructure. As with revenue, this needs to respond to the national context whilst ensuring infrastructure is maintained to a reasonable and safe standard, and is sufficient to meet the needs of local communities. The capital programme aims to strike a balance between ensuring that we meet our strategic priorities and vision whilst at the same time ensuring schemes represent value for money and maximise value from the Authority's asset stock. In particular we want to aim for schemes which help reduce the Authority's running costs through invest to save projects, support Kent residents and help with the economic regeneration within the county.

1.14 Capital plays an important role in delivering long term priorities as it can be targeted in creative and innovate ways. However, capital is not unlimited or "free money" – our capital funding decisions can have significant revenue implications. Every £10m of prudential borrowing costs approximately £0.8m per annum in financing costs (revenue) for 25 years. This is in addition to any on-going maintenance and running costs associated with the project itself. KCC has resolved that no more than 15% of the revenue budget will be spent in servicing debt related to the capital programme. A number of our capital schemes rely on grants from Government departments, some of which we await grant announcements for. We will have to limit capital spending on projects and schemes to the amount raised through external funding as we are unlikely to be able to commit to any additional borrowing.

1.15 The capital programme is presented in directorate format in section 9 of this book. Individual schemes within each directorate continue to be identified in detail and separated from rolling programmes. The programme is analysed according to the total cost and phasing for individual projects and programmes, with a separate analysis showing the funding for 2018-19 to 2020-21. The programme includes significant new investment in additional school places, essential maintenance of public infrastructure, and a number of projects to support economic development.

Council Tax

1.16 The budget includes the proposal to increase council tax by just under 5% in 2018-19. This includes 2.99% for the increase permitted without holding a referendum plus a further 2% for the social care levy. The County Council will be asked to agree this proposal at its meeting on 20th February. If agreed this would increases the annual KCC element for a band C household from £1,047.84 in 2017-18 to £1,100.16 in 2018-19. Of this the total social care levy for a band C household in 2018-19 would be £60.48[5], all of which will be spent on the rising cost of adult social care services.

1.17 The total council tax households will have to pay will be affected by decisions from other authorities in Kent including District Councils, Police Authority, Fire and Rescue and, where applicable, Parish and Town Councils. This will include decisions on the levels of non-mandatory discounts and exemptions. We are anticipating an increase in council tax receipts, due to continued growth in the number of council tax payers in the County, and an on-going programme to review the application of discounts and exemptions.

[5] This comprises of £19.36 for the 2016-17 levy, £20.16 for the 2017-18 levy and £20.96 for the proposed 2018-19 levy.

Revenue Budget and Medium Term Financial Plan Format

1.18 We have made some presentational changes to the revenue budget for 2018-19 to more closely align the approved budget with the financial management arrangements within the authority. This is a more efficient process which results in a much more streamlined budget presentation in the published book (meaning we are able to produce a single MTFP and Budget book document). This aligns the budgets with the responsibilities of senior managers and means budgets are in the same format at the beginning of the year as monitoring reports throughout the year. We are also producing more detailed variation statements to accompany the new presentation which will be available on the kent.gov.uk website by the end of March at the latest. Additionally, a lower level of detail is held which can be made available to Members on request to supplement this more streamlined presentation.

1.19 The format of the Medium Term Financial Plan is unchanged and still includes detailed narrative sections exploring the national financial and economic context, and KCC's revenue budget, capital budget, treasury management and risk management strategies. The financial appendices include a high level two year plan at appendix A(i), and a more detailed one year plan setting out for each directorate the significant spending changes (additional spending demands and savings) at appendix A(ii).

Conclusion

1.20 The Revenue and Capital MTFP set out in this document represent the culmination of nearly a year's work in developing how the Council can respond to the unique financial challenge of reduced Government funding while at the same time there is growing demand for Council services, particularly in adult social care, and rising cost of goods and services we purchase. We also need to take account of the changed national context which assumes a rebalancing of the relative contributions from central government and local taxation.

1.21 Budget assumptions and medium term forecasts are based on sustained economic prosperity. Should there be a decline in the economy this could have a significant impact on future central government funding, local tax receipts and demand on local services. The Council maintains an appropriate reserve to help mitigate against any such economic and other risks to the Council's finances.