

From: John Simmonds, Cabinet Member, Finance & Procurement
Andy Wood, Corporate Director, Finance & Procurement

To: Social Care and Public Health Cabinet Committee

Date: 16 January 2014

Subject: **Budget Consultation and Provisional Local Government
Finance Settlement**

Classification: Unrestricted

Summary: This report sets out the responses to the budget consultation which has been running from 8 November until 13 December 2013. The responses are set out separately from the following activities:

- a) Responses directly to the Council either through the website or via other channels
- b) Responses via BMG consultants either from deliberative workshop sessions or on-line survey of a statistical sample of residents
- c) Responses from staff survey conducted by BMG consultants

This report also includes an update on the impact of the provisional Local Government Finance Settlement announced on 18 December 2013 on KCC's budget for 2014/15 and Medium Term Financial Plan (MTFP) 2014/17. The report includes a summary of the main points from these key announcements.

Recommendation(s): The Social Care and Public Health Cabinet Committee is asked to consider the feedback from consultation and make recommendations to the Leader and Cabinet Members for Adult Social Care and Public Health and Specialist Children's Services on any changes which should be made to the final Draft Budget as presented to Cabinet on 22 January 2014.

1. Introduction

- 1.1 The overall objective of the consultation was to inform more people about the financial challenge the Authority faces and to engage with them about how we should respond. Previously we have consulted about the detail of budget proposals but have not been successful in getting a wide engagement. The main consultation this year is based on a campaign "2 minutes 2 questions" where we asked residents to devote a small amount of time to answer two fundamental questions. Those who wished to explore issues in more depth could complete an on-line tool which explored which services are most valued.
- 1.2 We assumed a "digital by default" approach and produced all of the material on-line. This was designed in such a way that information could be accessed in layers. There was high level headline information for those who only wanted to get a feel for the financial challenge. A slightly more detailed picture below the headline level gave readers a flavour of how we propose to meet the challenge

with pull down menus with a detailed narrative of each element of the budget options.

- 1.3 This enhanced consultation and engagement strategy elicited substantially more responses than any budget consultation to date with 3,163 responses to the “2 minutes, 2 questions” and 487 responses to the on-line tool. These responses are analysed in Appendix 1, together with other relevant information.
- 1.4 We also undertook market research via an independent firm, BMG Consultancy. BMG were commissioned to undertake 3 specific pieces of market research:
 - Detailed all day workshops with a small representative sample of residents
 - Face to face survey using the on-line tool with a wider representative sample of Kent residents (1,200)
 - A workshop with KCC staff and an e-mail survey (using the on-line tool) with a sample of staff.

An executive summary of the BMG report is attached as Appendix 2.

2. Financial Implications

- 2.1 Since the consultation was launched there have been some changes to the assumptions about the available funding and additional spending demands. This has impacted on the savings needed in order to balance the budget. We have also had announcements on specific grants (particularly from Health Service which impact on the spending and income assumptions, although do not alter the net budget).
- 2.2 The provisional settlement for 2014/15 was largely as we had anticipated. The Chancellor’s announcement in his Autumn Budget Statement that business rates will only increase by 2% in 2014/15 (instead of the 3.2% from September RPI) has reduced the County Council’s share of the locally retained business rates and the business rate top-up by £2.2m. This will be compensated through an additional un-ring-fenced grant along with the consequences of the other changes in business rates (principally extension of the doubling of small business rate relief and £1,000 discount for all retail and food/drink businesses with rateable value over £50,000).
- 2.3 The Revenue Support Grant (RSG) now includes the 2013/14 Council Tax Freeze grant (it had previously been understood this would continue to be allocated as a separate grant in 2014/15 and rolled into RSG in 2015/16). The Government has confirmed that by transferring previous and future years’ freeze grants into the RSG baseline ensures that funding is protected and not subject to “cliff-edge” as part of future spending reviews. The amount top-sliced from local government to fund the roll-out of increases in New Homes Bonus has reduced by £100m (which has had the effect of increasing the overall RSG by around £2m compared to the estimates in the consultation). The separate grant in relation to extension of free home to school transport has been confirmed as continuing in 2014/15 (we had assumed it would be ceasing in 2014/15) and the New Homes Bonus (NHB) grant is slightly higher than we anticipated for the consultation. Overall the estimated funding for 2014/15 is £4.3m more than we included in the consultation as a result of these changes.

- 2.4 The provisional settlement for 2015/16 includes the impact of the business rate changes and the reduced top-slice for NHB referred to in paragraphs 2.2 and 2.3. Furthermore, for the consultation we had assumed a worst case scenario that we would lose all NHB grant in 2015/16 as outlined in a government consultation on the funding of Local Growth Fund (LGF) for Local Enterprise Partnerships (LEPs). The Autumn Statement confirmed that NHB funds will not be transferred to LGF and thus we can now plan that NHB grant will roll-out as originally intended. This means the provisional settlement for 2015/16 is around £8.5m higher than we estimated for the consultation. We have still assumed a worst case scenario regarding the additional reduction in Education Services Grant announced in the March Budget statement although we are expecting further consultation before this is confirmed.
- 2.5 The final draft budget will include the most up to date information on additional spending demands. These will be based on the October budget monitoring report to Cabinet on 22 January 2014. The final draft budget will also need to include additional spending funded by specific ring-fenced grants. Excluding the impact of this grant funded expenditure it is likely that spending demands will be slightly more than included in the consultation.
- 2.6 The final draft budget will also include any changes to savings proposals since the consultation was launched. In particular this will take into account the latest delivery plans and any changes arising from consultation. The combination of slighter better than anticipated funding and slightly greater forecast spending demands means that the savings for 2014/15 will need to be of a similar magnitude to that identified in the consultation (£81.2m excluding additional specific grant income) although some of the individual details will vary. In particular the consultation included a large amount from “Facing the Challenge” which will now be identified as specific proposals.

3. Bold Steps for Kent and Policy Framework

- 3.1 Putting more power into the hands of Kent residents so that they have the opportunity to shape how services are provided to them and their local communities is a key feature of Bold Steps. The budget consultation is a key component of this and we have successfully engaged with significantly more people than we have achieved in previous consultations.
- 3.2 The annual budget and MTFP is one of the most important decisions the Council takes each year. It determines the overall resources available and delegates the responsibility to deliver the Council’s spending priorities to Portfolio holders and Corporate Directors.

4. Budget Consultation

- 4.1 The budget consultation opened on 8 November 2013 with a press launch. Throughout the five-week period the consultation was backed up with an on-going communications campaign. The aim of this campaign was to inform Kent residents and businesses of the scale of the financial challenge and to get them involved in how the Council responds. The “2 minutes 2 questions” tag was aimed at getting a much higher number of responses than we have previously achieved. The more detailed budget modelling tool provided the opportunity to

explore the Council's budget in more depth and to express views on the spending areas of highest and lowest priority.

- 4.2 The first question of 2 questions sought views on how the Council should go about making savings necessary to close the gap between anticipated funding and current spending forecasts. The question was framed to explore whether the Council should seek to redesign services within the available funding or cut back on existing provision. The responses indicate a strong level of support for the current direction of travel i.e. to transform services with the aim of achieving the same or better outcomes for less money and efficiency savings (achieving the same outcomes for less money) and to protect front-line services. The options to make savings by simply cutting back to a basic level of service or restricting access to services were consistently the least favoured responses throughout the consultation.
- 4.3 The second question was about Council Tax and income from charges. 23% of respondents wanted Council Tax frozen for another year, 71% supported an increase. The number supporting a small increase (under 2%) was consistently higher than those supporting a freeze. The number supporting an increase above 2% was consistently lower than the number supporting a freeze. It was also clear that during the campaign the number supporting a low increase (under 2%) increased during the campaign, while those supporting an above 2% increase declined. Support for increasing charges to service users was consistently low. The overall conclusion is that a small increase in Council Tax would be acceptable in order to prevent further savings, but an increase above the referendum level would be unlikely to be supported.
- 4.4 The findings from the "2 minutes 2 questions" campaign are remarkably similar to the findings from the more in depth BMG research. This leads to the conclusion that the views coming from the consultation can be relied on to represent the views of Kent residents at large.
- 4.5 The Council has engaged a market research firm (BMG Research) to conduct a more in-depth market research to inform the consultation. The Council engaged 3 specific areas of activity:
 - Face to face survey with a representative sample of Kent residents through two all day deliberative workshops
 - The development of an on-line tool to capture views about people's core values for a range of KCC services
 - A staff workshop and survey similar to the public workshops and surveys
- 4.6 The BMG research is an essential control mechanism to enable us to evaluate whether the views expressed in the consultation responses can be relied upon, as well as providing much more in depth research to support budget decisions. We have conducted similar deliberative workshops in previous years and found them to work well. This year was the first time we have used an on-line budgeting tool or conducted similar process with staff to that undertaken with residents. BMG have given assurances that the findings are consistent both between the various strands of work within Kent and with findings through their other research.

4.7 The key general findings from the BMG research are not surprising:

- Few had noticed changes to services over recent years arising from previous savings
- People are less supportive of service reductions if they directly impact on them or their families, particularly where this has an impact on their day-to-day lives and livelihoods
- Some accepted there are opportunities for reductions in current service levels without significant detrimental impact
- More people had the perception that the Council and services can be more efficient
- Few people understand Council Tax or what it pays for

4.8 Other specific points to note from the BMG research include:

- The views of staff and residents are remarkably consistent
- Care services for the most vulnerable were consistently the most valued services while services where users have a degree of choice least valued¹
- The public were significantly more supportive of decisions being made locally than staff, and significantly less supportive of delivering statutory minimum level of service²
- A small Council Tax increase would be acceptable to the majority of residents although a consistent core of around ¼ would prefer a freeze³
- The most favoured options for savings included new opportunities for generating income⁴, encouraging communities to become more self-reliant to deliver services for themselves and sharing services with other Councils

4.9 We will be receiving a full report from BMG in due course which will be available for the County Council budget meeting on 13 February 2014. We are considering whether this should include a brief presentation to the Council meeting.

4.10 We will be suggesting some changes to the savings proposed in draft budget following the consultation. In particular we will look to make further efficiency savings and seek further protection of services for the most vulnerable (whilst also ensuring that we get best value from these services delivering the best possible outcomes within the resources available).

¹ This is not to say that these services were not valued as the evaluation methods forced people to make relative value judgements between services

² The public were less clear what constitutes statutory level of service and it was unclear whether lack of support was due to resistance to requirements being imposed or whether they felt the Council should deliver more than statutory minimum

³ A small proportion supported an increase above 2% although when asked if an increase of over 2% were to be considered views diversified with on the one hand more taking a hard line that if this were the case they would favour a freeze while on the other hand those accepting an increase of over 3% also increased

⁴ Although this did not necessarily include increasing existing charges to service users and to a lesser extent introducing new charges for services which are currently free

5. Autumn Budget Statement and Provisional Local Government Finance Settlement

- 5.1 The Chancellor of the Exchequer made his Autumn Budget Statement to Parliament on 5 December 2013. The statement allows him to present the latest economic forecasts from the Office for Budget Responsibility (OBR). This year (as in the last two years) he has also taken the opportunity to use the statement to make policy changes in relation to taxation and spending. A fuller analysis of the Autumn Statement will be included in the final draft MTFP.
- 5.2 The OBR forecasts show that the economy has grown by more in 2013 than was anticipated in the last Autumn Statement or Budget Statement in March. The latest forecast is that the government will achieve its fiscal targets to eliminate the budget deficit and reduce net debt as proportion of national income (Gross Domestic Product (GDP)) a year earlier than previously forecast. Public spending is forecast to be in a small surplus by 2018/19 and the net debt as proportion of GDP is forecast to peak in 2015/16. This is still later than originally forecast in the 2010 Emergency Budget.
- 5.3 The main announcements affecting the County Council's budget in the Autumn Statement are:
- Funds will not be transferred from NHB grant into Local Growth Fund in 2015/16
 - Local government will be protected from further 1% reductions in other unprotected departmental budgets in 2014/15 and 2015/16
 - Additional discounts and changes in business rates will not impact on the share for local government
- 5.4 The provisional local government settlement was published on 18 December 2013. This included announcements in that week on the business rates/RSG settlement (although details of the separate compensation grant for the impact of changes in business rates were not published), NHB grant and specific grants for schools and from health. The health announcement includes an additional £200m funding in 2014/15 as well as the existing funding to promote greater integration between health and social care.
- 5.5 As outlined in paragraphs 2.3 and 2.4 there have been some changes to the RSG and baseline funding settlements for 2014/15 and 2015/16 and other grants. The main change is that the amount top-sliced from RSG to fund the roll-out of NHB is £100m less than previously announced. The NHB has not increased as fast as was originally anticipated and excess funds have been paid during the year as a separate adjustment grant. The increase in RSG as result of reducing the top-slice is around £2m (although this means that the income we receive from the top-up grant will be less than it otherwise would have been). We have now brought the remaining top-up grant into the funding calculation.
- 5.6 The provisional finance settlement also included the "reduction in spending power" calculations that have been included in previous settlements. This showed a 1.4% reduction for KCC. We have previously explained how this calculation only partially shows the overall impact for local authorities. Whilst

this includes the overall reduction in the total spending for local authorities through the Departmental Expenditure Limit (DEL) set by government this is mitigated to some extent by any increase in specific grants also included in the “spending power” calculation. The calculation also does not show that there is additional spending associated with the specific grants or that local authorities have significant other spending demands which have to be financed in addition to meeting the headline reductions in grant. Therefore, the “spending power” calculation is not a true reflection of the reality of the financial challenges local authorities face.

- 5.7 The provisional settlement did not include any formal announcement on the referendum limit for Council Tax increases. A grant (equivalent to a 1% Council Tax increase) is available for those authorities that freeze or reduce Council Tax and at this stage we are still working on the assumption that the Secretary of State will set the referendum limit at 2%.

6. Finalising the Budget and MTFP

- 6.1 The final draft budget and MTFP will be published on 14 January 2014, along with the Cabinet papers for the meeting on 22 January 2014. This is after papers for the Cabinet Committee have to be published. Cabinet will be asked to endorse the final draft budget and MTFP to be agreed by County Council on 13 February 2014.

7. Conclusions

- 7.1 Overall we have concluded that the budget consultation exercise for 2014/15 has been a success. We have achieved the objectives of informing significantly more residents about the overall financial challenge for the next few years i.e. that we will be facing further year-on-year reductions in funding whilst at the same time spending demands will increase. This means we will have to make further sustainable savings each and every year if we are to rise to this challenge.
- 7.2 By and large responses to the consultation support the approach which the Council has taken to date, and plans to adopt for the future. In particular residents seem support the Council focussing on efficiency and transformation savings which protect (or enhance) the outcomes from front-line services. The consultation responses also support the proposal that we should seek some mitigation of the funding reductions through a small increase in Council Tax but not one which would require a referendum.
- 7.3 The provisional settlement is very much as we anticipated (other than presentational changes) and the Autumn Budget Statement has not resulted in any further reductions for local government in addition to the substantial reductions already announced. We particularly welcome that the expansion of the New Homes Bonus grant will not be curtailed by transferring funds to the Local Growth Fund (and we await further details how this initiative will be funded in 2015/16).
- 7.4 We also welcome the additional funding from health to promote more co-ordinated activity between social care and health. We remain concerned that there has been no decision on funding the fundamental changes to adult social

care included within the Social Care Bill and the potential for additional costs on social care authorities.

8. Recommendation(s)

Recommendation(s): The Social Care and Public Health Cabinet Committee is asked to consider the feedback from consultation and make recommendations to the Leader and Cabinet Members for Adult Social Care and Public Health and Specialist Children's Services on any changes which should be made to the final Draft Budget as presented to Cabinet on 22 January 2014.

9. Background Documents

- 9.1 Consultation materials published on KCC website can be found at www.kent.gov.uk/budget
- 9.2 The Chancellor of the Exchequer's Autumn Budget statement can be found at <https://www.gov.uk/government/topical-events/autumn-statement-2013>
- 9.3 The provisional local government finance settlement can be found at <https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2014-to-2015>

10. Contact details

Report Author

- Dave Shipton, Head of Financial Strategy
- 01622 694597
- Dave.shipton@kent.gov.uk

Relevant Director:

- Andy Wood, Corporate Director Finance & Procurement
- 01622 694622
- Andy.wood@kent.gov.uk