KCC Medium Term Financial Plan

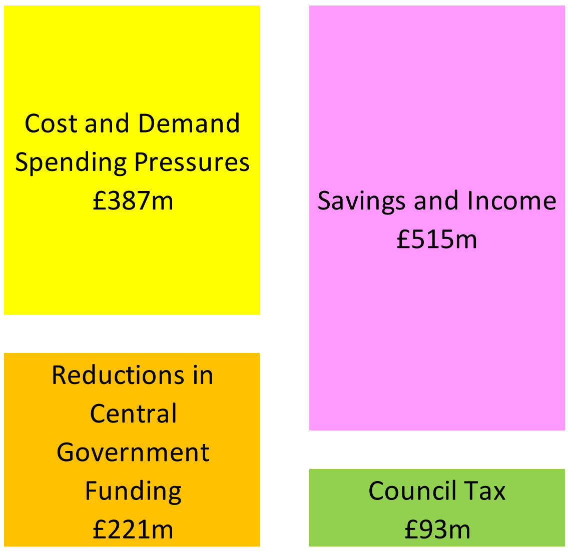
SECTION 1

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 16 years up to 2015-16. 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.

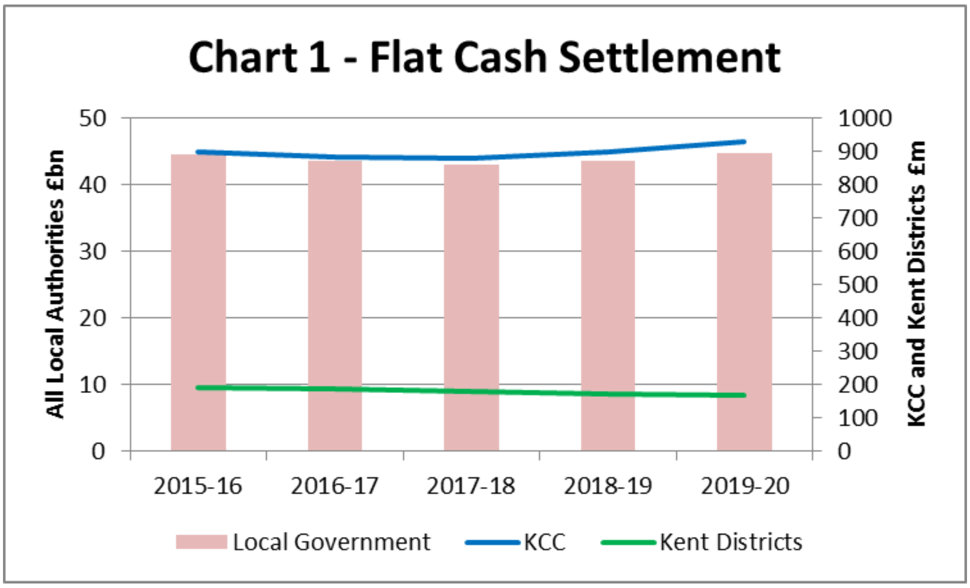
1.2 In recent years, and for the foreseeable future, KCC has faced an enormous and unprecedented financial challenge. This challenge arises from a combination of rising spending demands, reductions in central government funding and freezes/limits on raising council tax. Combined this has led the Council to make annual savings in the region of £80m to £90m per annum each year since 2010. The scale of this challenge over the last 6 years is represented in the graphic below

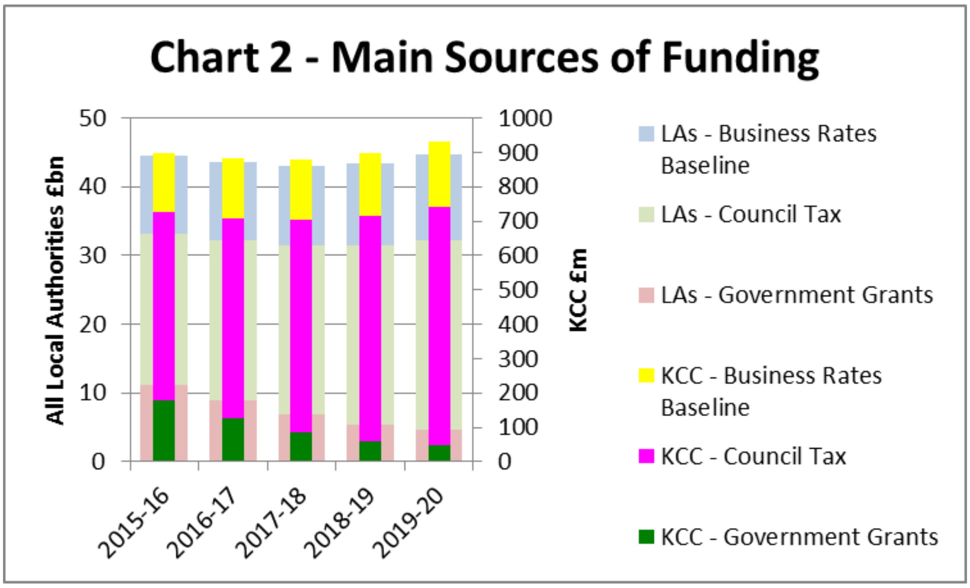


Spending Context for Local Government

1.3 The government has confirmed that departmental spending plans for the next 3 years remain unchanged from the 2015 Autumn Spending Review. For local government this is "flat cash" between 2015-16 and 2019-20 from Department for Communities and Local Government (DCLG). This means that broadly we will have the same amount to spend in cash terms in 2019-20 as we had in 2015-16. This represents a substantial real terms reduction as we will have 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 any changes in grants from other government departments e.g. Department for Education, Department for Transport, etc.

1.4 Within flat cash, there is a decline in 2016-17 and 2017-18, followed by increases in 2018-19 and 2019-2, as reflected in the Chart 1 below. This chart shows the total spending by all local authorities as a bar measured against the left hand vertical axis in £bn, and lines for Kent authorities (KCC and all districts) measured against the right hand vertical axis in £m.





1.5 The flat cash scenario includes spending funding by council tax, business rates and general government grants[1]. Within this scenario the government is reducing its contribution through central grants and expecting local authorities to increase council tax in line with inflation and the social care levy[2], and that business rates will increase in line with inflation. The forecast amounts for each are shown in chart 2 above; 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.

1.6 Charts 1 & 2 show that for KCC the overall settlement is forecast to be slightly better than flat cash i.e. +£33.3m (+3.7%) between 2015-16 and 2019-20, compared to national average of +0.4%. This is partly due to the additional one-off funding for social care in 2017-18 and the phased introduction of iBCF in 2017-20 (both of which are targeted to all social care authorities), equating to around $^2/_3$ of the KCC increase; and partly due to the higher than average increase in Kent's council tax base in 2016-17, equating to around $^1/_3$ of the KCC increase. Chart 2 demonstrates the government's assumption that a greater proportion of KCC's spending will be funded by council tax (74.6% by 2019-20) than the average for all authorities (61.8% by 2019-20)

1.7 The Spring Budget 2017 included a significant announcement of £2bn additional grant funding to local authorities for social care nationally between 2017-17 and 2019-20, to help ensure people receive the social care support they need and to reduce pressure on the NHS.

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 cost 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[3] and local share of business rates[4], combined with savings that need to be made from reducing costs/generating income/use of reserves. The equation for 2017-18 and forecasts for 2018-20 are set out in Table 1 (below).

---

[1] The government grants include Revenue Support Grant (RSG), New Homes Bonus (NHB) Grant, improved Better Care Fund (iBCF), Transitional Grant (added in the final 2016-17 settlement for 2 years), and new one-off Social Care Support Grant introduced for 2017-18

[2] 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%

[3] The amount raised through increases in estimated tax base, council tax increases subject to County Council decision on 9th February (including increases under the referendum arrangements and social care levy), and estimated collection fund balances

[4] The locally retained share (9%), KCC's share of the local pool and estimated collection fund balances. The top-up grant is included as part of net reduction in central government grants

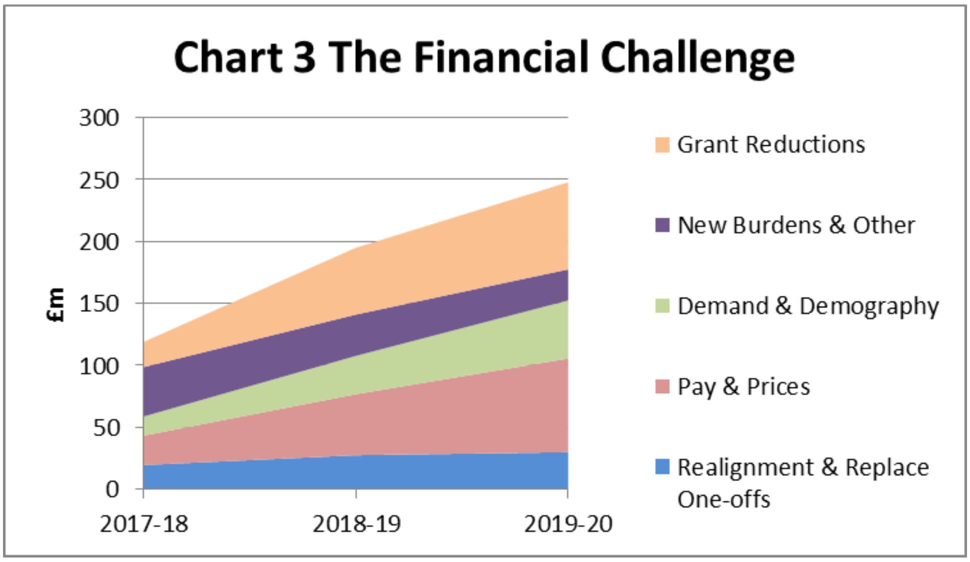
Table 1 - Revenue Budget Equation	2017-18 £m	2018-19 £m	2019-20 £m
	Financial Challenge		
Spending Demands	98.6	42.4	36.5
Net Government Funding Reductions	20.4	33.6	16.4
Total	119.0	76.0	52.9
	Financial Solution		
Council Tax & Business Rates	42.3	21.4	33.5
Savings, Income and Reserves	76.7	54.6	19.4
Total	119.0	76.0	52.9

1.9 The additional spending demands include the following:

- Budget Realignment – Adjustments to base budgets to reflect over/under performance in the current year
- 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 due during the forthcoming years and increase in contract prices. Some contracts are index linked, others are negotiated. Both pay and prices includes the impact of escalation in National Living 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
- New Burdens and Service Priorities – Impact of new legislation and local policy decisions e.g. revenue impact of capital investment

1.10 The reductions in government funding principally relate to the phased removal of Revenue Support Grant and the phased introduction of improved Better Care Fund. The cumulative impact of the 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 in the Budget Book and MTFP.

1.11 A high level summary of the 2017-18 revenue budget is shown in table 2. Gross expenditure is the total amount spent on staff, buildings, contracts, goods and services, etc. Net expenditure 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.



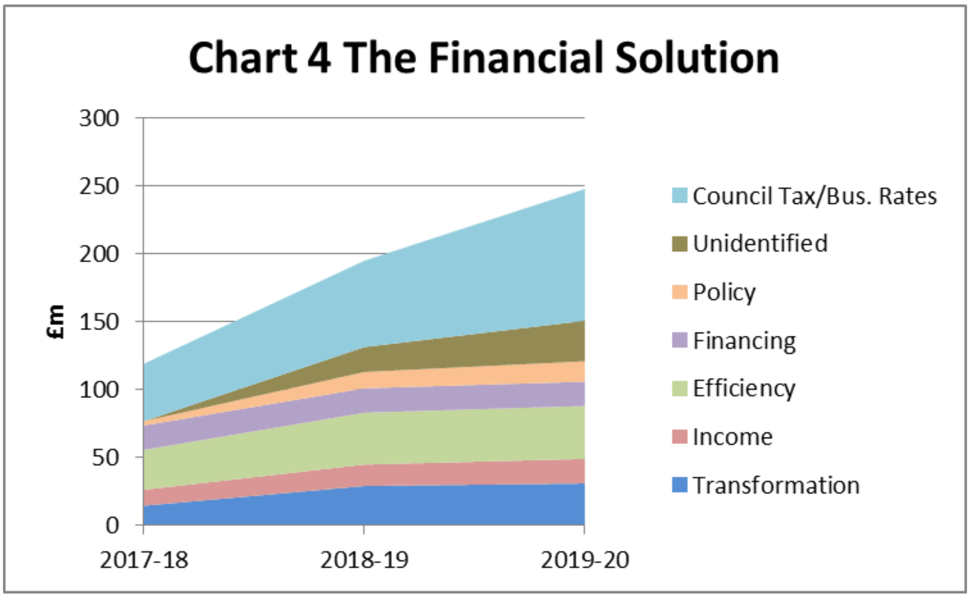


Table 2 KCC Proposed Revenue Budget 2017-18	Gross Expenditure £m	Net Expenditure £m
Adults & Older People's Services	520.2	389.7
Children's Services	308.1	150.7
Community Services	39.0	15.7
Highways	37.8	28.7
Public Health	74.9	0.0
School & High Needs Education	731.2	0.0
Schools' Services	21.7	6.7
Transport Subsidies	77.1	65.3
Waste Management	70.4	68.5
Other Direct Services to the Public	32.4	20.3
Financing Items & Unallocated	132.3	115.2
Management Support & Overheads	143.3	72.2
Total	**2,188.4**	**933.0**

KCC Capital Investment Programme

1.12 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.

1.13 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 £1m 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.

1.14 The capital programme is presented in directorate format in section 3 of the budget 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 2017-18 to 2019-20.

Council Tax

1.15 KCC has increased council tax by just under 4% in 2017-18. This includes 1.99% for the increase permitted without holding a referendum plus a further 2% for the social care levy. This decision was taken at the County Council meeting on 9th February. This increases the annual KCC element for a band C household from £1,007.60 in 2016-17 to £1,047.84 in 2017-18. The total social care levy for a band C household in 2017-18 is be £39.52[5], all of which will be spent on the rising cost of adult social care services.

[5] This comprises of £19.36 for the 2016-17 levy plus an additional £20.16 for the 2017-18 levy

1.16 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.

Revenue Budget and Medium Term Financial Plan Format

1.17 The revenue budget is presented in a format designed for external purposes, which identifies spend on individual front line services, financing costs, assessment activity and management/support services. The presentation includes a high level summary (section 4), and an A to Z of services (section 5). The A to Z of services identifies the net budget for 2016-17 and summary of spending and income for 2017-18. Information for internal purposes (directorate budgets and delegations to individual managers) is shown in section 9 and appendix A.

1.18 The Medium Term Financial Plan 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 3 year plan as appendix A(i), and a more detailed one year plan setting out for each directorate the significant spending changes (additional spending demands and savings) as appendix A(ii).

Conclusion

1.19 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.

1.20 Budget assumptions and medium term forecasts are based on sustained economic prosperity. Should there be further economic shocks 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 such shocks and other risks to the Council’s finances.