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Ask for:
Date: 17 January 2020

Dear Member

SCRUTINY COMMITTEE - FRIDAY, 24 JANUARY 2020

I am now able to enclose, for consideration next Friday, 24 January 2020, at the meeting of the Scrutiny Committee, the following report(s) that were unavailable when the agenda was printed.

Agenda Item No

A9 **Draft 2020/21 Budget and the Medium Term Financial Plan. Please can Members bring their copy of the MTFP 2020-21, Budget Information 2020-21 to the meeting. (Pages 1 - 36)**

- **Scrutiny Committee Covering Report**
- **Draft Budget Report to Cabinet 27 January 2020**
- **Cabinet Report appendix**

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ben Watts', is written over a faint, illegible printed name.

Benjamin Watts
General Counsel

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By: Joel Cook & Anna Taylor – Scrutiny Research Officers
To: Scrutiny Committee – 24 January 2020
Subject: Draft 2020/21 Budget and the Medium-Term Financial Plan
Classification: Unrestricted

Summary:

The Scrutiny Committee is required under the Constitution to consider and make recommendations to the Executive on the Budget.

Introduction

1. The Draft Budget Book was published on 6 January 2020 and the Budget Report to Cabinet was published on 17 January.
2. The Capital Programme 2020-23 and Revenue Budget 2020-21 Report to Cabinet (which will be considered at the Cabinet meeting on 27 January) has been provided to the Scrutiny Committee to support the consideration of the draft budget book. The Cabinet report is available at Appendix 1.
3. Consideration of the Budget by the Committee will be supported by a presentation delivered by KCC Finance.
4. Under the Budget Development process outlined in the Constitution, the Scrutiny Committee considers the whole draft Budget (whereas Cabinet Committee focus on the various portfolio areas). This may also include making recommendations to the Leader in relation to whether adequate resources have been allocated to take account of Full Council-endorsed Select Committee recommendations.

Recommendation:

The Scrutiny Committee is invited to consider and make recommendations to the Executive on the draft Budget.

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Appendices:

Appendix 1 – Draft Budget Report to Cabinet 27 January 2020
Appendix 2 – Draft Budget Report to Cabinet Report Appendix 1

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From: Roger Gough, Leader
Peter Oakford, Deputy Leader and Cabinet Member for Finance,
Corporate and Traded Services
Zena Cooke, Corporate Director of Finance

To: Cabinet 27th January 2020

Decision No:

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

Classification: **Unrestricted**

Summary:

The draft budget proposals 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. The one-year settlement from government means it is not viable to produce a meaningful medium-term financial plan. The draft was produced before we had the provisional Local Government Finance settlement announcement or tax base and collection fund balances from districts, and the draft revenue budget was not balanced with a gap which needs to be resolved for County Council final approval.

This report provides Cabinet with a summary of the key issues in the draft budget, and update on subsequent changes (including the impact of provisional local government finance settlement, tax base and collection fund estimate, and other grant announcements), resolution of the gap in the draft revenue budget, and an opportunity to receive and consider comments and recommendations from Cabinet Committees. The timing of some committees means this may need to be a verbal update.

The draft budget includes a proposed 1.995% council tax increase for 2020-21 i.e. up to the maximum without exceeding the 2% referendum limit. The draft budget also includes a further 1.995% council tax increase proposed through the Social Care Levy i.e. the maximum permitted, taking the total social care levy to 8.78% of the County Council share of council tax. The final decision on these council tax increases will be taken at the County Council meeting.

The draft budget represents the Council's response to local budget consultation and estimated impact of the 2019 Spending Round and provisional Local Government Finance Settlement, as well as an update to include the latest spending/saving plans and forecasts.

The draft budget includes changes to the capital programme which includes additional bids of £121m, £85m of which support our highways asset maintenance and priority 1 and 2 of highways risks. The additional revenue debt cost of these new bids is in the region of £0.5m in 2020-21.

The provisional Local Government Finance Settlement was announced on 20th December 2019. This was too late to include in the draft budget publication although the differences to the estimates included in the published draft are largely marginal and inconsequential. Responses to the provisional settlement had to be submitted by 17th January 2020.

This report identifies the reasons for an increase in revenue funding of £5.6m since the original draft was prepared, how this is proposed to be used to support increased spending demands and resolve the budget gap. In view of the number and nature of the changes from the 6th January draft we are planning on republishing the draft (white-combed) for County Council approval.

Recommendations:

a) Cabinet is asked to consider any proposed amendments from Cabinet Committees.

b) Cabinet is asked to endorse the draft budget taking into account the changes outlined in this report (to be reflected in the republished white-combed draft for County Council approval).

c) Cabinet is asked note that final decision on council tax precept will be presented at the County Council meeting on 13th February 2020.

Cabinet Members are asked to bring to this meeting the 2020-21 draft Budget Book (black-combed) document published on 6th January 2020.

Cabinet 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 Local Government Finance Act 1992 requires the Council to consult on and ultimately set a legal budget and Council Tax precept for the forthcoming financial year, 2020-21. Setting the Council's revenue and capital budgets is still challenging despite the better settlement from central government. Whilst the revenue settlement has improved from the previous settlement (due to a combination of increases in government grant, retained business rates and council tax) it is still not sufficient to cover rising costs and increasing demand for council services, leading to the need to make savings/generate additional

income. Similarly, the capital budget can only be delivered with substantial additional borrowing with financing implications which place added pressure on future years' revenue budgets for the next 25 years.

- 1.2 The draft Budget Book sets out the detailed draft capital programme 2020-23 and detailed draft revenue budget 2020-21. The one-year settlement for 2020-21 means that we cannot produce a meaningful medium-term financial plan. This is consistent with 2013-14 (the last time we had a one-year settlement). There is no legislative requirement to publish a medium-term financial plan although the Chartered Institute of Public Finance and Accountancy (CIPFA) advises that a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. CIPFA recognises that while formal publication of the medium-term-financial plan (MTFP) may only reflect government settlements, it is the responsibility of the leadership of the organisation to have a long-term financial view. This report includes an outline of KCC leadership's approach to medium term financial planning in view of the one-year settlement.
- 1.3 The Council launched a budget communication and consultation campaign on 16th October 2019. The consultation closed on 25th November 2019. A separate report on the results from this campaign was published on 6th January 2020 and is included as a background document to this report. The number of responses continues to be disappointing and there were fewer responses than last year. A majority of responses supported council tax increases up to or exceeding the referendum limit to sustain services, and another year of additional 2% adult social care precept. The consultation also sought views on spending priorities on people and place based services, which showed the highest priority should be given to older persons social care, public protection, education & youth services, and highways. These priorities are reflected in both revenue and capital budget proposals.
- 1.4 The draft Budget Book (black combed) was published on 6th January 2020. This publication had been prepared before we had received the provisional local government finance settlement (announced on 20th December) or the latest tax base/collection fund estimates from districts. Consequently, the draft budget was based on Finance estimates and showed an unresolved gap of £1.9m. The draft budget includes provision for £3.5m to invest in high impact priority areas yet to be agreed until the consultation on the new Five-Year plan has concluded. This report includes details of the provisional settlement, tax base and collection fund estimates and any other issues which have emerged since publication. The settlement and latest tax base/collection fund estimates are more than enough to resolve the gap, fund additional pressures related to National Living Wage and National Minimum Wage announcements and reduce the need to draw down from reserves as a temporary solution.
- 1.5 The draft Budget Book (black-combed) continues to only include the essential sections for the scrutiny and approval process. Consequently, additional sections are included in this report to help set the scene, and the revised draft (white-combed) will include additional appendices containing information

necessary for the statutory approvals of the budget. Background documents provide other information previously included in narrative sections of the Budget Book. All of the information to support the Council’s budget is published on the web at <https://www.kent.gov.uk/about-the-council/finance-and-budget/our-budget>.

- 1.6 There are some grants which have not yet been announced and we have not received the final tax base or estimated collection fund balances from districts. Consequently, there could be some further final adjustments to present to County Council on 13th February together with any other late changes.
- 1.7 The revenue budget in the draft Budget Book (black-combed) showed an increase in the net budget from £986.4m in 2019-20 to £1,056.2m in 2020-21 (albeit this left a £1.9m gap compared to the estimated funding of £1,054.3m). A high level summary of the main components of this equation is shown in table 1. Fuller details are set out in appendix A of the draft Budget Book. It should be noted that 2020-21 is the first time in ten years that we have seen a net increase in central government funding within the settlement.

Table 1 - Budget Equation

2019-20 £m	Revenue Budget Equation	2020-21 £m
72.8	Spending Demands (including replacing one-offs)	104.2
28.1	Government Revenue Support Grant Reductions	-
100.9	Total Challenge	104.2
18.9	Government Grant Increases	34.8
37.1	Council tax & Business Rates	33.2
44.9	Savings, Income and Reserves	34.3
100.9	Total Solution	102.3
	Gap (to be resolved)	1.9

- 1.8 The capital programme identifies £906m investment in infrastructure over the 3 years 2020-21 to 2022-23, this includes £121m of new schemes not included in previous programmes including a significant investment in highways asset management and priority remedial works. Capital investments are funded by a combination of government grants, developer contributions, external funding, capital receipts and borrowing.
- 1.9 The Council already has a relatively high level of debt to finance previous capital spending and we have sought to limit additional borrowing as this has long-term revenue consequences for interest costs and setting aside provision for repayment of debt over the lifetime of the asset. Avoiding over committing future revenue is important in view of the one-year settlement from government. Nonetheless, due to the urgent need for additional capital spending we have included plans for the associated borrowing to support the programme over the three years 2020-23. This additional borrowing over and above that required under the previous capital programme adds £0.5m revenue pressure in 2020-

21 rising to over £10m when the new programme has been fully delivered (although much of the additional capital spending can be reconsidered if this revenue consequence is unsustainable following the Spending Review anticipated later this year).

2. National 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.

Public Spending

2.2 The Chancellor announced on 4th September 2019 the government's spending plans for 2020-21 (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 previous fiscal targets:

- Maintain the structural deficit below 2 per cent of GDP in 2020-21
- Total accumulated debt falling as a percentage of GDP in 2020-21
- Structural deficit to be eliminated and converted to a surplus by the middle of the decade.

2.4 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 2019. 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.

The Chancellor's next Budget is scheduled for 11th March 2020.

2.5 SR2019 for local government was based on a "roll-forward" concept with the continuation of grants within the Ministry of Housing and Local Government (MHCLG) settlement received in 2019-20. The grants continuing are listed in table 2 below together with the national and KCC amounts included in the provisional Local Government Finance Settlement announced on 20th December 2020:

Table 2 – List of 2019-20 grants which are continuing in 2020-21

Description of grant or fund	2019-20		2020-21 Provisional	
	National Amount £'m	KCC Amount £'m	National Amount £'m	KCC Amount £'m
Revenue Support Grant ¹	2,284	9.5	2,321	9.6
Business Rate Top-up ¹	-	136.2	-	138.4
Business Rate Baseline ¹	12,276	48.7	12,476	49.5
New Homes Bonus Grant	918	6.4	907	6.4
Social Care Support	410	10.5	410	10.5
Business Rate Compensation for under indexation of the multiplier	424	6.1	500	7.5
Business Rate Compensation for other reliefs ²	1,373	4.9		
Improved Better Care Fund	1,837	42.4	2,077	48.5
Winter Pressure Grant	240	6.2		
New Social Care Grant			1,000	23.8

- 2.6 SR2019 included an additional £1bn nationally to support Adult and Children's Social Care pressures. The provisional settlement confirmed that this is allocated according to the adult social care relative needs formula (RNF) with up to 15% adjusted to reflect ability to raise council tax through the social care levy. For KCC, this equates to £23.8m share of the £1bn total.
- 2.7 SR2019 and provisional settlement 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 social care can choose to levy up to a further 2% increase on council tax under the social care precept.
- 2.8 Finally, SR2019 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.
- 2.9 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 roll-forward for 2021-22 settlement is one of many possibilities.
- 2.10 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

¹ Uplifted by 1.63% uplift to business rate multiplier based on September CPI and adjusted to include notional RSG for business rate retention pilot authorities

² Notified after the final settlement

on future year's settlements and the Council's MTFP, this uncertainty makes forward financial planning very imprecise.

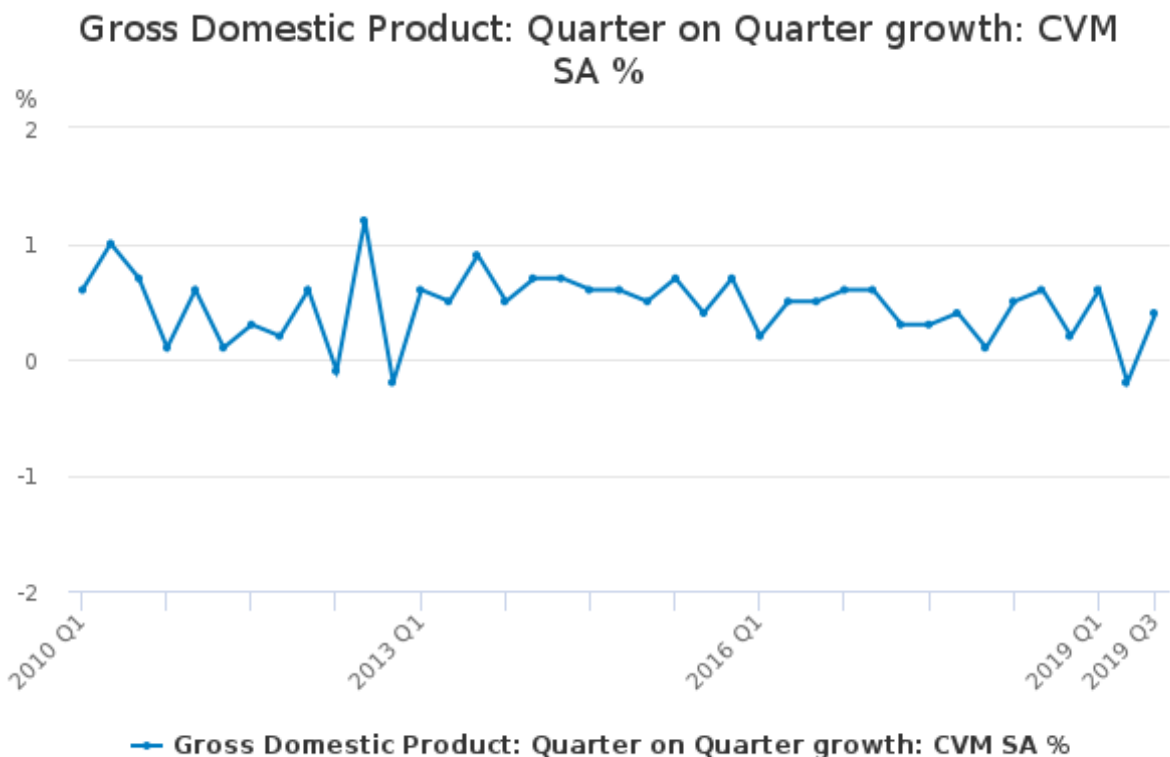
2.11 In view of the uncertainty, a one-year only plan has been published. Appendix A of the draft Budget Book (black-combed) provides detail of individual growth pressures and savings. Different scenarios of funding for future years will continue to be modelled so that the potential impact from each scenario is understood.

Economic Trends

2.12 We have previously provided information on key economic trends as these continue to have a significant bearing on both future government settlements and the general economic conditions in which the budget is being set. This includes the latest information from Office for National Statistics (ONS) on economic growth, inflation, employment and earnings, and the Bank of England (BoE) forecasts in their quarterly Monetary Policy Reports.

2.13 Chart 1 below shows the latest quarterly growth in Gross Domestic Product (GDP) over the last 10 years up to quarter 3 of 2019. This was released on 20th December 2019. Growth during 2019 has been low with quarter 2 showing negative growth due to ongoing economic uncertainties. Negative growth in consecutive quarters constitutes a recession.

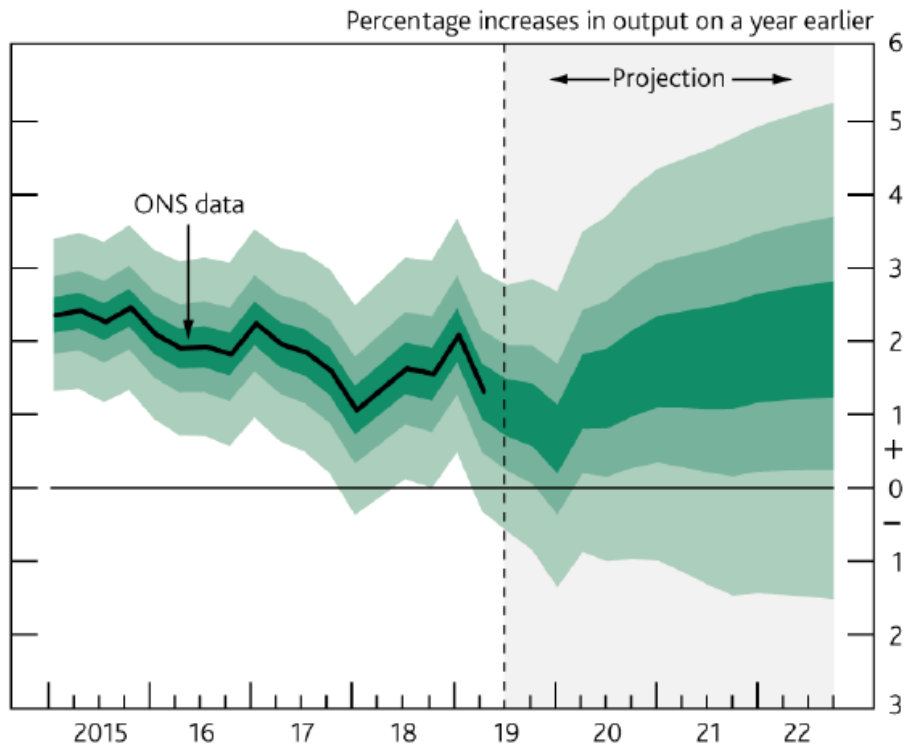
Chart 1



Source:

2.14 Chart 2 shows the growth forecast in the BoE Monetary Policy Report November 2019. This is one month in arrears from the latest ONS release (chart 1). The fan chart depicts the probability of various outcomes for GDP growth in the future.

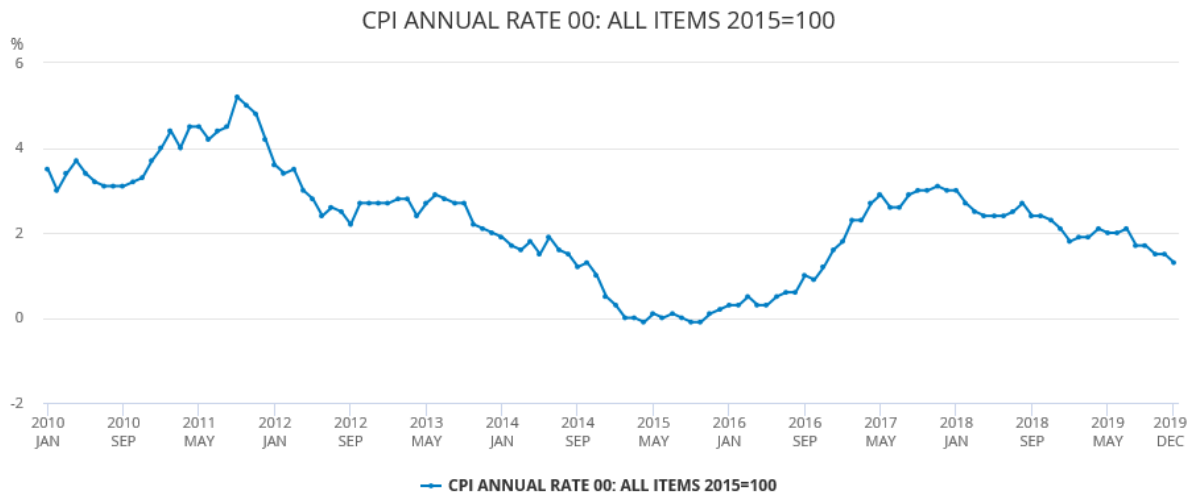
Chart 2 – GDP Growth Forecast



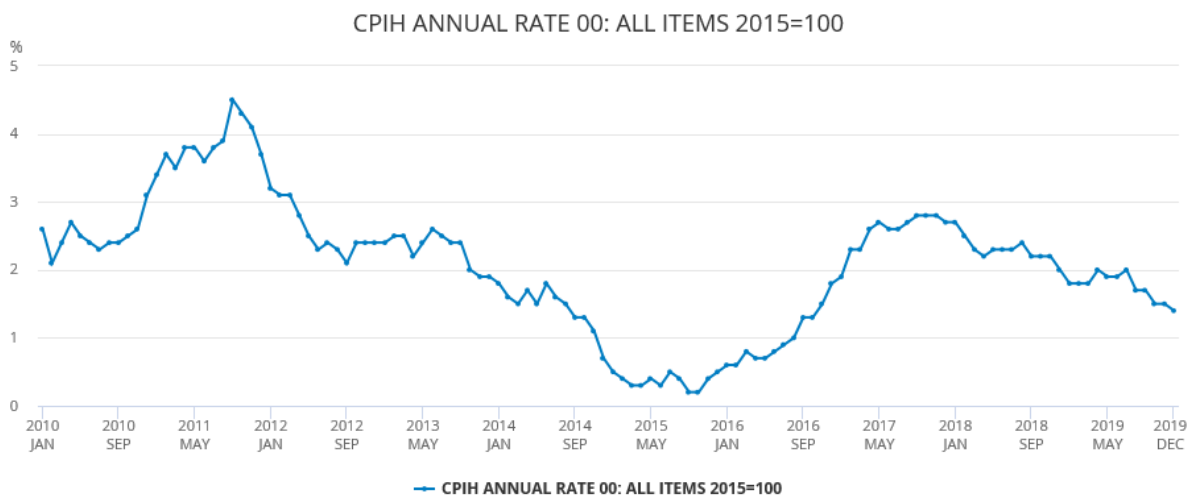
GDP growth has slowed materially reflecting weaker global growth, driven by trade protectionism, and Brexit uncertainty. The Monetary Policy Committee (MPC) projects that GDP growth will pick up during 2020 as Brexit uncertainty falls, supported by easier UK fiscal policy and a modest recovery in global growth.

2.14 Chart 3 shows the annual rate of inflation based on consumer price index (CPI) and CPIH (which includes owner occupier housing costs) up to December 2019. This was released on 15th January 2020. The trend in both CPI measures has been a reducing annual rate of inflation since a peak of 2.7%/2.8% in autumn 2017 (with the occasional small monthly increase). CPI has been below the 2% target since July 2019.

Chart 3



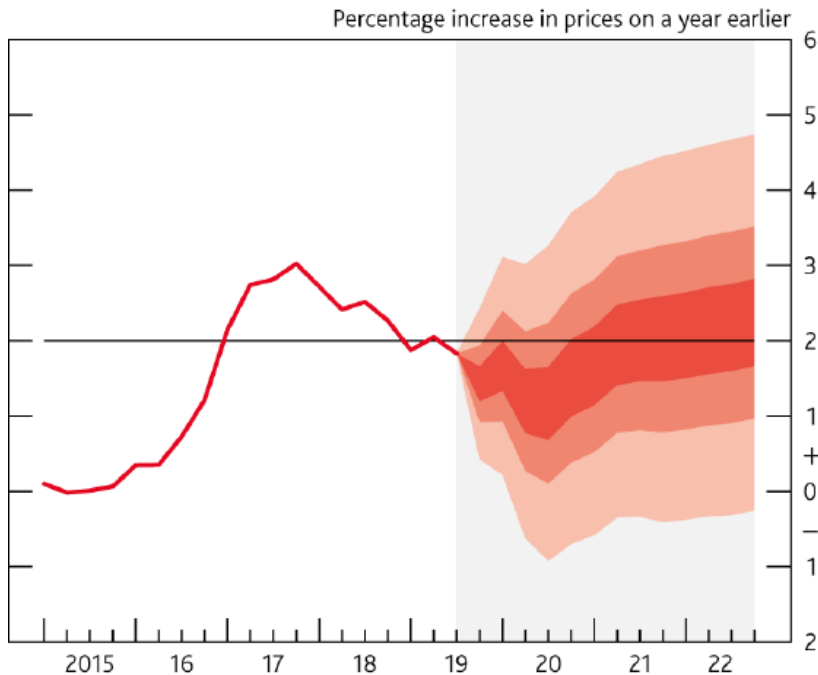
Source:



Source:

2.15 Chart 4 shows the inflation forecast in the BoE Monetary Policy Report November 2019. This is three months in arrears from the latest ONS release (chart 3). The fan chart depicts the probability of various outcomes for CPI inflation in the future.

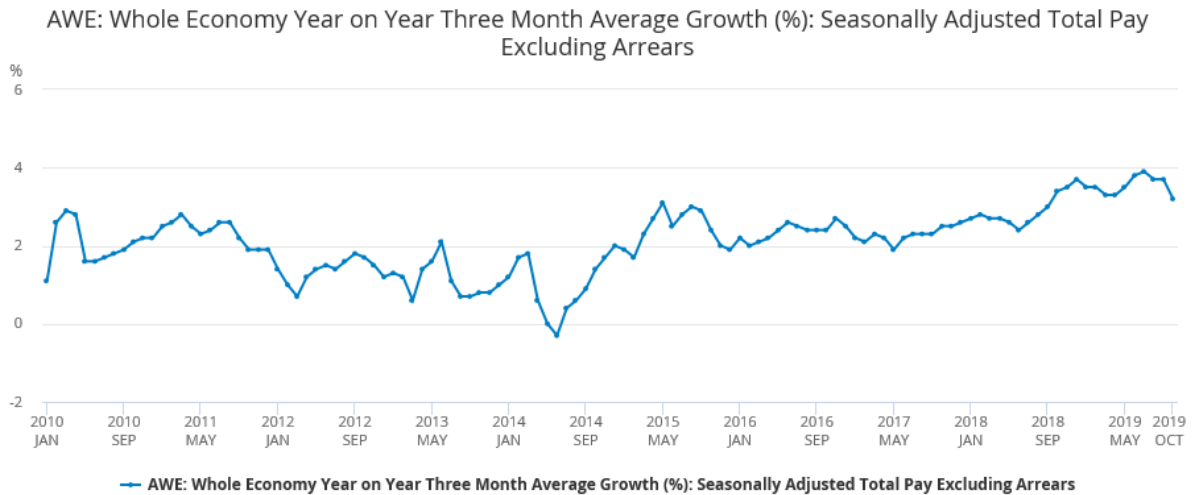
Chart 4 – CPI Inflation Forecast



CPI inflation remained at 1.7% in September and is expected to decline to around 1.25% by the spring, owing to the temporary effect of falls in regulated energy and water prices. The MPC forecasts a margin of excess demand in 2021 and 2022 taking CPI slightly above 2% by the end of the forecast period.

2.16 Chart 5 shows the annual rate of growth in total earnings (regular pay and bonuses but excluding arrears) in the whole economy over the last 10 years up to October 2019. This was released on 17th December 2019. The trend had been for increasing rates of earnings growth in the first half of 2019 although the rate of growth has reduced a little during recent months. Comparison of wage growth in chart 5 and CPI inflation in chart 3 shows that wages have been growing at a faster rate than prices since summer 2018.

Chart 5



Source:

3. KCC Response to Provisional Local Government Finance Settlement

- 3.1 The provisional settlement was largely as we had anticipated in the draft Budget Book (black-combed) with only minor variations in the uplift of Revenue Support Grant (RSG) and business rate baseline/top-up, and roll-out of new Homes Bonus. These differences are insignificant and reduce the available funding by £96k compared to the draft Budget Book. The provisional settlement also included an unexpected further year of protection from linking the inflationary uplift in business rates to Consumer Price Index (CPI) rather than Retail Price Index (RPI). The CPI link was originally announced for April 2020 and was subsequently brought forward to April 2018. We had assumed that we would only receive compensation for the lower uplift for April 2018 and April 2019, but we have also received compensation for April 2020 lower uplift in the provisional settlement. The compensation for other business rate mitigations has not been announced and is unlikely these will be confirmed before the budget is agreed, consequently the revised draft (white-combed) will include an estimate for these elements of the grant as well the announced protection for CPI uplift.
- 3.2 KCC submitted its response to the settlement on 17th January. The response was agreed with the Cabinet Member for Finance, Corporate and Traded Services. In the response we welcomed the improved settlement with the £2.9bn national increase in spending power (4% increase compared to GDP) and the earlier September announcement of the SR2019 which has added to budget certainty. However, we also reiterated concerns that this increased settlement is still not enough to fully fund rising spending demands and costs, and therefore is still a reduction in overall service terms and will require the council to find savings/additional income to balance the budget. We also requested greater acknowledgement that the majority of the increased settlement would come from council tax payers rather than central government.
- 3.3 We also expressed our very significant concerns about the impact of a one-year settlement on medium term financial planning and our inability to publish a meaningful plan. This is by far the biggest drawback with the 2020-21

settlement. We answered the specific questions to support all the allocations in the provisional settlement as being the most pragmatic approach for finalising the 2020-21 settlement bearing in mind the timing, but we also continued to raise some significant longer term concerns which we would like to be addressed in the forthcoming Spending Review and delayed Fair Funding review/business rate retention and reforms.

- 3.4 We reiterated our concerns regarding the council tax referendum principles which we consider to be undemocratic and no better than the previous capping regime. We repeated our concerns that previous funding regimes have benefited some areas and resulted in lower council tax charges (particularly in Inner London) and that if the Fair Funding review results in a more appropriate distribution of the business rate baseline that the council tax referendum principles should allow charges in these areas to catch up to compensate for losses.
- 3.5 The detail of the differences between the estimated settlement included in the draft Budget Book (black-combed) and the provisional settlement are shown in table 3. The revised figures from the provisional/final settlement will be included in the republished (white-combed) draft budget presented for approval to County Council.

Table 3 – Draft Budget Estimated Settlement and Provisional Settlement

	Draft Estimate	Provisional Settlement	Difference
Retained Business Rate Baseline	£49.503m	£49.468m	-£0.035m
Business Rate Top-up	£138.525m	£138.429m	-£0.096m
Revenue Support Grant	£9.649m	£9.642m	-£0.007m
Improved Better Care Fund	£48.554m	£48.554m	-
Social Care Support Grant	£34.367m	£34.367m	-
New Homes	£6.388m	£6.430m	+£0.042m
Sub total			-£0.096m
Est. Business Rate Compensation	£10.000m	£11.400m	+£1.400m

- 3.6 We anticipate the final settlement will be announced in early February, hopefully before the County Council meeting on 13th February.

4. Council Tax

- 4.1 The draft Budget Book (black-combed) was based on KCC's estimate for council tax base and collection fund balances as we had not received provisional estimates from all districts in time for the publication. The draft assumed a 1.2% increase in the tax base (from 546,394.81 Band D equivalent properties in 2019-20 tax base to 552,951.55 estimate for 2020-21). We have now received provisional estimates from all districts which shows a higher increase of 1.51% to 554,625.59. The individual district changes between 2019-20 final budget and 2020-21 provisional estimates are shown in table 4.

The additional tax base results in increased tax yield of £2.262m compared to the draft Budget Book (black-combed) which will contribute towards closing the gap and funding additional spending pressures.

Table 4 – Council Tax Base Changes

	2019-20 Final				2020-21 Provisional					
	Notified Band D Equivalent Taxbase	Precept @ £1,299.42	Band D Equivalent Taxbase	Precept @ £1,325.34 (up to 2% referendum limit)	Precept @ £1,351.26 (including Social Care Levy)	Change in Band D Equivalent Taxbase	Change in Precept	Change in Precept due to Taxbase	Change in Precept due to Tax Rate up to Referendum Limit	Change in Precept due to Social Care Levy
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Ashford	46,500.00	60,423.0	47,300.00	58,303.9	63,914.6	800.00	3,491.6	1,039.5	1,226.0	1,226.0
Canterbury	50,206.55	65,239.4	51,300.41	63,234.9	69,320.2	1,093.86	4,080.8	1,421.4	1,329.7	1,329.7
Dartford	37,747.03	49,049.2	38,756.93	47,773.3	52,370.7	1,009.90	3,321.4	1,312.3	1,004.6	1,004.6
Dover	38,526.26	50,061.8	39,029.75	48,109.6	52,739.3	503.49	2,677.5	654.2	1,011.7	1,011.7
Folkestone & Hythe	39,057.21	50,751.7	39,109.15	48,207.5	52,846.6	51.94	2,094.9	67.5	1,013.7	1,013.7
Gravesham	33,930.46	44,089.9	34,334.50	42,322.1	46,394.8	404.04	2,304.9	525.0	890.0	890.0
Maidstone	62,033.40	80,607.4	63,319.80	78,050.5	85,561.5	1,286.40	4,954.1	1,671.6	1,641.2	1,641.2
Sevenoaks	50,772.34	65,974.6	51,207.88	63,120.9	69,195.2	435.54	3,220.6	565.9	1,327.3	1,327.3
Swale	47,344.08	61,519.8	48,072.67	59,256.3	64,958.7	728.59	3,438.8	946.7	1,246.0	1,246.0
Thanet	43,763.27	56,866.9	44,546.40	54,909.7	60,193.8	783.13	3,326.9	1,017.6	1,154.6	1,154.6
Tonbridge & Malling	50,820.61	66,037.3	51,371.00	63,321.9	69,415.6	550.39	3,378.3	715.2	1,331.5	1,331.5
Tunbridge Wells	45,693.60	59,375.2	46,277.10	57,043.0	62,532.4	583.50	3,157.2	758.2	1,199.5	1,199.5
Total	546,394.81	709,996.3	554,625.59	683,653.7	749,443.4	8,230.78	39,447.0	10,695.2	14,375.9	14,375.9

4.2 We assumed a collection fund balance of £2.5m in the draft Budget Book (black-combed), £4.975m less than 2019-20 final budget. We have now been notified of the estimated balances from all districts totalling £4.530m, an increase of £2.030m compared to the draft Budget Book (black-combed). This too can be used towards closing the gap and funding additional spending pressures. The latest tax base and collection fund balances will be included in the redrafted Budget Book (white-combed) and districts have until 31st January to notify us of any final changes to the estimates.

4.3 The draft budget proposes a council tax increase up to the maximum allowed without exceeding the 2% referendum threshold and by a further 2% for the social care levy. The impact of the proposed increase to individual bands are shown in table 5. These will be presented for agreement to full Council on 13th February.

Table 5 – Proposed Council Tax Increases

	2019-20 Charge (incl. social care levy)	2020-21 Proposed (excl. social care levy)	2020-21 Proposed (incl. social care levy)
Band A	£866.28	£883.56	£900.84
Band B	£1,010.66	£1,030.82	£1,050.98
Band C	£1,155.04	£1,178.08	£1,201.12
Band D	£1,299.42	£1,325.34	£1,351.26
Band E	£1,588.18	£1,619.86	£1,651.54
Band F	£1,876.94	£1,914.38	£1,951.82
Band G	£2,165.70	£2,208.90	£2,252.10
Band H	£2,598.84	£2,650.68	£2,702.52

% increase		1.995%	1.995%

5. Revenue Budget Draft Proposals and Updates

- 5.1 The 2020-21 draft Budget Book (black-combed) includes £83.1m of additional spending pressures including realignment of budgets to reflect current spending, staff pay and reward increases, inflationary price increases, forecasts for future demand and demography, and service improvements. A growth allocation of £3.5m is included to invest in high impact priority areas based on the feedback from the consultation on the new Five-Year plan. This consultation will not be completed until after the budget has been agreed and the £3.5m growth will be allocated in line with the governance procedures identified in paragraph 9.2. The draft budget also must reflect the £21.1m needed to replace the use of one-offs in the 2019-20 base budget. The total additional spending of £104.2m is shown in more detail in appendix A of the draft Budget Book (black-combed).
- 5.2 The 2020-21 draft budget includes savings and income proposals of £34.3m. This is less than previously predicted as a result of the improved settlement and is on par with the savings expected under the previous 3% efficiency regime. The savings include the impact of changes to specific ring-fenced grants for Winter Pressures which is now part of Improved Better Care Fund (iBCF) which increases the net budget without increasing real spending power, and Public Health.
- 5.3 The Public Health proposals include £2.8m of efficiency savings and £0.7m draw down from reserves on the assumption that the additional support received from Department for Health and Social Care (DHSC) in 2019-20 towards the impact of the NHS Agenda for Change pay and pension increases on commissioned services is not repeated in 2020-21. We are still awaiting confirmation from the DHSC and have produced the draft budget proposals on a worst-case scenario.
- 5.4 The redrafted Budget Book (white-combed) will show £6.9m of the savings are from the full year effect of savings in the 2019-20 budget, £3.9m from the continuation of existing charging policies, and £9.7m from financing and minor savings under £200k. The remaining £13.0m are new proposals that have been highlighted in green font in the appendix A of the draft Budget Book. It is anticipated that no further savings/income proposals will be needed in making the final changes presented to full Council in the redrafted Budget Book (white-combed).
- 5.5 £12.9m of the savings are being found from reserves. £8.4m of this is from directorate reserves; Adult Social Care provision should the winter monies not be repeated (not now needed as winter monies have been built into iBCF), and Public Health (see 4.2 above). £4.5m are from corporate reserves including

£1.3m of one-off support for spending pressures until sustainable alternatives can be found (shown in purple font in appendix A of draft Budget Book), and £3.2m towards the cost of sleep night payments within retendered residential contracts which is anticipated to be offset by future savings from more efficient placements under the new contracts.

- 5.6 We will continue to monitor the delivery of savings using the following dashboard indicators with a focus on the new savings:
- Blue – ready to be delivered
 - Green – plans are well developed, consultation is underway or completed, the quantum and timescale is realistic, and progress is pending final decision
 - Amber – plans are still being developed, the saving is deliverable but the quantum uncertain, and consultation has not yet commenced
 - Red – savings which have a risk of being undeliverable because something has changed recently which makes the saving highly doubtful
- 5.7 On 31st December the Government announced increases in the National Living Wage (NLW) and National Minimum Wage (NMW) which will apply from April 2020. NLW will increase from £8.21 per hour to £8.72 (6.2%), NMW for persons aged 21+ increased from £7.70 per hour to £8.20 (6.5%). These increases do not affect staff in the Kent scheme as it was agreed that the minimum in the Kent Scheme from April 2019 would match the Living Wage Foundation’s real Living Wage (currently £9 per hour). However, the increases have a significant impact on inflation provision for Adult Social Care and Children’s Services prices.
- 5.8 The prices inflation provision in the draft Budget Book (black-combed) for Adult Social Care and Children’ Services were based on the OBR estimates for NLW and NMW in their most recent assessment for economic and fiscal outlook (March 2019). These assumed increases in NLW to £8.63 (5.1%) and NMW to £7.92 (2.86%). The prices inflation provision is calculated using a blended rate taking account of percentage increase to employees paid at NLW/NMW, employees paid above NLW/NMW, and non- employee costs within contract prices. The increases for non-employee costs are based on CPI and employees above NLW/NMW at an appropriate rate.
- 5.9 In view of the higher increases in NLW/NMW we are proposing that the element for employees above NLW/NMW should be linked to latest average earnings index (+3.2%). This would ensure that within the price calculation care providers have scope to pay the increased NLW/NMW to eligible employees and maintain some (albeit reduced) differential for staff above NLW/NMW. This is consistent with the government objective that NLW should reach 66% of average earnings by 2024 (its currently 60%). These proposals would require changes to the amounts in the draft Budget Book shown in table 6.

Table 6 - Changes in Social Care Prices due to NLW/NMW Announcement

	Original Draft	Latest Proposals	Change

Adult Social Care	£5.155m	£6.846m	+ £1.691m
Disabled Children's Services	£0.253m	£0.327m	+£0.074m
Specialist Children's Services	£1.895m	£2.022m	+£0.127m
Unallocated	£3.675m	£4.463m	+£0.788m
Total			+£2.680m

- 5.10 We have also included some other minor changes to spending pressures under £200k. In total the changes to pressures have increased by £2.880m compared to the black-combed draft. The additional funding within the settlement is £1.304m (table 3), council tax base is £2.262m, and collection fund is £2.030m. This increases the net funding from £1,054.3m in the draft Budget Book (black-combed) to £1,059.9m i.e. £5.6m. This increase is sufficient to fund the £2.880m increased spending, resolve the £1.933m gap in the published draft and reduce the savings by £0.781m as a reduced draw-down from reserves as a temporary solution to fund spending pressures until suitable alternatives can be found. These changes will be reflected in the republished draft (white-combed) presented to County Council for approval.
- 5.12 The updated budget equation from table 1 taking account of the funding and spending changes outlined in this report and resolving the budget gap is shown in table 7.

Table 7 Updated Budget Equation

Revenue Budget Equation	2020-21 Original £m	2020-21 Latest £m
Spending Demands (including replacing one-offs)	104.2	107.1
Government Grant Increases	34.8	36.1
Council tax & Business Rates	33.2	37.5
Savings, Income and Reserves	34.3	33.5
Total Solution	102.3	107.1
Gap (to be resolved)	1.9	-

6. Capital Programme

- 6.1 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.
- 6.2 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 spending each year over a very long period. We are reviewing the best approach to assessing affordability. This affordability would also apply to invest to save schemes which need to have a reasonable payback.
- 6.3 Section 1 of the draft Budget Book sets out the proposed 2020-21 programme and associated financing requirements. The summary provides a high-level overview for the whole council. The individual directorate pages in section 2 provides more detail of rolling programmes and individual projects. As part of simplifying the presentation we no longer include the funding for individual schemes in section 2.

7. Financial Resilience

- 7.1 An increasingly important aspect of the annual budget process is to assess the financial resilience of the Council's finances. Traditionally we have assessed this by comparing the levels of debt and reserves against other county councils, and an assessment of the council's reserves against risks. This analysis has been included as an appendix in the draft Budget Book.

- 7.2 We have previously accepted that although the Council's reserves to debt ratio is around the lower quartile this is not a cause for immediate action, but we should not be complacent and need to keep vigilant to ensure the position does not deteriorate. This vigilance relates to both current and future capital and revenue budget strategies and plans. This includes stretching planning horizons (we have already looked to stretch capital horizons to 10 years).
- 7.3 The assessment of reserves has previously concluded that although the Council's reserves are lower than average, we have sufficient to cover foreseeable risks (earmarked reserves) and a reasonable general reserve for unforeseeable risks.
- 7.4 Nationally there has been a much greater emphasis on financial resilience following the heightened risk of financial failure. CIPFA has produced a financial resilience tool which should be used in conjunction with its Financial Management Code. CIPFA has concluded that around 10% of councils are showing "some signs of potential risk to their financial sustainability", KCC is not in this group. The tool is based on 9 financial measures (with 6 sub-measures) and 2 judgements. The tool derived from 2018-19 outturn information was made available on 10th December 2019, this was too late to allow time for evaluation for the usual appendix in the draft Budget Book, so we decided to defer publication of this appendix rather than publish an incomplete analysis. We can now publish this analysis as appendix 1 to this report, this will be included as an appendix to the republished (white-combed) draft budget.
- 7.5 Our overall assessment using the tool is that it has not revealed anything that we were not already aware of. Our analysis of reserves to debt ratio is as robust as the CIPFA tool and provides a better visual representation of the overall effect of revenue and capital decisions and resilience. Our position is still around the lower quartile and we need to remain vigilant, particularly with regard to accumulated debt and associated financing costs.

8. Medium Term Outlook

- 8.1 Although we cannot publish a meaningful medium-term financial plan because we have no settlement beyond 2020-21 (meaning there are a wide range of potential settlement scenarios) we have undertaken sensitivity analysis around spending trends and possible funding solutions.
- 8.2 Under most scenarios council tax base growth and increases in council tax in line with current referendum principles are not sufficient to keep pace with forecast rising costs from increased prices and increased demand/complexity. Without fundamental changes to council tax it is not enough to ensure the self sufficiency of budgets and we will need to find other sources of funding in order to secure medium term financial sustainability.
- 8.3 Under all scenarios additional business rate retention is unlikely to provide sufficient to supplement financial sustainability. The government has made it a

condition that additional retention would have to be fiscally neutral, and therefore individual authorities would only benefit from any extra local growth (and face the risk of decline). Most of the local growth arises from the annual inflationary uplift which is already reflected in the local government funding arrangements through the baseline (and tariffs and top-ups). Whilst the local business rate tax base in Kent is reasonably buoyant (and sufficiently diverse to withstand shocks and business rate movements), the vast majority of local growth is retained by districts. Even if the tier splits are reviewed, we have not identified any scenario where the additional retained growth is sufficient to supplement council tax to an extent both fully cover forecast rising costs.

- 8.4 We remain optimistic that the Fair Funding Review could deliver additional funding to County Councils through a better recognition of cost drivers (including legacy capital financing), area costs (including impact of accessibility and remoteness), and relative resources based on notional council tax rather than actual. However, due to transitional damping under nearly all scenarios the Fair Funding reforms would not provide sufficient additional funding in conjunction with council tax to ensure financial sustainability within the next 3-5 years.
- 8.5 We have looked at a number of scenarios around reform of social care funding. The current approach with additional grant and council tax precept is only a sticking plaster and not sufficient to fully cover forecast costs. Social care would continue to require a significant contribution from general council tax base and increases to be anywhere near sustainable. Under most scenarios this leaves insufficient council tax to support the sustainability of non-social care services leaving us in the situation we have faced in recent years.
- 8.6 A combination of council tax reform, additional business rate retention/reform, and favourable outcomes from Fair Funding Review and reform to social care funding would go a long way to securing financial sustainability in around half the scenarios i.e. a combination has a reasonable chance of addressing financial sustainability but not guaranteed.
- 8.7 Under all scenarios financial sustainability is weakened if we continue to include one-off solutions to the current and forthcoming budgets. Approx. £21m (20%) of the pressures on the 2020-21 budget are to replace one-off solutions to the 2019-20 budget to support ongoing expenditure. Within the 2020-21 proposed budget we have between £11m to £18.7m of one-off solutions which would need to be replaced in 2021-22 depending upon the pace of identifying alternative sustainable solutions.
- 8.8 Under all scenarios financial sustainability is weakened if we continue to fund additional capital expenditure with borrowing i.e. the revenue impact is greater than the debt being repaid under current maturity profile. This means we would either need to significantly curtail capital spending, lobby for alternative funding sources or continue to accept the additional borrowing costs on the revenue budget and factor these into the sustainability calculation (requiring further alternative revenue solution either from increased funding or alternative

savings). The restoration of legacy capital financing within the Fair Funding review only addresses funding for historical debt and not increasing debt to support new capital expenditure.

- 8.9 In conclusion it is most likely that we will need to continue to have to find savings from efficiencies, transformation and policy changes and/or additional income generation to reduce spending to levels to keep within forecast funding for the foreseeable future. Under most scenarios these savings are less than we have had to find in the past few years although a return to a flat cash settlement would come with the need to find substantial savings.
- 8.10 The financial sustainability of High Needs funding has been separately assessed. The current levels of additional funding from government within the Dedicated Schools Grant (DSG) and permitted transfer from the Schools block of DSG are not sufficient to keep pace with rising costs and demands in most scenarios. The current high needs funding is unsustainable and will require a combination of additional resource (both to repay accumulated deficits and address future cost trends), systematic reform of the current legislative arrangements, and local reform to provision and practice. High needs funding is unlikely to become sustainable without a realistic combination of all three aspects.

9. Finalising the Budget

- 9.1 It is possible that there will be some further changes before the budget and council tax is presented to County Council for approval on 13th February 2020. Any such changes would be reflected in the redrafted Budget Book (white-combed) for approval. This offers scope to deal with any late issues which may arise, including recommendations from Cabinet Committees.
- 9.2 There are an increased number of spending pressures and savings which need to be held unallocated at the time the budget is approved. This could be because the final distribution has not yet been resolved e.g. the pay and reward pot pending decisions on the 2019-20 assessment ratings and rewards at the different achievement ratings. It is also necessary to hold some forecast spending pressures unallocated until such time as the actual impact is known. There are some proposals e.g. provision for new Five-Year plan priorities, which cannot be determined until consultation has been completed and evaluated and the priorities agreed. The unallocated amounts have either been held centrally under financing items (page 40 line 120) or unallocated within directorates (page 23 line 2, page 28 line 43, page 33 line 77). The County Council report will need to set out clearly the governance procedures for the approval and reporting of in-year allocations of these amounts as they constitute material changes to the approved budget.

10. Recommendations

Recommendations:

- a) Cabinet is asked to consider any proposed amendments from Cabinet Committees.
- b) Cabinet is asked to endorse the draft budget taking into account the changes outlined in this report (to be reflected in the republished white-combed draft for County Council approval).
- c) Cabinet is asked note that final decision on council tax precept will be presented at the County Council meeting on 13th February 2020.

11. Background Documents

11.1 KCC's Budget webpage

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

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

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

11.3 KCC Budget Consultation launched 16th October 2019

https://kccconsultations.inconsult.uk/gf2.ti/f/1073826/57416805.1/PDF/-/2020_21_Budget_Consultation_FINAL.pdf

11.4 KCC report on 2019 Budget Consultation

https://kccconsultations.inconsult.uk/gf2.ti/f/1073826/61281381.1/PDF/-/Budget_Campaign_Consultation_2020_21_final_report_v.final.pdf

11.5 Provisional Local Government Finance Settlement 20th December 2019

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2020-to-2021>

11.6 KCC Draft Budget Book 6th January 2020

https://www.kent.gov.uk/_data/assets/pdf_file/0006/103758/Budget-Book-2020-21.pdf

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Appendix 1

Assessment of Level of Reserves

1 Introduction

Each year, reviewing the level of reserves the Council holds is an important part of the budgetary process. The review must be balanced and reasonable, factoring in the current financial standing of the Council, the funding outlook into the medium term and beyond, and most importantly, the financial risk environment the Council is operating in.

2 Background

The Chartered Institute of Public Finance and Accountancy (CIPFA) recommend that the following factors should be taken into account when considering the level of reserves and balances:

- Assumptions regarding inflation and interest rates
- Estimates of the level and timing of capital receipts
- The capacity to manage in-year budget pressures and strategy for dealing with demand and service delivery in the longer term
- Strength of financial reporting and ability to activate contingency plans if planned savings cannot be delivered
- Risks inherent in any new partnerships, major outsourcing arrangements and major capital developments
- Financial standing of the Authority (level of borrowing, debt outstanding, use of reserves etc.)
- The Authority's record of budget and financial management including robustness of medium-term plans
- Virement and year-end procedures in relation to under and overspends
- The availability of reserves and government grants/other funds to deal with major unforeseen events
- The general financial climate including future expected levels of funding
- The adequacy of insurance arrangements

It should be made clear that the assessment of the adequacy of reserves is subjective. There is no 'right' answer as to the precise level of reserves to be held. There is also no formula approach to calculating the correct level; it is a matter of judgement, responsibility for which lies with the Council's Section 151 Officer.

3 Spending Round and Local Government Finance Settlement (LGFS)

The government's spending plans for 2020-21 were announced on 4th September 2019. For local government (and many other public services) this amounted to a one-year settlement, with a repeat of 2019-20 grants plus an

additional £2.9bn (6%) from Council Tax increases, inflationary uplifts to business rates and an additional £1bn government grant to support social care spending pressures.

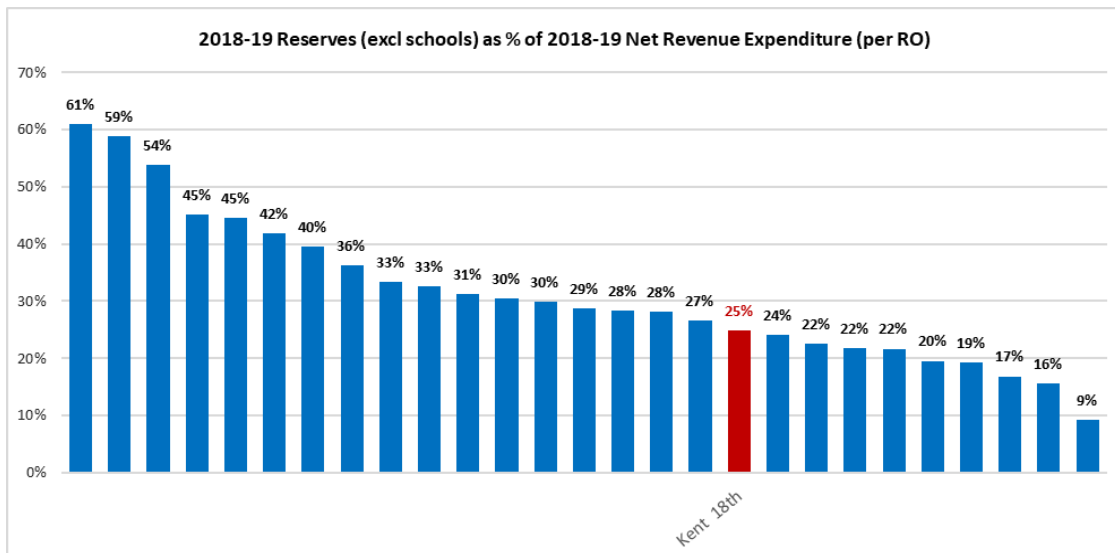
A technical consultation on the Local Government Finance Settlement was launched on 3rd October 2019. This included detailed proposals on the allocation of Revenue Support Grant, social care and other grants, and Council Tax referendum principles. The outcome from this consultation has not been published in time for the Draft Budget, and, at the time of drafting this report, the provisional local government finance settlement had not been published.

The Draft Budget has been prepared based on an estimate of the likely settlement, provisional Council Tax base estimates and assumptions on Council Tax increases in line with the presumed referendum principles. The assessment of the reserves is made against the background of these estimates, including the reduced risk from a better than expected 2020-21 settlement compared to the forecast in the 2019-22 MTFP, and the heightened medium-term uncertainty arising from only having a one-year settlement and potential changes in central government policy following the 12th December general election. This assessment has not materially changed following the provisional Local Government Finance Settlement announcement on 20th December or notification of provisional tax base and collection fund estimates from districts.

4 Comparison with other County Councils

Each council must make its own decisions about the level of reserves they hold, taking into account all of the issues referred to in Section 2 above.

A graphical analysis of the 2018-19 reserves for county councils is shown below. Kent is ranked 18th out of 27 county councils in terms of the percentage of reserves held (Rank number 1 being the highest level of reserves as a percentage of annual net revenue expenditure). This is the same ranking from last year despite an increase in the overall reserves of £27.6m compared to 2017-18. Kent has used some of its earmarked reserves to support the revenue budget in recent years but has also been able to set aside additional reserves to offset higher financial risks, particularly in 2018-19 from better than expected additional business rates from the retention pilot and roll-forwards approved at the end of the year. The Council has maintained a general reserve at approx. 4% of net revenue budget. The overall picture is that total reserves have been relatively stable at around an average of £200m in most years and £223.5m on 31st March 2019 (25%) but this is below the average of other county councils.

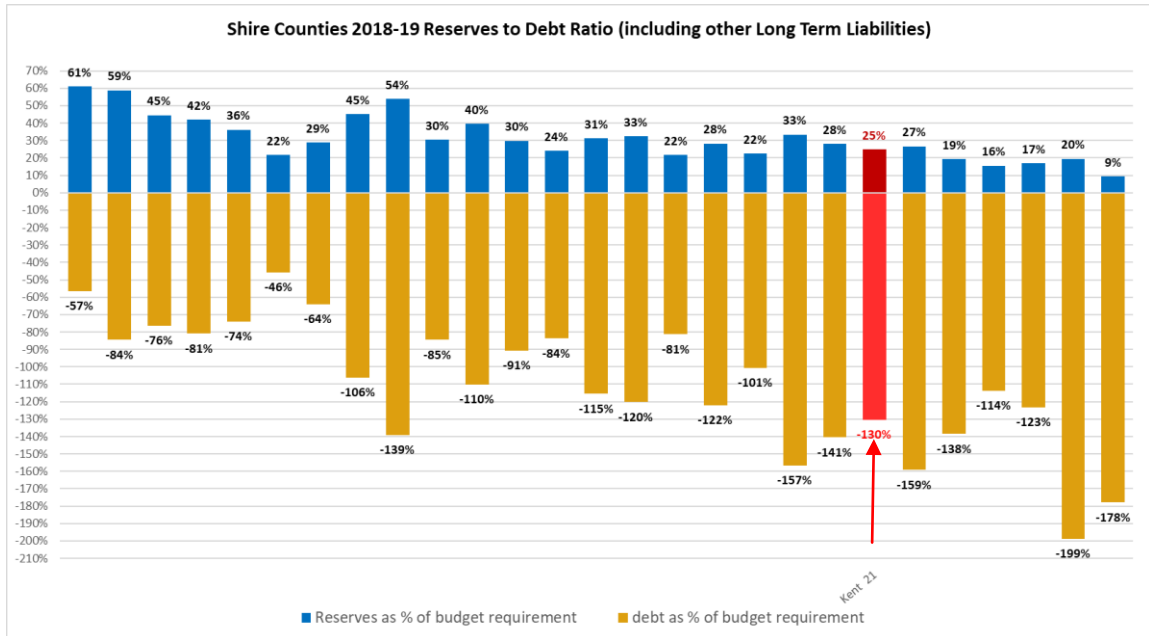


There is a wide range of reserves held as a percentage of net revenue spend; the lowest Authority at 9%, up to the highest at 61%. The Council’s figure is 25%. This figure of 25% is made up of the General Reserve of £37.1m and Earmarked Reserves (including Public Health and trading surpluses but excluding Schools, Capital Receipts and Capital Grants unapplied) of £186.4m, totalling £223.5m. Details of all the Council’s reserves can be found in the 2018-19 Statement of Accounts, which includes a summary of all usable reserves in note 23 on page 84, and details of all the earmarked reserves in note 25 on pages 93-97.

It is important to consider reserves alongside borrowing to fund the capital programme. Capital spending can be funded from borrowing to protect levels of reserves, or alternatively reserves can be used as a substitute to reduce the need for borrowing. The graph below shows the percentage reserves to percentage debt ratio, with the Council ranked 21st out of the 27 Counties (Rank number 1 being the highest percentage of reserves compared to percentage borrowing i.e. most resilient). This year the calculation has changed to include other long-term liabilities as well as borrowing to be consistent with the gross external debt position used by CIPFA in their Financial Resilience index. This index is an analytical tool designed to provide councils with a clear understanding on their position in terms of financial risk. The index is made up of a set of indicators, which can be used to compare against similar authorities. As a result, the Council has moved from 20th to 21st in the rankings. This position reflects the relatively high levels of historic external debt of £906.2m at 31st March 2019, despite the Council’s more recent approach to rely on internal borrowing.

There is little that can be done in the short term to affect borrowing levels as most debt is long-term with significant early repayment penalties which would far exceed the benefits of redeeming debt. The Council will continue with the policy of supporting capital spending with internal borrowing rather than external debt whilst the Council has sufficient cash balances, but the continuing need to finance capital expenditure with borrowing presents a significant risk to the level of reserves and financial resilience of the Council.

The Council’s borrowing costs have been capped at a maximum of 15% of net revenue budget in recent years (and have remained under that cap), and have stabilised overall borrowing during that time. Consideration is being given to applying a further cap based on the pressure of interest costs on the revenue budget to support borrowing.



5 Financial Resilience

Following well publicised financial difficulties in some authorities, and the heightened risk of more councils getting into financial difficulties over the coming years, there has been a much greater emphasis from government on the financial resilience of councils. As part of this, CIPFA has reviewed its range of guidance, tools and services to promote better financial management and to provide early warning systems. Part of this package has been the development of a financial resilience index. This tool is not a performance measure of service outcomes or quality, nor a comment on the quality of leadership. It aims to be an authoritative measure of a council’s financial resilience drawing on published information. It is designed as a dashboard warning indicator and not a full diagnostic tool.

The tool is based on the following eleven measures:

1. Reserves sustainability measure (the number of years it will take for a council to deplete their reserves if they continue to use them at the same rate as the average of the last three years)
2. Level of reserves
3. Change in reserves
4. Interest payable as a proportion of net revenue expenditure
5. Gross external debt

6. Social care ratio (proportion of net revenue spending accounted for by children's social care and adult social care)
7. Fees and charges to service expenditure ratio (sales, fees and charges as a proportion of gross service expenditure)
8. Council Tax requirement to net revenue expenditure ratio
9. Growth above baseline (the difference between the baseline funding level and retained rates income, over the baseline funding level)
10. Auditors VFM judgement
11. Children's Social Care judgement (Ofsted rating for children's social care)

The financial resilience index based on 2018-19 outturn has very recently been published and it is currently being analysed to determine what the indices mean for the Council's resilience. In future this will sit alongside the newly released CIPFA Financial Management Code to support good practice in the planning and execution of sustainable finances.

The initial overall assessment is that the Council is not in imminent danger of financial failure, but it is in the lower half of the resilience range, and therefore the Council cannot be complacent and must continue to maintain financial rigour.

The Council needs to remain vigilant, particularly in relation to accumulated debt and associated financing costs.

6 Analysis of Risk

Listed in Section 2 of this appendix are the factors that CIPFA recommend should be taken into account when considering the level of reserves and balances. Below, each of those factors is given a 'direction of travel' indicator since last year's budget was set. An upward direction means an improved position for this council (i.e. the risk is less than it was last year).

- Assumptions regarding inflation and interest rates:

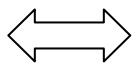


Inflation has been on a general continual downward trend since its peak of 2.8% in Autumn 2017 (barring the occasional seasonal fluctuation) and at the time of setting the 2020-21 budget is below the Government target of 2%. Forecasts suggest further falls in the rate of inflation for the remainder of 2019 and remaining below the 2% target throughout much of 2020. The medium-term forecast is still slightly above the target. Interest rates are largely determined by the Bank of England base rate which has remained at 0.75% since August 2018. The Bank of England has indicated the rate may have to be reduced if economic growth continues to be weak but could rise if growth improves as predicted. Overall in the short term the lower forecast rate of inflation reduces the Council's risk especially if interest rates rise a little. Longer term, inflation at or close to the 2% target and low interest rates result in a broadly neutral impact.



- Estimates of the level and timing of capital receipts:

The Council's reliance on capital receipts is significant in order to part fund the capital programme. Delivery of receipts against the target in the programme has fallen behind in recent years necessitating additional short-term borrowing/use of reserves.



- The capacity to manage in-year budget pressures and strategy for dealing with demand and service delivery in the longer term:

Although 2018-19 was the 19th consecutive year that the Council has ended the year with a small net surplus, and the 2019-20 forecast is better than at the same time in recent years, concern remains about the capacity to deal with in-year pressures and longer term trends. In spite of the better than estimated settlement for 2020-21, the additional funding is still not sufficient to cover all forecast spending pressures, although it does represent a marked shift from previous years and provides added short term security which offsets the longer term uncertainty. The Council has had to find alternative ways to resist some of the pressures and still needs to find additional savings and income to balance the budget. As each year passes and this trend continues it becomes ever harder to resist pressures or find savings/income despite the overall funding increasing. The Council has less and less spend that can be de-commissioned at short notice. The longer-term trends for demand-led services are leading to rising costs. The lack of future government spending plans makes it impossible to forecast potential funding with any degree of accuracy to determine whether there will be sufficient funding to cover these rising cost drivers such as demographic trends, market pressures or cost pressures from inflation.



- Strength of financial reporting and ability to activate contingency plans if planned savings cannot be delivered:

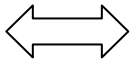
There is confidence in the validity of financial reporting and reporting has been enhanced to better focus on the major factors affecting financial performance. Some progress towards enhancing outcomes based budgeting within the Council has been made but there is scope for further improvement. There are still some areas of spending that can be changed at short notice if required without compromising either the Council's statutory responsibilities or strategic objectives. Although these have reduced in recent years, the better settlement for 2020-21 means the risk is no greater in the short term.



- Risks inherent in any new partnerships, major outsourcing arrangements and major capital developments:

The financial difficulties in the health sector mean there are risks in relation to the partnership arrangements with NHS partners in the county. The returns from some of the Council's trading companies have not been as good or have taken longer to be generated than originally estimated in business cases. There is also a real risk that retendering of major contracts could result in higher prices due to market conditions. There are

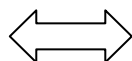
also significant concerns about the Council’s ability to continue to sustain a capital programme with competing demands to tackle statutory responsibilities and make infrastructure improvements. In the longer term both these objectives cannot be delivered with an increasing reliance on borrowing.



- Financial standing of the Authority (level of borrowing, debt outstanding, use of reserves etc.):

The planned use of corporate reserves to support the 2020-21 revenue budget has been limited to a small number of specific spending pressures pending the identification of longer-term sustainable alternatives. This is an improvement on previous years where reserves have been used to balance the overall budget. Some directorate reserves have also been released in the 2020-21 proposed budget following the announcement of the continuation of grants for 2020-21 which were previously identified as at risk. Although reserves at the end of 2018-19 were higher than forecast when the 2019-22 MTFP was presented, the forecast for the end of 2019-20 per the half year monitoring of reserves is that they are expected to reduce to the level previously anticipated for 31 March 2020. Whilst the plan is to use reserves in 2020-21 that are no longer required for the purpose they were set up for, the use of these reserves will impact on future resilience indices even though the Council’s actual resilience is no weaker. The overall level of reserves is more stable in comparison to other authorities, although remain relatively low. Consequently, the general financial health of the Council remains fairly static, however there is no room for complacency.

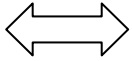
The level of borrowing to support previous capital investments remains relatively high compared to other counties. Much of the accumulated debt is long term with only 15% due to mature over the next 5 years. The debt represents a combination of loans taken out under the previous “supported borrowing” regime and more recent loans under the “prudential regime”. In recent years the Council has been able to use cash reserves to support the capital programme (internal borrowing) rather than increasing external debt as this represented a lower overall financing cost. However, the Council’s ability to finance future capital spending from borrowing remains a significant concern. Should the Fair Funding review proposals be implemented, this will be better reflected in future settlements including the restoration of revenue for legacy capital financing of supported borrowing.



- The Authority’s record of budget and financial management including the robustness of medium-term plans:

This continues to be excellent with effective financial management resulting in nineteen consecutive years of underspend up to 2018-19. The additional funding for social care announced in the Spending Round, together with the continuation of the adult social care Council Tax precept for a further year has contributed towards funding rising social care demands and costs, although there continues to be significant concern about the viability of

social care funding over the medium to long term and thus the sustainability of the market. The ability to continue to deliver an underspend or a balanced budget becomes increasingly more difficult with rising demands and insufficient, short term funding.



- Virement and year-end procedures in relation to under and overspends:

The Council continues to adhere to sound financial governance and virement procedures set out in its financial regulations. The Council continues to have a good record of closing its accounts in a timely manner including agreeing rollovers for over and underspends.



- The availability of reserves and government grants/other funds to deal with major unforeseen events:

There are three major concerns in this area which could impact on the Council's reserves and financial resilience.

The first, and by far the most significant, is the overspending and accumulated deficit on the High Needs Block of the Dedicated Schools Grant (DSG). This relates to spending to support children and young people with Special Educational Needs and Disabilities (SEND). Since the introduction of the Children and Families Act 2014, the Council has seen an unprecedented rise in the number of children and young people assessed for Education and Health Care Plans (EHCPs). The high needs funding within the DSG has not kept pace resulting in in-year overspends and an accumulated deficit on the unallocated DSG reserve. This is a national problem but has been particularly acute in Kent and a number of other large county councils. To date the government has not provided councils with sufficient funding and have not introduced structural reforms to eliminate the overspends or repay the deficits. They have also not provided satisfactory arrangements for the treatment of deficits.

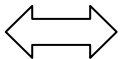
The second major concern in this area is the grant funding available to prepare for BREXIT or to deal with significant disruption in the event of a disorderly withdrawal. Whilst additional funding has been allocated to all councils, with extra funding for councils with major ports, this has not been sufficient for the Council to cover additional costs and without further funding these costs will need to be met from the Council's reserves.

The third major concern is a long standing issue with grant funding for unaccompanied asylum seeking children and care leavers. Whilst the Council has had some success in negotiating sufficient grant with the Home Office for under 18s, the funding for care leavers and those staying in care beyond 18 has been insufficient and if unresolved will continue to put pressure on the Council's reserves.



- The general financial climate:

The current Spending Round only covers 2020-21. There are no indicative government spending plans beyond this or the provisional settlement for local government for 2020-21. Reasonable estimates for 2020-21 have been calculated as the basis for a draft budget but this severely limits the Council's ability to make meaningful medium-term multi year financial plans. This shortening of medium-term financial planning horizons for local government is one of the reasons which has prompted the CIPFA resilience indices and the new Financial Management Code. 2020-21 will be the first year since 2013-14 that the Council has been unable to produce meaningful multi-year plans as although spending trends can be forecast with sufficient accuracy, the delay to the full Spending Review, Fair Funding Review and additional business rate retention means likely funding cannot be predicted with any accuracy. This means it is impossible to predict whether funding will be sufficient to cover rising demands and costs and whether the Council will continue to need to find savings and to what extent, to compensate for real-terms reductions in funding.



- The adequacy of insurance arrangements:

The Council's insurance policies were reviewed in January 2016, insuring the same levels of risk as previously, albeit at a higher premium. Since then the Council's exposure to risk and levels of insurance reserves have been reassessed and a higher level of excess has been accepted on some policies in return for a lower premium. Evidence to date is that this has reduced the net cost to the Council.

Of the eleven factors, one has shown an improvement from twelve months ago, seven are relatively unchanged, and three have deteriorated. No weighting has been applied to the individual factors, but the general financial risk to the Council should now be regarded as increased compared with a year ago, which in turn, was increased from the year before, so the cumulative effect can be seen.

Only the general reserves of £37.1m (as at 31st March 2019) are available to the Council to offset any in-year overspends and these are largely unchanged from the previous year. However, these can only be used once.

The overall conclusion is that the Council has an increased risk profile since the 2019-20 budget was approved, and on a like-for-like basis the Council will have a similar level of earmarked reserves available during the year. This means the Council is marginally less resilient than before, but this is not a cause for concern at this stage. Whilst no immediate action is required, the Council's resilience will continue to be monitored and the trend will need to be reversed as much as possible in the medium term.

7 The detail of the Council's reserves

The Statement of Accounts that is produced each year details **Earmarked Reserves** and explains why these reserves are held. There will continue to be draw-down and contributions to these reserves in line with the patterns of expenditure anticipated when the reserves were created. The council's reserves policy and the reserves held will be reviewed during 2020-21 to ensure the policy and the reserves are held corporately to support the Council's strategic objectives.

A review of the earmarked reserves, in light of the forecast funding estimates has resulted in a proposal within the 2020-21 budget to:

- drawdown £8.4m from specific directorate earmarked reserves to cover individual service pressures (including release of reserves where winter pressures grant has now continued);
- net drawdown £1.3m from corporate reserves to fund specific one-off pressures until sustainable alternatives can be found;
- drawdown £3.2m from corporate reserves to help fund the costs of the Learning Disability, Mental Health & Physical Disability residential care retender.

In addition, there is a net drawdown from corporate reserves of £1.2m within the 2019-20 base budget which will continue in 2020-21 which comprises a £2.5m drawdown from the Kingshill smoothing reserve and a repayment of £1.3m of previous "loans" from long term reserves. Therefore, the overall proposed use of reserves in the draft 2020-21 budget is £14.1m. The budget also assumes reduced contributions to reserves of £2.5m. These reserves/contributions are either no longer needed (e.g. Directorate specific reserves to offset potential grant reductions which have now not occurred following the rollover settlement), or were created for exactly this situation or a one year contribution holiday can be taken where risks and the potential call on reserves have been reduced or eliminated.

8 Role of the Section 151 Officer

The duties of the Council's Section 151 Officer include the requirement 'to ensure that the Council maintains an adequate level of reserves, when considered alongside the risks the Council faces and the general economic outlook'. The reserves that this council will hold as at 1 April 2020 are, in the opinion of the Section 151 Officer, adequate.