

From: Paul Carter, Leader
John Simmonds, Cabinet Member for Finance & Procurement
and Deputy Leader
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To: Cabinet 22nd January 2014

Decision No:

Subject: **Budget 2014/15 and Medium Term Financial Plan 2014/17**

Classification: **Unrestricted**

Summary: This report sets out the proposed final draft budget for 2014/15 and Medium Term Financial Plan (MTFP) 2014/17 to be presented to County Council on 13th February. The proposed final draft budget includes a 1.99% council tax increase i.e. up to the referendum limit. The final draft budget represents the council's response to the local budget consultation and the provisional Local Government Finance Settlement.

The local budget consultation ran from 8th November until 13th December and identifies separately the feedback 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

The provisional Local Government Finance Settlement was announced on 18th December. Responses to the settlement had to be submitted by 15th January.

Recommendation(s):

Cabinet is asked to endorse the final draft budget and the Council Tax precept taking into account proposed amendments from Cabinet Committees and any necessary changes arising out of the provisional Local Government Settlement and Council Tax/Business Rate tax base notification from district councils.

Cabinet members are asked to bring the black combed draft Budget Book 2014/15 and Medium Term Financial Plan 2014/17 to this meeting

Members are reminded that Section 106 of the Local Government Finance Act 1992 applies to any meeting where consideration is given to a matter 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 he/she is in arrears and must not cast their vote on anything related to KCC's Budget or Council Tax.

1. Introduction

- 1.1 The overall objective of the budget consultation was to inform more people about the financial challenge the authority faces and to engage with them about how we 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 was 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 proposed to meet the challenge with pull down menus with a detailed narrative of each element of the budget options.
- 1.3 The consultation included the proposed budget over the next 3 years which showed the following:
- £39.2m reduction in un-ring-fenced government funding (£142.7m over 3 years)
 - £56m additional spending demands (£139.5m over 3 years)

These were offset by:

- £14m increase in Council Tax/business rates (£41m over 3 years)
 - £81.2m savings and income generation (£214.2m over 3 years)
- This was a simplified presentation as it ignored any additional income from specific ring fenced grants (and consequential spending) and any internal adjustments (which net to nil).
- 1.4 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.
- 1.5 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.
- The BMG report/presentation is attached as appendix 2.
- 1.6 The final draft budget and MTFP shows a number of changes from the position presented for consultation. These changes include specific ring-fenced grants and base adjustments, changes arising out of the provisional

local government finance settlement, changes in the tax base notification from districts, changes arising from consultation and changes due to other circumstances and use of latest progress.

2. Summary of proposed Budget and MTFP

2.1 Table 1 shows a high level summary of the changes proposed to the 2013/14 base budget to derive the proposed 2014/15 budget and the subsequent 2 year. This has been presented in the same format as the high level summary used for the budget consultation. The financial implications in section 3 of this report sets out the main changes since the consultation in more detail. A fuller presentation of this table is set out in appendix A(i) and A (ii) in the MTFP document.

Table 1	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
Government Un-ringfenced Grants	396.6	361.4	305.6	275.8
Council Tax and Business Rates	557.7	575.1	589.6	604.4
Total Resources	954.3	936.5	895.2	880.2
Change on Previous Year		-17.8	-41.3	-15.0
Net Base Budget		954.3	936.5	895.2
Additional Spending		73.3	42.8	47.1
Ring Fenced Grants		-11.0	0.0	0.0
Income Generation		-5.1	-4.8	-1.7
Efficiency Savings		-26.7	-6.2	-1.2
Transformation Savings		-40.7	-30.0	-14.3
One-Off Savings		-7.6	0.0	0.0
Proposed Net Budget		936.5	895.2	880.2
Change on Previous Year		-17.8	-41.3	-15.0

2.2 The attached budget book sets out in more detail the proposed capital programme for 2014/5 to 2016/17 and revenue budget 2014/15 for each directorate. These provide the necessary delegations to manage the budget. The MTFP is devised as a reference document and includes an executive summary together with detailed sections setting out the national framework, revenue strategy, capital strategy, treasury strategy and risk strategy together with financial appendices.

3. Financial Implications

3.1 The overall net budget for each year is higher than estimated for the consultation. This arises from changes in un-ring-fenced grants in the provisional local government settlement and change in the tax base notification from districts. The 2014/15 provisional settlement was largely as we expected although there are some technical changes which have added Council Tax Freeze Grant for 2013/14 into RSG (a year earlier than we had previously anticipated), reduced the amount top-sliced from RSG to fund the growth in New Homes Bonus and reduced the increase in business rates (with a new compensation grant). The changes for 2014/15 mainly move money between individual elements without changing the overall resources available.

3.2 The provisional settlement for 2015/16 also reflects the 2014/15 changes as well as the confirmation there will not be a top-slice from New Homes Bonus Grant into the single Local Growth Fund. The estimated settlement for 2016/17 removes the assumption that Council Tax Freeze grants would be removed following the Local Government Minister's confirmation that these will be built into individual authority baseline figures in perpetuity. The additional changes for 2015/16 and 2016/17 alter the assumptions we had made in the proposed budget for consultation and do represent an increase on the overall resources we previously estimated would be available in future years.

3.3 The changes as a result of the provisional settlement are covered in more depth in section 2 of the MTFP document. The impact on KCC budget is summarised in Table 1.

Table 2	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
Estimated Government Settlement as per Consultation	396.6	357.5	295.8	254.0
Provisional Government Settlement as per Draft Budget	396.6	361.4	305.6	275.8

3.4 The provisional Council Tax base notified by districts has increased by 1.66% on 2013/14 due to a combination of factors. This includes higher than anticipated growth in the number of households on the valuation list, larger than anticipated reduction in discounts and exemptions applied by district councils, and improved collection rates. Detail of the provisional tax base notification is included in section 2 of the draft Budget Book 2014/15. At this stage the additional income from the higher than anticipated tax base has been added to the Council Tax equalisation reserve pending final notification from districts including Collection Fund balances.

3.5 The county's share of the business rate baseline has declined due to the Government's decision to increase the multiplier by 1.95% rather than 3.26% using September RPI (although this is compensated by additional grant included in table 1 above). The final share of the business rates will be determined once districts have notified the tax base for 2014/15. The baseline represents a good indicator and is the basis for safety net should business decline. Any variation between the baseline and final notification will be adjusted through Council Tax equalisation reserve. Table 2 sets out the change in Council tax and business rate assumptions between the consultation and draft Budget.

Table 3	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
Estimated Council Tax as per Consultation	511.9	524.4	535.5	548.9
Estimated Business Rate baseline as per Consultation	45.8	47.3	48.6	49.8
	557.7	571.7	584.1	598.7
Estimated Council Tax as per Draft Budget	511.9	528.4	541.6	555.2
Estimated Business Rate baseline as per Draft Budget	45.8	46.7	48.0	49.2
	557.7	575.1	589.6	604.4

3.6 The combination of un-ring-fenced grants in the provisional settlement, Council Tax and business rates sets the overall resource framework for forthcoming years.

- 3.7 The spending assumptions in the draft budget and MTFP have been updated to include the latest forecasts. In particular we have made the following changes:
- Provision for in year inflation has increased from £9.4m in 2014/15 to £11.5m as inflation continues to exceed the Government's target
 - Provision for demographic pressures has increased from £7.8m to £10.5m which includes additional investment in children in care and SEN children receiving transport to school
 - The impact of local decisions has increased from £12.0m to £15.1m due including the additional Council Tax base in the Council Tax equalisation Reserve (£2.3m) and the requirement to fund the new single member grant within the revenue budget (£2.1m)
- 3.8 The additional spending demands also includes £9.6m under the government and legislative heading for the spending associated with the increase in ring-fenced grant for Public Health and contribution from health budget for integration with social care. These are funded by increased grant income which increases the council's gross expenditure but makes no difference to the net spend. Excluding these to ensure a like for like comparison means overall spending pressures have increased from the £56m in the consultation to £63.7m.
- 3.9 The overall savings and income target for 2014/15 is the same as presented at consultation (£81.1m excluding specific ring-fenced grant income). The targets for future years have reduced slightly as a result of the changes in funding assumptions for future years following the announcements in the provisional settlement. Within the savings proposals we have made a number of changes to the savings to take account of the latest progress and comments made in consultation. In particular these include:
- Increase in efficiency savings from £14m to £27m. This includes the identification of additional savings which we had previously shown under "Facing the Challenge" in the consultation. In particular following the approval of the new structure at County Council on 12th December we have been able to allocate savings particularly in relation to directorate support structures, market reviews and top-tier director posts. The efficiency savings also include additional saving as a result of further in-year reductions in waste tonnage and new proposals to manage debt repayment profiles.
 - Additional savings on support services
 - Reduced the savings anticipated from adult transformation programme
 - Revised proposals on the saving on home to school (including SEN) transport and public transport
 - Further use of reserves and underspend from 2013/14 (these are on-offs and will need to be replaced in 2015/16 creating an additional pressure in that year.
- 3.10 The revised package shows the following:
- £35.2m reduction in un-ring-fenced government funding (£120.8m over 3 years)
 - £73.3m additional spending demands, of which £9.6m relates to ring-fenced grants (£163.3m over 3 years)

These are offset by:

- £17.4m increase in Council Tax/business rates (£46.7m over 3 years)
- £91.1m savings and income generation, of which £11m is specific grant income (£237.4m over 3 years)

3.11 The revised package of spending and saving reflects the latest progress on Facing the Challenge and issues raised in the consultation. In particular we have revised plans to manage the council's business even more efficiently (further staff savings in directorate and central support functions, manage debt repayment profile, use reserves) and protected services for the most vulnerable (SEN transport, specialist children's, adult transformation). We will continue with plans to transform these services with the aim of improving outcomes at lesser cost and reducing demand for services. A good example has come from the Adults Transformation programme where we have identified the scope to substantially improve the time taken to complete assessments which will also reduce the cost of the process.

4. Bold Steps for Kent and Policy Framework

- 4.1 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.
- 4.2 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.

5. Budget Consultation

- 5.1 The budget consultation opened on 8th November 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.
- 5.2 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) in order 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.

- 5.3 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.
- 5.4 The draft budget still includes the proposal to increase Council Tax by the maximum allowed without triggering a referendum (1.99%). Ministers have not yet confirmed that 2% will be the referendum threshold and this is due to be presented to Parliament in January. In the event that the threshold is lower we would have to reduce the Council Tax precept as it would not be cost effective to conduct a referendum (and indications from consultation are that a referendum would endorse a larger increase). Any change to the referendum threshold will be dealt with before the final budget is presented to County Council.
- 5.5 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.
- 5.6 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
- 5.7 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.
- 5.8 The key general findings from the BMG research are not surprising:
- Few people have 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

5.9 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

5.10 We will be receiving a full report from BMG in due course which will be available for the County Council budget meeting on 13th February 2014. We intend that this should include a brief presentation to the council meeting. Overall the findings are consistent with the vision outlined in Bold Steps for Kent and are reflected in the proposed budget.

6. Autumn Budget Statement and Provisional Local Government Finance Settlement

6.1 The Chancellor of the Exchequer made his Autumn Budget Statement to Parliament on 5th December. 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 is included in the final draft MTFP.

6.2 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

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

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.

- 6.3 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
- 6.4 The provisional local government settlement was published on 18th December. 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.
- 6.5 As outlined in paragraphs 2.1 and 2.2 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.
- 6.6 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.
- 6.7 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%. The proposed budget has the maximum increase in Council Tax without triggering a referendum, the impact of this increase on individual bands is set out in table 3.

Table 4	2013/14	2014/15
Band A	£698.52	£712.44
Band B	£814.94	£831.18
Band C	£931.36	£949.92
Band D	£1,047.78	£1,068.66
Band E	£1,280.62	£1,306.14
Band F	£1,513.46	£1,543.62
Band G	£1,746.30	£1,781.10
Band H	£2,095.56	£2,137.32

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 need to make further substantial and 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 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 for 2014/15 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 have also welcomed the confirmation that Council Tax Freeze funding will not be removed in future settlements. However, we have also raised some concerns particularly around the uncertainty over the Council Tax referendum level and the apparent removal of the Local Welfare Provision Grant (which would leave local authorities with additional responsibilities and no commensurate funding). We have also reiterated previously expressed concerns about the spending power calculation and that the new system has crystallised the previous discredited Formula Grant distributions and makes no allowance for subsequent changes e.g. population growth and movement.
- 7.5 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):

Cabinet is asked to endorse the final draft budget and the Council Tax precept taking into account proposed amendments from Cabinet Committees and any necessary changes arising out of the provisional Local Government Settlement and Council Tax/Business Rate tax base notification from district councils.

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

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