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To: Health Reform and Public Health Cabinet Committee – 14th January 2020

Subject: Draft Capital Programme 2020-23 and Revenue Budget 2020-21

Classification: Unrestricted

Summary:

The Draft Budget proposals for 2020-21 were published on 6th January 2020 to support the scrutiny and democratic process through Cabinet Committees, Cabinet and culminating in the annual County Council budget setting meeting on 13th February 2020. The Draft Budget takes account of the response to the consultation and engagement campaign. This report provides Health Reform and Public Health Cabinet Committee with an opportunity to comment on the Draft Budget proposals and make recommendations to Cabinet Members as part of this process.

Members are asked to bring to this meeting the draft (black combed) 2020-21 Budget Book document published on 6th January 2020 as information from this document is not repeated in this report.

1. Introduction

- 1.1 The Local Government Finance Act 1992 and KCC Constitution requires the Council to consult on and ultimately set a legal budget and Council Tax precept for the forthcoming financial year, 2020-21. The accompanying Draft Budget book sets out the detailed proposals. This document is designed as a reference document and includes a number of sections/appendices. This report is produced as a guide to help navigate the document.
- 1.2 The democratic process through Cabinet Committees, Cabinet, and ultimately full County Council is the culmination of the budget setting process which takes almost a year to evolve beginning almost immediately after the budget is approved in February. This starts with the forecasts for the subsequent year(s) in the MTFP at the same time as the approved budget for the forthcoming year, including the indicative central government settlement. These are based on estimates and subject to regular revision and refinement.

- 1.3 In previous years an interim update of the MTFP has been provided to County Council through the Autumn Budget Statement report. This year an Autumn Budget Statement report was not produced primarily due to the degree of uncertainty following the one-year Spending Review and lack of detail around the local government finance settlement. A multi-year plan for 2021-22 and beyond has not been produced given the settlement is for one year only.
- 1.4 On 16th October 2019 the formal budget consultation was launched as required under the Council's Constitution to set a legal budget and Council Tax. The Draft Budget published in January for the final democratic process is based on funding assumptions derived from the Spending Round and technical consultation on the provisional local government finance settlement. It is also based on provisional Council Tax and business rate tax bases from districts. There is no indication when the local government finance settlement will be announced, and districts have until 31st January to finalise their tax base estimates. The Draft Budget also includes the proposed response to the consultation, estimates of spending demand and cost pressures and local spending priorities.
- 1.5 The Budget will be presented to County Council on 13th February 2020 for approval and the final Budget Book will be published in March.

2. Fiscal and Economic Context

- 2.1 The national fiscal and economic context is an important consideration for the Council in setting the Budget. This context does not just determine the amount received through central government grants, but also sets out how local government spending fits in within the totality of public spending. This latter aspect essentially sets the government's expectations of how much local authorities would raise through local taxation.
- 2.2 The Chancellor announced on 4th September 2019 the government's spending plans for 2020-21 which are hereon referred to as the Spending Round (SR2019). SR2019 included additional spending compared to the previous plans. The stated aim of SR2019 is to provide stability and certainty in funding in 2020-21 to enable government departments and devolved administrations to focus on delivering Brexit. The Chancellor has confirmed that a multi-year Spending Review will follow in 2020 although the exact timing of this has not been confirmed.
- 2.3 SR2019 was originally set within the current fiscal targets: keeping the structural deficit below 2 per cent of GDP in 2020-21 together with total debt falling as a percentage of GDP, and structural deficit to be eliminated and converted to a surplus by the middle of the decade. The Chancellor would normally be expected to make his annual Budget statement during the autumn in response to forecasts from the Office for Budget Responsibility (OBR) of performance against the targets. The Budget would have included any tax changes necessary to finance spending plans within the targets. In October the Chancellor postponed the Budget

statement scheduled for 6th November. In November he announced the introduction of revised fiscal targets:

- Balance current spending (i.e. excluding capital spending) in three years' time
- Investment limited to 3% of GDP
- Borrowing plans to be reviewed if total debt interest exceeds 6% of tax revenues.

2.4 SR2019 was based on a “rollover” concept with the continuation of a number of grants received in 2019-20. The grants continuing are listed in table 1 below with estimates for both the national and KCC amounts in 2020-21:

Table 1 – List of 2019-20 grants which are continuing in 2020-21

Description of grant or fund	2019-20		2020-21 Estimate	
	National Amount £'m	KCC Amount £'m	National Amount £'m	KCC Amount £'m
Revenue Support Grant ¹	2,284	9.5	2,323	9.6
Business Rate Top-up ¹	-	136.2	-	138.5
Business Rate Baseline ¹	12,276	48.7	12,484	49.5
New Homes Bonus Grant	918	6.4	918	6.4
Social Care Support	410	10.5	410	10.5
Business Rate Compensation for under indexation of the multiplier ²	424	6.1	424	6.1
Business Rate Compensation for other reliefs ²	1,373	4.9	1,373	3.9
Improved Better Care Fund ³	1,837	42.4	2,077	48.5
Winter Pressure Grant	240	6.2		
New Social Care grants			1,000	23.8

2.5 SR2019 included an additional £1bn nationally to support Adult and Children’s Social Care pressures. The technical consultation proposed that this would be allocated according to the adult social care relative needs formula (RNF) with up to 15% adjusted to reflect ability to raise council tax. For KCC, this equates to £23.8m share of the £1bn total.

2.6 SR2019 also confirmed that the Government intends to set the Council Tax referendum threshold for 2020-21 at 2% (this level is subject to final decision by Parliament). In addition, councils with responsibility for adult

¹ Uplifted by 1.7% uplift to business rate multiplier based on September CPI and adjusted to include notional RSG for business rate retention pilot authorities

² Notified after final settlement

³ Includes winter monies in 2020-21

social care can choose to levy up to a further 2% increase on council tax under the social care precept.

- 2.7 Finally, the SR confirmed that the £2 billion funding provided to government departments for Brexit will be continued in 2020-21, although at this stage it is not known how much KCC will receive.
- 2.8 There are no indicative spending plans/local government settlement or Council Tax referendum limits for 2021-22 and beyond, meaning the future funding envelope remains incredibly uncertain. These will not be known until after the outcome of the full Spending Review, which was originally anticipated sometime during 2020 but might be delayed. A further rollover for 2021-22 settlement is one of many possibilities.
- 2.9 Further details are still awaited on whether the new government will proceed with the proposed 75% business rate retention arrangements, and the reforms following the Fair Funding review. These are likely to have a significant impact on future year's settlements and the Council's MTFP, this uncertainty makes forward financial planning very imprecise.
- 2.10 In light of the uncertainty, a one-year only plan has been published. Appendix A in the Draft Budget Book provides detail of individual growth pressures and savings. Different scenarios of funding for future years will continue to be modelled so that the potential impact from each scenario is understood.

3. Revenue Budget Strategy and Proposals

- 3.1 The Council's revenue expenditure is what is spent on the provision of day to day services e.g. care for the elderly and vulnerable adults, supporting children in care, maintaining and managing the road network, library services, etc. It includes the cost of salaries for staff employed by the Council, contracts for services commissioned by the Council, the costs of servicing debt incurred to support the capital programmes, and other goods and services consumed by the Council. Revenue spending priorities are determined according to the Council's statutory responsibilities and local priorities as set out in the MTFP, which is the financial expression of the vision set out in the Strategic Statement.
- 3.2 The Draft Budget book includes the following sections in relation to the revenue budget proposals:
- Section 3 – Revenue Budget - Summary
 - Section 4 – Revenue Budget - Key Service
 - Appendix A – Detailed Revenue Plan by Directorate
 - Appendix B – Budget Risk Register
- The revenue budget sections set out the planned spending on services, the revenue plans in the appendices show the main reasons for year on year changes.

- 3.3 In order to meet the legal requirement to set a balanced budget the Corporate Director of Finance must be satisfied that it is based on robust estimates and includes adequate provision for reserves to cover risks and uncertainties. The Draft Budget is increasing by £68m, from £986.4m in 2019-20 to £1,054.3m in 2020-21, although this requires the remaining gap of £1.9m to be resolved.
- 3.4 The Draft Budget includes provision for £83.1m of additional spending demands (changes to existing budgets plus forecasts for future demand and cost increases) and £21.1m to replace the use of one-off funding/savings in the 2019-20 approved budget.
- 3.5 These spending demands include the decision to change budgets based on current activity/costs, future known unavoidable cost increases (including contractual price increases, legislative changes and financing capital programme), forecasts for future eventualities (including estimated demand, non-specific price increases and contract retender), and local policy choices (including investment in services, and Kent pay scheme). The Draft Budget also includes £6.0m of growth for spending priorities that support the new Strategic Statement.
- 3.6 The 2020-21 Draft Budget includes savings and income proposals of £34.3m. The vast majority of these arise from the full year effect of existing savings plans or the roll out of existing charging policies.
- 3.7 The revenue budget can be summarised in the following equation. This equation assumes the Council agrees the proposed Council Tax precept increases up to but not exceeding the assumed 2% referendum limit and the 2% social care levy. Section 6 of this report sets out the main revenue spending demands and savings/income proposals for Public Health.

Spending and Savings			
			£000s
Realignment			10,453.4
Reduction in Grant Income			1,400.0
Pay			7,693.0
Prices/Inflation			20,284.4
Demand/Demography & Legislative			21,238.5
Service Improvements			22,001.4
Sub Total - Pressures			83,070.7
Replace use of one-off solutions used in 2019-20			21,115.2
Savings and Income			-34,283.6
			69,902.3
Funding			
	Spending Round £000s	Other £000s	Total £000s
Council Tax	37,185.0	-4,975.0	32,210.0
Business Rates	827.5	154.9	982.4
Government Grants			

- Business Rate Top Up and RSG	2,476.9		2,476.9
- Other grants	23,836.0	8,463.6	32,299.6
	64,325.4	3,643.5	67,968.9
Current Budget Gap			1,933.4

3.8 The 2020-21 plan is presented in appendix A. This represents the most realistic estimate of future funding following SR2019 (including estimated distribution through the local government finance settlement) and provisional tax base estimates/assumed council tax increases. The plan also include forecasts for future spending pressures and replacing the one-off funding/savings used to balance the previous year's budget.

4. Budget Consultation

4.1 As described in paragraph 1.4, the consultation on the Council's revenue budget and Council Tax proposals was launched on 16th October and closed on 25th November. This consultation sought views on a general Council Tax increase, the social care levy and KCC's spending priorities. The consultation was web based supported by a social media campaign. This approach was in line with last year, which helped to achieve increased engagement at lower cost, and a total of 1,360 responses were received (compared to 1,717 responses last year). Furthermore, there were fewer numbers who started a response but did not complete the survey (552 compared to 698 last year).

4.2 The campaign also aimed to increase public understanding of the Council's budget and the financial challenge arising from rising demand for/cost of providing council services, the need to find cost savings whilst at the same time protecting valued services, and impact on Council Tax. Further evaluation of the extent to which these aims were achieved will be undertaken.

4.3 The finance team have worked in collaboration with colleagues responsible for updating the Strategic Statement. A number of engagement events took place between September and November 2019 with residents, businesses, voluntary sector organisations, parish councils, young people and staff. At these events information on KCC's current spending plans were provided, and the financial challenges faced next year. Their views on what is important to them and their views on spending priorities have been captured and fed into the budget consultation process.

4.4 Overall there was an increased proportion of respondents supporting council tax increases than in last year's consultation but still lower than historical levels of support in previous years. In relation to spending priorities, respondents highlighted Adult Social Care for Older People, Education & Youth Services and Public Protection as their three highest priorities. The three lowest spending priority areas were Community

Services, Libraries Registration and Archives and Social Support within Adult Social Care.

- 4.5 A detailed report on the information and insight gained from the consultation and engagement strategy is available in the background documents section of this report and on the Council's website.

5. Capital Programme

- 5.1 Capital expenditure is spent on the purchase or enhancement of physical assets where the benefit will last longer than the year in which it is incurred e.g. school buildings, roads, economic development schemes, IT systems, etc. It includes the cost of purchasing land, construction costs, professional fees, plant and equipment and grants to third parties. As with revenue, capital spending plans are determined according to the Council's statutory responsibilities and local priorities as set out in the MTFP, with the ultimate aim of delivering the vision set out in the Strategic Statement.
- 5.2 Capital spending has to be affordable as the cost of interest on borrowing and setting aside sufficient provision to cover the initial investment funded by loans over the lifetime of the asset, are borne as revenue costs each year over a very long period. This affordability would also apply to invest to save schemes which need to have a reasonable payback period.
- 5.3 Sections 1 and 2 of the Draft Budget book set out the proposed 2020-23 programme and associated financing requirements. The summary (section 1) provides a high-level overview for the whole Council, and the individual directorate pages (section 2) provides more detail of rolling programmes and individual projects.
- 5.4 The capital strategy has been revised for the 2020-23 budget and one of the principles is to have a longer-term capital programme over a ten-year period, within which statutory responsibilities and strategic priorities are prioritised. It is particularly important to provide some stability for services in a year with a one-year funding settlement from Government. The timing of capital projects and programmes has also been reviewed to ensure capital plans and delivery are as realistic as possible.
- 5.5 Some additional capital spending has been deemed appropriate to meet statutory responsibilities, for invest to save projects or to enable continuation of other key capital ambitions. A total of £120m additional borrowing will be used to fund this spend over the three-year period 2020-23. The revenue consequences of this capital spending have been included in the budget.

6. Headline Public Health Proposals

The Public Health grant, which funds the majority of the spend on Public Health, has been subject to annual reductions, totalling £11.0m (or 14.3% of the total grant in 2015/16), since 2015/16.

Whilst a 'real-terms increase to the Public Health Grant budget' has been announced for 2020/21 (details of which are still awaited), lack of funding for the NHS Agenda for Change (AfC) pay and NHS pension increases could actually result in a real-terms decrease in grant for Public Health. This would require significant savings to be made, as set out in section 6.2 below.

6.1 Additional cost pressures in 2020/21 are estimated at approximately £5.3m and include the following:

- Price increases of £4.1m as a result of the NHS AfC pay and NHS pension increases. In previous years, NHS Trusts have been able to apply for this funding from NHS commissioning bodies, however, the intention of the Department of Health is to transfer this funding to Local Authorities. To-date, no new funding to cover these costs has been announced.
- Increasing drug costs, particularly buprenorphine (used in substance misuse services) resulting in an estimated budgetary pressure of approximately £245k
- Increasing demand for services of £256k, particularly sexual health services where there is rising demand for both home testing and condoms (Get It Service) and a need to increase testing levels for Sexual Transmitted Infections. There is also rising demand for NHS Health Checks, based on predicted population growth of 40-74 year olds.
- A focus on prevention and a commitment to fund a number of initiatives which will support system wide savings and a balanced budget in the future. These include additional investment in preventive services for Children and Young People and capital spend on new technology such as self-check in kiosks and video conferencing.
- General inflationary pressures, which relate to the commissioning team and the commissioned Public Health services, including pay increases of £93k

6.2 It is anticipated that there will be an increase in the Public Health grant somewhere in the order of £1.8m. After funding some one-off pressures from the ring-fenced reserve, a number of savings options have been developed to deliver a balanced budget. Total savings required are estimated at £2.8m which assumes that no additional funding is received for NHS AfC pay and NHS pension increases. The savings options include a mix of those listed below:

- Savings of between 1% to 4% could be applied across Public Health commissioned services based on an assessment against risk and statutory requirements.
A number of non-statutory services could be decommissioned or reduced to deliver a £696k saving, equating to approximately 10% of the overall spend. This would reduce spend on preventative services which play a key role in the prevention of poor health and reducing costs in health and social care.

- Further savings generated from transformation, efficiency programmes or retendering for example, implementation of a new prescribing policy for smoking or move to digitalisation.
- Some providers have already agreed to efficiency savings e.g. KCHFT have committed to at least 1% across overheads, and other providers have in-built reductions in contract values. These planned savings could be increased further.

Commissioners will work to ensure that statutory requirements are delivered and services are maintained as far as possible. However, it is inevitable that services models will need to be change, staffing levels reviewed and/or vacancies held to deliver the required reductions.

Once budgets have been formally notified, decisions will be taken and savings options implemented as required

6.3 Many savings have been achieved through proactive forward planning, financial transparency with providers and various invest to save initiatives. For example, the partnership agreement with KCHFT has an emphasis on delivering savings and is founded on open book accounting principles. KCHFT continues to transfer one-off savings back to KCC each year with a further one-off saving of £1.3m (largely due to staff vacancies) forecast in 2019/20. These savings are in a ring-fenced reserve and will be used to fund jointly agreed initiatives with KCHFT (focusing on prevention).

6.4 Significant Risks for 2019/20

In common with all other Local Authority Services, the uncertainty around the funding position poses one of the biggest risks to Public Health in 2020/21. The extent of the savings required is currently unknown. As a largely contracted service, savings of these magnitude (which are on top of the £11m of savings already delivered) will take time to negotiate with providers and implement.

6.5 The ongoing reductions in the Public Health Grant continue to create a significant challenge for KCC to meet statutory functions within the resource available, in the face of growing demand. Some of the proposed savings will undoubtedly impact on services delivered to the public, including non-statutory services, however this will be carefully managed to minimise any impact.

7. Recommendations

Recommendations:

Members of the Health Reform and Public Health Cabinet Committee are asked to:

- a) NOTE the draft capital and revenue budgets and MTFP, including responses to consultation and the estimate of the government's funding settlement
- b) SUGGEST any changes which should be made before the draft is presented to Cabinet on 27th January 2020 and full County Council on 13th February 2020.

8. Background Documents

8.1 KCC's Budget webpage

<https://www.kent.gov.uk/about-the-council/finance-and-budget>

8.2 KCC's approved 2019-20 Budget and 2019-21 Medium Term Financial Plan

https://www.kent.gov.uk/_data/assets/pdf_file/0006/93390/Budget-Book-2019-20.pdf

8.3 KCC Budget Consultation launched 16th October 2019

<https://www.kent.gov.uk/about-the-council/finance-and-budget/our-budget>

8.4 HM Treasury Spending Round 2019 document

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/829177/Spending_Round_2019_web.pdf

8.5 KCC report on 2019 Budget Consultation

https://www.kent.gov.uk/_data/assets/pdf_file/0012/103530/Summary-and-analysis-of-budget-consultation-responses.pdf

8.6 KCC Draft Budget book 6th January 2020

<https://www.kent.gov.uk/about-the-council/finance-and-budget/our-budget>

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