



Summons to and
Agenda for a
Meeting on
**Thursday, 11th
February, 2021**
at **9.30 am**



DEMOCRATIC SERVICES
SESSIONS HOUSE
MAIDSTONE

Wednesday, 3 February 2021

To: All Members of the County Council

A meeting of the County Council will be held online on Thursday, 11th February, 2021 at **9.30 am** to deal with the following business. **The meeting is scheduled to end by 5.00 pm.**

A G E N D A

1. Apologies for Absence
2. Declarations of Disclosable Pecuniary Interests or Other Significant Interests in items on the agenda
3. Chairman's Announcements
4. Section 25 Assurance Statement **(Pages 1 - 10)**
5. Capital Programme 2021-24, Revenue Budget 2021-22 and **(Pages 11 - 138)** Medium Term Financial Plan 2021-24

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From: Zena Cooke, Corporate Director for Finance
To: County Council 11th February 2021
Subject: **Section 25 Assurance Statement**
Classification: **Unrestricted**

Summary:

This report contains the formal recommendations from the Section 151 officer as to the robustness of the budget estimates for 2021-22 and the adequacy of reserves. It includes an evaluation of the background to budget preparations for 2021-22, including risks and uncertainties, deliverability of the proposed budget, and financial sustainability of the Council.

Recommendations:

- (a) Pursuant to section 25 of the Local Government Act, the County Council is asked to NOTE this report and AGREE to have due regard to the contents when making decisions about the budget.

1. Introduction

- 1.1 Section 25 of the Local Government Act 2003 requires the Section 151 officer (for Kent this is the Corporate Director of Finance) to formally give an opinion as to the robustness of the budget estimates and the level of reserves held by the Council. The Act also requires that the Council must give consideration to this report when making decisions about the forthcoming budget.
- 1.2 The 2021-22 budget proposals have been developed in the most uncertain circumstances the Council has ever faced. In any year there are some uncertainties within the budget, which is a plan of predicted spending and income for the forthcoming year. Even in normal times predicting spending on demand led budgets with a high degree of accuracy is difficult. Consequently, it is important that variations from the plan are identified and reported early, together with remedial actions to ensure a balanced budget can continue to be delivered.
- 1.3 It is also essential that the budget includes an assessment of the potential financial risks facing the Council and that the Council has adequate reserves should those risks materialise. The Council holds a general reserve for unforeseen and unplanned circumstances and a range of earmarked reserves for specific eventualities.
- 1.4 In recent years the section 25 assurance statement has noted that the Council has maintained adequate but not generous levels of reserves and has a

relatively high level of accumulated debt. The Corporate Director of Finance has undertaken an assessment of the financial resilience of the Council compared to other county councils and has concluded that although KCC has been in the lower half of the resilience range (overall around the lower 25% percentile), the Council is not in imminent danger of financial failure. However, whilst reserve levels are adequate, they require continuous monitoring given the risks the Council is facing. The Council cannot be complacent and must continue to maintain financial rigour, particularly with regard to accumulated debt and associated financing costs, which have in recent years benefitted from internal borrowing to a large degree.

- 1.5 The Council has a strong record of financial management. 2019-20 was the 20th consecutive year where the Council has managed revenue spending within the approved budget and ended the year with a small surplus. This has been achieved against the backdrop of significant financial restraint over the last 10 years where budgets have included over £700m of savings and additional income in order to offset spending growth and reductions in central government grants. The Council has also maintained a substantial capital programme over this period without adding to external accumulated debt through prudent treasury management enabling infrastructure investment to be supported by internal borrowing from cash reserves.
- 1.6 Over this same 10 year period the yield from local taxes (council tax and retained business rates) has remained buoyant. The combination of reductions in central government grant, buoyant tax base and modest council tax increases over this period means that councils have become more self-sufficient. Council tax is now by far the most significant source of funding towards the Council's core budget (accounting for 70% of net revenue spending).
- 1.7 The Council's Constitution specifically defines the role of all Members in determining and agreeing the policy and budgetary framework of the Council in accordance with applicable laws providing sufficiency of resources. The budget approval process includes Cabinet Committee meetings, the Scrutiny Committee meeting and Member briefings leading up to the formal Budget meeting and the recommendations set out in the County Council budget report. These are the mechanisms by which all Members have the opportunity in advance of the full County Council meeting to define, challenge, amend and ultimately vote on the Council's budgetary framework for the next year and medium term, in which all Members have a voice and a vital role to play.

2. Recommendations

- 2.1 As outlined in the introduction, the 2021-22 budget has been prepared against the backdrop of unprecedented levels of uncertainty. The 2020-21 budget was approved on the basis of a one-year local government finance settlement which meant for much of the year, plans had to be developed without government spending plans for future years or an indicative settlement for local government. This in itself is not unique at the end of a spending review period, and the

Council's Finance function has experience of developing a range of potential funding scenarios.

- 2.2 In addition to the uncertainty around government spending plans and settlement for local government, the Covid-19 pandemic and subsequent economic recession have had a significant impact in the current year and on the Council's ability to forecast future spending requirements and income levels.
- 2.3 Before the pandemic, the Council was already experiencing increasing demand for services, including children's social care; home to school and special educational needs transport; and higher demands across adult social care including adults with learning disabilities and older people. The pandemic will inevitably change demand and we will need to monitor and respond to those emerging patterns closely.
- 2.4 Earlier in the year the Council was asked to agree a formal amendment to the 2020-21 budget in September as at that time the additional spending and income losses related to the Covid-19 pandemic and projected increases in demand would not be offset by the grants received from government.
- 2.5 The local and national response to the pandemic has evolved significantly since that decision in September. The national and local lockdowns have lasted longer than was previously envisaged. Lockdowns have had a direct impact on short-term and longer-term spending plans. In the short-term the lockdowns mean the Council is spending less on the provision of core services, due to suppressed or delayed demand. Whilst the Council has incurred some areas of significant additional spending such as additional payments to care providers, the establishment of a temporary mortuary facility, procurement of additional personal protective equipment (PPE), setting up the local test and trace and community testing for asymptomatic cases, etc., these have largely been funded from general emergency grant and a number of specific Covid-19 grants that have been received by the Council primarily in the second half of this year. The Council has also provided continuity payments to suppliers where services are not being delivered to the full extent, in order to sustain the market for these services, such as care, transport and early years. However, even after allowing for the additional spending and grants associated with Covid-19 and continuity payments the Council is still forecasting a significant underspend in the current year, primarily due to the reduced demand for core services.
- 2.6 The latest forecast for 2020-21 was prepared before the impact of tier 4 restrictions in December, and the 3rd national lockdown in January. These further restrictions are likely to result in additional short-term underspends. The proposed budget for 2021-22 already includes £18.5m draw down from the projected 2020-21 underspend to support 2021-22 spending plans. Furthermore, there are some Covid-19 grants in the current year (particularly tranche 4 of emergency grant and Contain Outbreak Management Fund) where Covid related spending plans are still under development in response the changing circumstances.

- 2.7 In the medium to longer term the Council has to plan for a return to a more normal situation and there are serious concerns that the impact of sustained lockdowns will significantly increase demand for some council services (especially care related services) where the restrictions are currently resulting in suppressed demand and a likely increase in complexity of individual needs. It is an emerging feature of the pandemic that there are short-term time-limited increased spending requirements, income losses and underspends on core services for upper tier councils, but longer term substantial recurring additional spending risks.
- 2.8 The 2021-22 budget proposals include £33m of recurring spending associated with the 2020-21 budget amendment, approximately £21m additional spending associated with Covid-19 and £12m of core services (largely children's services and adult social care) from revised forecasts for prior years' activity/spend not included in the original budget. The need for this recurring spending in 2021-22 was identified as part of the 2020-21 budget amendment process.
- 2.9 The proposed 2021-22 budget also includes making permanent provision for recurring spending funded by the one-off use of reserves in the current year, changes to base budget from variations and decisions during the current year, and forecast increases for inflation, increased demand, legislative changes and service improvements. This mix of revising budgets for known variances and forecast spending growth is a robust approach and provides a sound basis for financial planning. This sound financial planning combined with comprehensive in year monitoring have been the key factors in the council's track record of strong financial management over the last 20 years.
- 2.10 Previous budgets have included estimates for increased demand on council services, referred to for simplicity as demography. These demographic demand forecasts have been based on population projections and previous trends. Whilst this did not always result in a totally reliable forecast (based on the assumption that previous trends were an indication of future demand) the approach was considered fit for purpose at the time.
- 2.11 The significant disruption during the current year means that the previous approach to forecasting demand cannot be used for 2021-22. Consequently, in the proposed service budgets, spending/activity at pre Covid-19 levels has been assumed for some services where it is likely there is no lasting Covid-19 impact. Others, particularly care services, where there is a risk of a lasting Covid-19 impact, the current activity levels have been projected. This leaves the Council exposed to the risk of the pent-up demand (either from adult social care clients currently still in health or transitional placements) or those yet to be assessed, and the risk of increased complexity. Consequently, a contingency provision for adult social care (originally described as a risk reserve) for these potential demands has been included in the budget to replace the demography calculation. Whilst this provides some cover for these demand risks, it is important to recognise that due to the levels of uncertainty, the amount in the contingency provision cannot have the same assurance as a calculation based on more stable previous trends.

- 2.12 In addition to these increased demand risks it is essential for the Council to plan for the impact on the financial sustainability of key suppliers of council services. Whilst continuity payments have been made during the pandemic, the business operating models of many providers will have been severely impacted due to increased costs and loss of revenue. The Council's longer-term budget plans will need to include consideration of targeted financial sustainability support to key providers to ensure core services can continue to be delivered. The draft budget proposals also include a contingency provision for market sustainability but this still remains a risk as we cannot estimate the possible impact with any certainty.
- 2.13 The 2021-22 financial settlement includes over £50m of additional government funding the vast majority of which is one-off funding related to Covid-19. The balanced budget for 2021-22 includes £32m one-off Covid-19 emergency grant, £14m one-off grant for council tax support, and 75% compensation for irrecoverable council tax losses in the current year which will impact on 2021-22 budget. Whilst these one-off grants are welcome and have contributed significantly to balancing the 2021-22 budget, they are funding recurring spending growth and the measures to deal with spending risks and uncertainties outlined above. This means it is highly likely that a structural budget deficit will need to be addressed in 2022-23, although it is not possible to determine the level of that deficit at this point.
- 2.14 These one-off grants are not in addition to the budget and the overall financial strategy allows for the use of some of this one-off funding to be held in reserves to mitigate the spending risks. This prudent approach will allow in-year flexibility during 2021-22 to respond to further emerging issues and the medium-term uncertainties and potential funding gaps, which should reduce the need for an in-year budget amendment.
- 2.15 The 2021-22 budget also requires the delivery of a package of £39.5m of savings and income. Whilst these savings plans are as robust as they can be and the Council has a track record of delivering planned savings, delivery risks both in terms of timing and quantum due to the current unpredictable circumstances, are still inevitable. It should be noted that the savings figure has been revised down by £3m since the draft budget was published to reflect the fact that the revenue saving on pothole blitz has been removed to reflect the anticipated lower level of capital grants from the Department for Transport and the consequential need to preserve budget for pothole repairs.
- 2.16 The Council Tax precept is based on the estimated tax base notified by districts. Those estimates include the impact of current and estimated housing growth, additional working age support discounts for households on low incomes, estimates for future impact on support discounts due to the recession, the end of furlough scheme etc., and lower collection rates. Whilst the 2021-22 financial settlement includes compensation for council tax losses, the overall amount is not sufficient to cover the normal housing growth foregone and the increased value of discounts/lower assumed collection rates. Without the proposed increase in the County Council share of the council tax charge, this

shortfall would have required the Council to find significant additional savings, in order to balance the budget on a sound basis.

- 2.17 The proposed budget represents a compromise between additional spending growth, spending reductions through savings, income losses and planned income generation, the use of additional, primarily one-off government grants, losses on council tax base, and proposed council tax charge increases. It is not the role of the S25 assurance statement to comment on the precise mix providing the overall package results in a balanced budget and the estimates on which the calculation is based are robust.
- 2.18 In previous years the revenue budget has included surpluses on the previous year's tax collection fund accounts. Due to the recession the surplus has been replaced by a deficit which would normally have had to be recovered as part of the 2021-22 budget. The government has agreed to fund 75% of irrecoverable losses but this still leaves a deficit for the remaining 25% and those losses the government does not consider irrecoverable. In a change from previous years the Government has allowed for the balance of the deficit to be written off over three years. In order to safeguard the medium-term it is proposed this deficit is covered by council tax equalisation reserve rather than the revenue budget and any future surpluses will replenish this reserve.
- 2.19 All the estimates within the proposed budget are the product of a comprehensive budget process with Cabinet Members, Corporate Directors and Directors resulting in agreement on the level of service delivery within the identified financial resources. In addition, appendix H of the final draft budget sets out the main budget risks that are taken into account in determining the estimates.
- 2.20 The draft budget also clearly sets out the strategy for the assessment of budget risks and adequacy of reserves (appendix H). As well as the establishment of a contingency provision for social care demand risks and the draw down from underspends in the current year, the proposed budget includes draw down from public health reserves, a one-off contribution to general reserves to reflect the high levels of uncertainty and heightened financial risk in the short and medium term, and an increase in the workforce transformation reserve. It should be noted that whilst there is an increase in general reserves, overall there is a planned net decrease in reserves during 2021-22 of approximately £5m.
- 2.21 The medium-term plan scenarios for future years indicate a gap between the Council's expected funding streams and the Council's expenditure. After delivering 100% of all existing planned savings, the gap is forecast to be between £8m and £108m depending on the speed of recovery from the pandemic and economic recession in 2022/23 rising by up to £163m by 2024/25. It is therefore imperative that the Council maintains a focus on financial sustainability and continues to identify opportunities for new savings and further income. The Council will need to explore the redesign of services including increased use of technology, more efficient use of premises and different ways of working with partners and local communities to ensure that

essential services can be provided within the context of increasing demand and limited resources.

- 2.22 The latest forecast for usable revenue reserves at the end of 2020-21 is £272m, this represents a small increase of £2m on 2019-20. The forecast takes account of a drawdown of Covid-19 tranche 1 grant which was unspent at the end of 2019-20 and the unallocated balance of later tranches of Covid-19 grants where spending plans have not yet been finalised. The net movement also includes 2020-21 underspends including those planned to support the 2021-22 budget. It is almost inevitable this forecast will change over the remaining months due to the impact of tier 4 and national lockdown already referred to as part of this assessment of the financial standing of the budget plan and adequacy of reserves.
- 2.23 The proposed capital programme is of a similar magnitude to previous programmes at around £1bn over 3 years. The programme includes £168m of spending that has been rephased from 2020-21, £54m of schemes that have been removed and £19m of new schemes. The programme is funded from a combination of government grants, external funding and borrowing. In line with previous years, it is proposed that borrowing is supported from the Council's cash balances rather than external debt. This not only reduces the cost of borrowing (bearing in mind the low returns on cash investments) but also ensures the Council does not increase accumulated debt based on spending profiles which are subsequently delayed. This strategy of internal borrowing is considered sustainable for the next two to three years providing there is no significant revenue need to draw down reserves and the council has sufficient cash balances. In the medium term this approach will need to be reviewed and revised as it will not be possible to sustain this level of capital investment without the greater achievement of savings, generation of income or increased funding.
- 2.24 The Treasury Management strategy is a key component of the Council's financial planning. This strategy sets out the proposed approach to borrowing and financial investments of cash reserves (other non-cash investments such as property investment are covered in the Investment Strategy). The Council's strategy seeks to strike an appropriate balance between security, accessibility and returns from managing the Council's cashflow and balances.

3. Conclusions

- 3.1 As Section 151 officer I can formally report that in my view the budget estimates are robust and the level of reserves adequate, as required by the Local Government Act 2003, on the assumption that the proposed council tax increases up to but not exceeding the 2% referendum threshold and 3% for ASC levy are agreed.
- 3.2 Council tax is now the most significant source of funding for council services. Any lesser increase than that proposed, without a corresponding reduction in base budget spending would have an adverse impact on the Council's financial

resilience and ability to mitigate future spending risks or medium-term uncertainties over the future funding gap. This assessment has focussed on the significant uncertainty around spending and income forecasts for 2021-22 and that the Council has previously had adequate but comparatively less generous reserves for risks at the time.

- 3.3 A lower council tax increase, including deferment of some or all of the ASC levy until 2022-23 is permitted. In my view this would be a very risky financial strategy for the Council and would almost inevitably lead to the need for an in year draw down from general reserves. Whilst the proposed budget includes a contribution to general reserves this is part of a medium-term strategy that the Council should increase general reserves to 5% of net spending to improve its financial resilience. This target level of general reserves is essential in light of increased financial risks, the increased self-sufficiency of councils and greater reliance on tax income, and medium-term uncertainties. The proposed increase in general reserves in the 2021-22 budget would still not reach the 5% target but would be a step in the right direction. Any draw down from general reserves in 2021-22 would take the Council further from that target, and further weaken the Council's financial resilience. Whilst setting a lower council tax (either general or ASC precept) would not result in an illegal or unbalanced budget, it would in my opinion very likely seriously impair the adequacy of the Council's general reserves and consequently its financial resilience.
- 3.4 Finally, I draw members attention to the known correlation between those councils which have had the lowest council tax rates, lowest levels of reserves and subsequent concerns about financial management. Whilst reserves and council tax are not the only factors which could give rise to financial management concerns, they remain an important consideration in the assessment of financial resilience and sustainability. KCC's current council tax charge is around the average of all county councils, but levels of debt are well above average compared to levels of reserves which remain well below average. The levels of debt are being addressed through the review of the capital programme and avoiding long-term external borrowing, but the Council also needs to maintain levels of reserves which reflect levels of council spending, financial risks and medium-term uncertainty.

Recommendations:

- (a) Pursuant to section 25 of the Local Government Act, the County Council is asked to NOTE this report and AGREE to have due regard to the contents when making decisions about the budget.

3. Contact details

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

To: County Council 11th February 2021

Subject: **Capital Programme 2021-24, Revenue Budget 2021-22 and
Medium Term Financial Plan 2021-24**

Classification: **Unrestricted**

Summary:

The draft budget report containing the budget proposals for 2021-22 was published on 6th January 2021 to support the scrutiny and democratic process through Cabinet Committees, Cabinet and culminating in the annual County Council budget setting meeting on 11th February 2021. The draft was republished on 15th January 2021 for Cabinet consideration on 25th January 2021 to include additional information on the response to the provisional local government finance settlement (PLGFS), council tax and the medium term outlook.

A revised version of final draft budget report has been published on 3rd February 2021 to support the County Council decision. This final draft budget replaces the previous drafts and includes the latest updates and final proposals and amounts for Council consideration and approval.

A number of additional appendices are included in the final draft budget report for full Council to support decisions such as Capital Strategy including Prudential Indicators, Minimum Revenue Provision (MRP) statement and the Treasury Management Strategy.

Members are asked to refer to the final draft 2021-22 budget report for this meeting.

Recommendations:

County Council, having given due regard to the s25 Report (published for consideration and noting as agenda item 4 of this meeting), is asked to agree:

- (a) The net revenue budget requirement of £1,129.032m for 2021-22.
- (b) The 10-year Capital programme and investment proposals of £1,057.925m over three years from 2021-22 to 2023-24 together with the necessary funding and subject to approval to spend arrangements.
- (c) The directorate capital programmes as set out in appendices A & B of the final draft budget report published on 3rd February 2021.
- (d) The directorate revenue budget proposals as set out appendices C to F of the final draft budget report published on 3rd February 2021.
- (e) The Capital Strategy as set out in appendix J of the final draft report published on 3rd February 2021 including the Prudential Indicators.

- (f) The Treasury Management Strategy as set out in appendix K of the final draft report published on 3rd February 2021
- (g) The Minimum Revenue Provision (MRP) Statement as set out in appendix M of the final draft report published on 4th February 2021.
- (h) The Reserves Policy as set out in Appendix N, including the review of the rollover procedures for 2020-21 outturn to improve financial resilience and treatment of general underspends
- (i) To delegate responsibility to Cabinet Members and Corporate Directors to manage the budget within the parameters set out in the Constitution and Financial Regulations.
- (j) To increase Council Tax band rates up to the maximum permitted without a referendum as set out in section 6 table 5 (page 20 of the report) in the final draft report published on 3rd February 2021.
- (k) To levy the additional 3% social care precept (raising an additional £22,228,900 and taking the total social care precept to £87,335,000 out of precept set out in recommendation (l) below).
- (l) The total Council Tax requirement of £778,704,100 to be raised through precepts on districts as set out in section 6, table 4 (page 19 of the report) in the final draft report published on 4th February.
- (m) The Personnel Committee recommendation of an increase of 2% for 2021-22 for all Kent Scheme staff with the corresponding adjustment to pay scales (and noting the voluntary freeze for 2021-22 to Kent Range 17 and above offered by Corporate Directors and Directors)
- (n) The Personnel Committee recommendation to increase to the entry value of the lowest grade (KR2/3) to £9.55 per hour to maintain the position above the national minimum and marginally above the Living Wage Foundation for April 2021.

In addition:

- (o) To delegate authority to the Corporate Director of Finance (after consultation with the Leader, the Deputy Leader and Cabinet Member for Finance, Corporate & Traded Services and the political Group Leaders) to resolve any minor technical issues for the final budget publication which do not materially alter the approved budget or change the net budget requirement and for any changes made to be reflected in the final version of the Budget Book (blue combed) due to be published in March 2021.
- (p) To note the uncertain financial outlook for later years in the absence of a multi-year settlement from government and the potential scenarios for recovery from the Covid-19 pandemic as set out in appendix I of the final draft report published on 3rd February 2021.

All Members of the County Council are respectfully 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. Update to Draft Budget Report

1.1 This final draft budget report replaces the previous drafts and includes the latest updates and final proposals and amounts for Council consideration and approval. The updated final draft report includes the following significant changes to reflect the latest available financial information:

- Provision for £10m contingency for risk reserve replaced with a specific provision within adult social care for additional prices uplift (£5m) and additional demand (£5m)
- Provision for £4.6m contribution to reserves for Strategic Priorities (from the New Homes Bonus grant) removed to fund the following in 2021-22:
 - £3m revenue saving on pothole blitz (removed to reflect and part mitigate the anticipated lower level of capital grants from the Department for Transport).
 - £1.4m increase for waste costs to reflect revised contractual arrangements and the prevailing change in market prices.

1.2 The impact of these changes has also been reflected in the medium-term financial outlook originally presented to Cabinet on 25th January. Appendix I of the final draft budget report includes the updated upside, central case and downside medium term scenarios, and potential budget gaps. These scenarios represent the potential gaps in each of the subsequent two years. These gaps will need to be addressed to ensure the budget is balanced in future years on a sound and sustainable basis.

1.3 The final draft budget report includes minor changes following confirmation of final council tax base estimates (the County Council must set its council tax precept based on the estimates for each district) and estimated collection fund balances. The final draft budget report also includes some minor late changes to spending growth amounts for issues that have arisen since the first draft publication. These can be funded from the final council tax estimates and a small reduction to the amount proposed to add to general reserves. The final draft budget report also includes some minor movements of revenue spending and savings between the headings in appendices C, E and F to better reflect the impact of proposals without changing the overall amount and to improve focus on the key strategic impacts of the budget proposals.

1.4 Rephrasing of the capital programme has resulted in some minor movement in the previously reported figures across the 3 year capital programme and beyond.

1.5 The final draft budget report includes the following additional appendices which are necessary to support the report's recommendations, some of which form part of the budget framework and need to be agreed by County Council. These include:

- Appendix J Capital Strategy. This provides a high-level overview of how capital expenditure, financing and treasury management contribute to delivery of council services. The prudential indicators set out a high level medium-term view of capital and treasury plans
- Appendix K Treasury Management Strategy. This shows how the Council manages cashflows, borrowing and financial investments
- Appendix M Annual Minimum Revenue Provision (MRP) Statement. This covers the Council's policy for charges to the revenue account each year to finance capital expenditure initially funded from borrowing

1.6 Other additional appendices help inform the background to the budget and include

- Appendix H(ii) Budget Risk Register. This quantifies the main financial risks not reflected in specific budget proposals
- Appendix L Investment Strategy. This identifies the Council's approach to investments other than cash balances
- Appendix N Reserves Policy. This outlines the Council's approach to assessing, maintaining and managing revenue reserves

1.7 The updated report dated 3rd February 2021 is published alongside the Council papers. This replaces previous drafts.

2. Recommendations

Recommendations:

County Council, having given due regard to the s25 Report (published for consideration and noting as agenda item 4 of this meeting), is asked to agree:

- (a) The net revenue budget requirement of £1,129.032m for 2021-22.
- (b) The 10-year Capital programme and investment proposals of £1,057.925m over three years from 2021-22 to 2023-24 together with the necessary funding and subject to approval to spend arrangements.
- (c) The directorate capital programmes as set out in appendices A & B of the final draft budget report published on 3rd February 2021.
- (d) The directorate revenue budget proposals as set out in appendices C to F of the final draft budget report published on 3rd February 2021.
- (e) The Capital Strategy as set out in appendix J of the final draft report published on 3rd February 2021 including the Prudential Indicators.
- (f) The Treasury Management Strategy as set out in appendix K of the final draft report published on 3rd February 2021
- (g) The Minimum Revenue Provision (MRP) Statement as set out in appendix M of the final draft report published on 4th February 2021.

- (h) The Reserves Policy as set out in Appendix N, including the review of the rollover procedures for 2020-21 outturn to improve financial resilience and treatment of general underspends
- (i) To delegate responsibility to Cabinet Members and Corporate Directors to manage the budget within the parameters set out in the Constitution and Financial Regulations.
- (j) To increase Council Tax band rates up to the maximum permitted without a referendum as set out in section 6 table 5 (page 20 of the report) in the final draft report published on 3rd February 2021.
- (k) To levy the additional 3% social care precept (raising an additional £22,228,900 and taking the total social care precept to £87,335,000 out of precept set out in recommendation (l) below).
- (l) The total Council Tax requirement of £778,704,100 to be raised through precepts on districts as set out in section 6, table 4 (page 19 of the report) in the final draft report published on 4th February.
- (m) The Personnel Committee recommendation of an increase of 2% for 2021-22 for all Kent Scheme staff with the corresponding adjustment to pay scales (and noting the voluntary freeze for 2021-22 to Kent Range 17 and above offered by Corporate Directors and Directors)
- (n) The Personnel Committee recommendation to increase to the entry value of the lowest grade (KR2/3) to £9.55 per hour to maintain the position above the national minimum and marginally above the Living Wage Foundation for April 2021.

In addition:

- (o) To delegate authority to the Corporate Director of Finance (after consultation with the Leader, the Deputy Leader and Cabinet Member for Finance, Corporate & Traded Services and the political Group Leaders) to resolve any minor technical issues for the final budget publication which do not materially alter the approved budget or change the net budget requirement and for any changes made to be reflected in the final version of the Budget Book (blue combed) due to be published in March 2021.
- (p) To note the uncertain financial outlook for later years in the absence of a multi-year settlement from government and the potential scenarios for recovery from the Covid-19 pandemic as set out in appendix I of the final draft report published on 3rd February 2021.

3. Contact details

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Draft Budget 2021-22

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Appendices

From	Leader of the Council, Roger Gough Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services, Peter Oakford
Relevant Director	Corporate Director Finance, Zena Cooke
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Circulated to	Cabinet Committees and Scrutiny Committee
Classification	Unrestricted

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Directorates – abbreviations in this report

ASCH - Adult Social Care and Health	CYPE - Children, Young People and Education
GET - Growth, Environment & Transport	S&CS - Strategic & Corporate Services
	NA - Non Apportionable

Summary

In February 2020 the Council agreed its budget for 2020-21. Very shortly thereafter the country was hit by the Covid-19 pandemic and on 20th March the government implemented a series of emergency measures including a national lockdown. Local authorities' emergency planning procedures were invoked and new responsibilities followed.

Since 2011-12 in the face of unprecedented reductions in Government funding and increasing demand on services, the need to make savings has dominated the Council's financial planning process. Responding to the pandemic added a further, even more complex dimension to financial planning.

The pandemic has had a profound impact on the Council's budget and its ability to deliver services and, as a consequence, on its financial planning assumptions. As a result of the pandemic, new areas of expenditure were required together with fundamental changes to the Council's main sources of funding; additional emergency short term funding was made available by the government alongside other measures to support the Council's cash flow. The Council's priorities were redefined by the crisis and the delivery of some proposed investments and savings were paused. The Council agreed a budget amendment in September 2020 to reflect the revised financial position.

Separately the Council also set out the impact of the pandemic and a resulting interim strategic plan. The Council is experiencing a rise in demand and extreme pressure on services as well as seeing increased levels of financial hardship for residents and businesses. The interim strategic plan outlined the high-level interventions we will take as part of our response and a basis for future policy considerations. Taken together these reports inform a new direction in what is a fundamentally more challenging financial environment.

Due to the significant potential budget gap for future years, the report to full Council sets out draft savings proposals for the Medium Term Financial Plan (MTFP) period for initial consideration. As in previous years, consultation with residents, businesses and other key stakeholders has been a feature of proposed changes and the results of the Council's 2021-22 budget consultation were considered at Cabinet on 30 November 2020.

The Council received the provisional Local Government Finance Settlement (LGFS) on 17 December. The final LGFS is scheduled to be approved on 10th February. This is too late for the publication for the final draft budget report for full Council so any changes stemming from the final settlement will need to be approved under delegated powers.

The country, indeed the world, has experienced a period of massive turbulence; in response to the pandemic. The UK government has borrowed heavily, increasing net annual borrowing to levels never before seen in peacetime in order to fund the nationwide response to the pandemic and to protect the economy in preparation for the time when the virus subsides. Alongside key partners, councils have been at the forefront of responding to the needs of local residents, taking on new responsibilities as well as continuing to deliver a range of existing services in a situation of heightened demand. The cumulative impact of these matters requires a change in approach from that set out and agreed in February 2020 as the council now finds itself in a materially changed environment from that which existed when the Council originally approved its budget.

The Council is under a legal duty to set a balanced and sustainable budget and maintain adequate reserves such that it can deliver its statutory responsibilities and priorities. A MTFP covering the entirety of the resources available to the Council is considered to be the best way that resource prioritisation and allocation decisions can be considered and agreed in a way that provides a stable and considered approach to service delivery and takes into account relevant risks and uncertainty. The need to respond immediately to the pandemic and the impact that this has had on the Council's finances means that a re-evaluation of the current year's financial position is the starting point for any changes.

The setting of the budget is a decision reserved for Full Council. The Council's Budget and Policy Framework requires that a draft budget is issued for consultation with the Cabinet and Scrutiny Committees to allow for their comments to be considered before the final budget proposals are made to Full Council.

As the Council develops its detailed proposals it must continue to keep under review those key financial assumptions which underpin the Council's MTFP; in particular as the Council becomes ever more dependent on locally raised sources of income through the Council Tax and retained business rates these elements become fundamental elements of its approach and strategies.

In accordance with Financial Regulations, capital schemes must be included within the Council's capital programme, and capital estimates adopted prior to any expenditure being incurred.

2.1 Setting the annual budget is one of the most significant decisions the County Council takes each year. It sets the County Council's share of council tax and the overall resource framework in which the Council operates. The budget is the financial expression of the council's strategic priorities and the 2021-22 budget and MTFP has been set in the context of the interim Strategic Plan. It gives delegated authority to manage the budget to Corporate Directors and Directors within the parameters set out in the Council's Constitution and Financial Regulations. Corporate Directors and Directors are accountable for spending decisions within delegated powers and these are monitored through the council's budget monitoring arrangements regularly reported to Cabinet.

A) Strategic Priorities – Interim Strategic Plan

2.2 During 2019 and early 2020, the Council developed a draft 5 Year Plan which set clear outcomes that it would aim to deliver to improve quality of life in Kent over the next 5 years. The plan was nearing completion following a careful analysis of the responses to the 5 Year Plan consultation.

2.3 Due to the huge and unprecedented impact of coronavirus (COVID-19), it was necessary to pause to understand the new circumstances arising from responding to and recovering from the pandemic. Many of the priorities that came out of the 5 Year Plan consultation remain highly relevant and have strongly influenced the development of an Interim Strategic Plan.

2.4 "Setting the Course" is our Interim Strategic Plan for 2021 and the first half of 2022. It was approved by County Council on December 10, and explains the immediate challenges we face, and the actions the Council will prioritise to lead the county through 2021 and into 2022.

2.5 While the challenges facing the county are significant, there are also important opportunities to improve our services, and support the county to emerge stronger and more sustainable. In many cases the priorities set out in the Interim Strategic Plan lay the foundations for positive change in the future.

2.6 The budget for 2021-22 and for the MTFP period reflects the challenges and opportunities set out in the Interim Strategic Plan and how the Council plans to respond to them.

The five main challenges are:

Financial – the Council faces a significant budget gap and difficult decisions to make in the short-to medium-term, while maintaining a longer-term view of what is best for the county.

Economic – the economic downturn caused by coronavirus (COVID-19) is causing widespread economic impacts, while attracting investment and putting infrastructure in place to support growth remains a priority.

Demand – there is increasing demand for some of our key services, which will be made worse by the impacts of coronavirus (COVID-19) on Kent’s residents, particularly those that are vulnerable.

Partnership – the crisis presents important opportunities to build on strengthened relationships and rethink how we work with partners to better manage demand and improve efficiency.

Environmental – tackling the climate emergency and protecting the natural environment continues to be an urgent priority, as well as investing in the built environment and creating communities to be proud of.

2.7 The interim Strategic Plan details a number of priority actions that will address the five challenges set out above. The progress on these actions will be monitored and regularly reported to Cabinet.

B) Requirement to set a balanced budget

2.8 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, 2021-22. Setting the Council’s revenue and capital budgets for the forthcoming year has been incredibly challenging due to the uncertainties arising from the Covid-19 pandemic and subsequent economic recession. This has made forecasting spending requirements and income levels much more unpredictable, which together with a one-year settlement from Government for 2020-21 and the direct impact a recession has on council tax collection and future years’ tax base means that the likely available funding has also been highly uncertain.

2.9 The legal requirement places a statutory duty on the Council to set a balanced budget. However, what is meant by ‘balanced’ is not defined in law and relies on the professional judgement of the Chief Financial Officer to ensure that the budget is robust and sustainable. A prudent definition of a balanced budget would be a financial plan based on sound assumptions which shows how planned spending and income equals the available funding for the forthcoming year. Plans can take into account deliverable cost savings and/or local income growth strategies as well as useable reserves. A separate assurance statement from the Chief Financial Officer as required under section 25 of the Local Government Act 2003 has been published to accompany this report and papers for County Council.

2.10 While there is no legal definition of a balanced budget, legislation does provide a description to illustrate when a budget is considered not to balance:

- where the increased uncertainty leads to budget overspends of a level which reduces reserves to unacceptably low levels, or
- where an authority demonstrates the characteristics of an insolvent organisation, such as an inability to pay creditors.

2.11 To avoid the risk of an unbalanced budget the Council has to be financially resilient. Good financial management is fundamental in establishing confidence in the budget and ensuring that the finances can withstand unexpected pressures. The Council has recently engaged the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake a review of the council's financial management arrangements. CIPFA has concluded there is a sound basis for financial management across the Council as well as some areas for improvement. We are in the process of developing an improvement plan to build on the financial management arrangements already in place and to further strengthen the Council's financial resilience. The draft budget addresses a number of resilience issues.

2.12 Setting a clear medium-term financial plan (MTFP) also strengthens the Council's financial resilience by identifying financial issues early and options for potential solutions. Whilst the legislative requirement does not extend to the MTFP, and there is no requirement to balance the later year's plans, it is considered good financial practice. The one-year settlement and government spending plans included in the 2020 Spending Review (SR2020) means the MTFP for 2021-24 will be based on a range of alternative scenarios. The multi-year plan will be published as part of the report to the 11th February 2021 Council meeting.

C) Budget Consultation

2.13 The Council launched a consultation on the 2021-22 budget on 14th October. The consultation was open until 24th November and can still be viewed via the Council's website <https://www.kent.gov.uk/about-the-council/finance-and-budget/our-budget>.

2.14 The number of responses was significantly higher than recent consultations with just under 3,000 respondents, an increase of 55% on the previous summer consultation.

2.15 Unlike previous years, the budget consultation asked respondents to identify areas for spending reductions and overall Social Care services were the areas where people were most uncomfortable with spending reductions, with over 65% indicating as such. Areas including Community Services (66%), Regeneration & Economic Development (63%), Libraries, Registration & Archives (62%), Transport (58%), Environment (52%) and Public Protection (51%) were the areas respondents identified as comfortable or partly comfortable for spending reductions.

2.16 In relation to Council Tax, 51% of respondents agreed with raising Council Tax to an assumed 2% referendum limit, whilst 45% did not agree with this percentage increase. When asked if respondents agreed with the Adult Social Care Levy (an additional increase in Council Tax specifically for the additional costs of Adult Social Care), 47% were in favour, while 41% disagreed. The remaining 12% selected 'Don't know/No opinion'.

2.17 The consultation also asked 3 questions relating to the Council's Strategic Reset Programme. Respondents were highly supportive of "Delivering more than one service from KCC buildings" (92% agree) and "Reducing the number of buildings in the KCC estate" (78% agree). Support for "Delivering more services using online technology was also high (75%).

2.18 A separate detailed report setting out the responses received is included as background document to this report. The budget report presented to full Council will take account of any feedback following Cabinet Committee and Scrutiny Committee consideration.

D) Equalities Considerations

2.21 The Equality Act 2010 requires the Council, in the exercise of its functions to have due regard to eliminate unlawful discrimination, harassment and victimisation, advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.

2.22 To help meet its duty under the Equality Act the council undertakes equality impact assessments to analyse a proposed change in order to assess whether it has a disproportionate impact on persons who share a protected characteristic. As part of our budget setting process an equality impact assessment screening will be completed for all savings proposals to determine which proposals will require a full equality impact analysis (with mitigating actions set out against any equality risks) prior to a decision to implement being made.

E) Capital, Investment and Treasury Management Strategies

2.19 These are published alongside the final draft budget as appendices J to L of this report. The prudential indicators set out in the Capital Strategy (appendix J) are based on the Capital Programme 2021-24 and are required to be approved by full Council.

2.20 The Treasury Management Strategy Statement has been revised and updated and presented to County Council in February 2021 in accordance with the CIPFA Treasury Management Code of Practice. This has been produced as appendix K to this report setting out the proposed strategy with regard to borrowing, the investment of cash balances and the associated monitoring arrangements.

2.21

3.1 The national fiscal and economic context is an important consideration for the Council in setting the budget. This context not only determines the amount received through central government grants, it 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 can raise through local taxation.

3.2 The Covid-19 pandemic has presented an extraordinary and unexpected challenge to the UK economy and economies across the world. The combination of additional public spending both on dealing with the pandemic and the economic fallout from the subsequent recession, and reduced tax yields, has resulted in an unprecedented peacetime budget deficit. The Office for Budget Responsibility (OBR) central fiscal forecasts for public sector spending, receipts, net borrowing, and total debt is forecast to be £281bn higher than the previous year and receipts £57bn lower, resulting in an annual deficit of £394bn. The economic outlook remains highly uncertain and the OBR have produced alternative scenarios reflecting different assumptions about the pandemic and its impact on the economy (with a range for the annual deficit of £353bn to £440bn under the various scenarios for the pace of economic recovery).

3.2 The Spending Review acknowledged that due to the high levels of uncertainty it was not the right time to set out a detailed medium-term fiscal strategy. However, the Chancellor did state that over time, and once the economic recovery is secured, that the government is fully committed to taking the necessary steps to ensure borrowing and debt are on a sustainable path. The OBR has identified that even on the loosest conventional definition of balancing the books, a fiscal adjustment of £27 billion (1% of GDP) would be required to match day-to-day spending to receipts by the end of the five-year forecast period in 2025-26.

3.3 The OBR central forecast is that the size of the UK economy, as measured by Gross Domestic Product (GDP), will reduce by 11.3% in the current year (11.8% per capita). This is the largest annual reduction in over 300 years. Under the various scenarios, the upside GDP shrinks by 10.6% in the current year, and the downside by 12%.

3.4 Appendix G sets out the essential assessment and forecasts from the OBR economic and fiscal outlook report published in November 2020. This report was published alongside SR2020.

4.1 The last funding settlement agreed with the Government expired at the end of the 2019-20 financial year. The government previously stated its intention to hold a new Spending Review in 2019, covering the period 2020-24. However, due to the government's focus on Brexit, a one year 2020-21 Spending Round was announced in September 2019. On 25 November 2020 the Chancellor announced the Spending Review 2020, again for only one year (2021-22), this time due to the Covid-19 pandemic.

4.2 The impact of the Covid-19 pandemic has inevitably impacted on the level of resources available and shaped the government's own short-term funding priorities. This means both the relative priority of local government against other government departments such as the NHS as well as the relative resource allocations between local government services.

4.3 Previously the direction of travel for Local Authority funding has reflected a move away from direct general government support such as through Revenue Support Grant towards more targeted grant support coupled with an increased reliance on locally generated sources of income such as the Council Tax and retained Business Rate receipts.

4.4 On 2nd July 2020, the Secretary of State for Housing, Communities and Local Government, announced a support package to help councils respond to Covid-19 and to help ensure councils' financial sustainability for the future. This included allowing councils to repay Council Tax and Business Rates deficits over a three-year period instead of in one year. The Spending Review 2020 announced on 25th November went further and announced that the government would provide funding to Local Authorities for 75% of the 2020-21 deficits (with the 25% remaining to still be repaid over three years by local authorities).

4.5 The Council's MTFP will be affected by deferral of the Fair Funding Review from April 2021 until 2022-23 at the earliest and the expected associated changes to the national Business Rates retention scheme alongside the Fair Funding Review.

4.6 The Secretary of State for Housing, Communities and Local Government published the provisional local government finance settlement on 17th December. The settlement is important as it provides details of the allocations of the departmental budgets to individual councils of the amounts announced in SR2020. The settlement together with the provisional tax base estimates for districts are a vital component of the Council's budget as they determine significant amounts of the funding for the net budget. The provisional settlement is subject to a short consultation with a response deadline of 16th January. The allocations in the settlement were largely as anticipated and included the additional Covid-19 funding provided in SR2020.

4.7 The provisional settlement includes the government's calculation of Core Spending Power (CSP). The CSP is a measure of the financial resources available to local authorities to fund service delivery. It comprises council tax and the main government grants, including the baseline for business rate retention. The calculation shows an increase in CSP of £57.7m (5.5%) over 2020-21 as set out in Table 1 below.

Table 1 – KCC’s Core Spending Power

Kent County Council	2020-21 £m	2021-22 £m	Difference £m
Council Tax	749.4	801.9	52.5
Settlement Funding Assessment	197.5	197.6	-
Improved Better Care Fund	48.5	48.5	-
Social Care Support Grants	34.4	39.1	4.7
Business Rate Compensation	7.5	9.8	2.3
New Homes Bonus	6.4	4.6	-1.8
Total	1,043.9	1,101.6	+57.7

4.8 The CSP should be treated with some caution. In particular, it assumes a 7% increase in council tax precept from a combination of the 5% referendum/adult social care precept and an assumed 2% increase in the tax base. The county council’s precept must be based on the estimated tax base notified by Kent districts. The estimate for the draft budget proposals assumes a 1.04% reduction in the tax base. This results in an assumed precept of £779m, which is around £23m (3%) less than that assumed by government in CSP.

4.9 The provisional settlement also includes confirmation of the proposed Council Tax Referendum principles for 2021-22. These allow all councils to increase council tax rates by up to but not exceeding 2% without the need for a referendum (up to £5 for districts and boroughs where this is more than 2%). Councils with social care responsibilities can agree a further increase of up to 3% for the Adult Social Care Precept, taking total increase up to but not exceeding 5%. The regulations also allow some or all of the Adult Social Care Precept element to be deferred until 2022-23. However, as stated in 4.8 above, the government assumes the Council will increase Council Tax to the maximum allowed levels. If the Council did not implement the maximum allowable increase, then its spending power to provide services would be reduced going forward with no funding from government to mitigate this (and therefore requiring a higher level of savings).

4.10 The draft budget includes the same amount for settlement funding assessment (SFA) and the MHCLG grants as assumed by the government as set out in Table 1 above. The grants for New Homes Bonus (NHB) and Social Care Grant are subject to consultation on the allocations set out in the provisional settlement. The SFA shows the baseline for business rates retention and does not include any growth (or decline) in the local share, or the proceeds from pooling arrangements.

4.11 The provisional settlement confirmed that information about applying to the £4bn “levelling up” fund (UK Shared Prosperity Fund) will be published early next year. Any local area can apply directly, with the focus on town centre regeneration and culture. The provisional settlement confirmed that £165m will continue to be available in 2021-22 to support the Troubled Families Programme. The provisional settlement also included £15m to implement the Redmond Review into the effectiveness of external audit and transparency of financial reporting in local authorities although included no details how this money is to be accessed.

4.12 Other aspects of the provisional settlement including increases in Rural Services Delivery Grant by £4m (from £81m to £85m, a 4.9% increase), a new lower-tier services grant (£111m), and further funding to support rough sleepers are not relevant for county councils.

Core Grants

4.13 The Council is in receipt of a mix of general un-ringfenced grants which can be used in any way the Council decides to discharge its functions (core grants) and specific grants which must be spent according to government priorities. Given the uncertainty of the Fair Funding review, assumptions have needed to be made in respect of most grants after the announced 2021-22 level. There are risks associated with this approach as the government may decide to change its priorities and reduce or cease funding through a grant or reallocate service specific grants into more general funding with a changed distribution.

Revenue Support Grant

4.14 Revenue Support Grant (RSG) is a central government grant given to local authorities from the centrally retained share of business rates which can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant to be provided to authorities is established through the Local Government Finance Settlement using the relevant funding formulae; the revision of these formulae (along with the redistribution of the locally retained share of business rates) is the focus of the (deferred) Fair Funding review process.

4.15 The Council's Revenue Support Grant (RSG) decreased from circa £161m in 2015-16 to circa £9.6m in 2020-21.

New Homes Bonus

4.16 The New Homes Bonus (NHB) scheme was introduced in 2011-12 to help tackle the national housing shortage. The scheme was designed to reward those authorities that increased their housing stock either through new build or by bringing empty properties back into use. The grant is un-ringfenced.

4.17 The Council is intending to remove its reliance on NHB as a funding source in support of its general revenue budget. In the light of the current financial situation the proposed approach is to place the NHB into an earmarked reserve to be used to support time limited activity related to the council's strategic priorities.

4.18 The Spending Review 2020 announced one further year of NHB for 2021-22 and the provisional LGFS estimates the Council's allocation as £4.6m. The NHB (including all legacy payments) is expected to come to an end in 2023-24 and although it is expected that decreases in NHB will be re-allocated nationally into other funding streams such as the Revenue Support Grant or other core grants, this will clearly need to be kept under review.

Improved Better Care Fund

4.19 The Better Care Fund (BCF) was introduced in the 2013-14 spending review. The fund is a pooled budget, bringing together local authority and NHS funding to create a national pot designed to integrate care and health services.

4.20 In addition to this, an Improved Better Care Fund (IBCF) was announced in the 2016-17 budget to support local authorities to deal with the growing health and social care pressures during the period 2017-20. The Spending Rounds for 2019 and 2020 have extended this grant for one year at a time at the same level (£48.5m for 2020-21 and 2021-22).

Social Care Grant

4.21 In the Chancellor's 2019-20 budget, £410m of additional funding was announced for use for adult and children's social services. The Spending Round 2019 announced that there would be additional Social Care funding of £1bn, taking the total for 2020-21 to £1.41bn. This additional grant combined with the extension of the Adult Social Care Precept for another year provided up to £1.5bn additional resource for social care services compared to 2019-20. The government believes there is not a single bespoke needs formula that can be used to model relative needs for both adult and children's social care, therefore the existing Adult Social Care Relative Needs Formula was used to distribute this Social Care Support Grant funding.

4.22 The final 2020-21 LGFS confirmed that the previous Social Care Support Grant allocations will be rolled into a new Social Care Grant for 2020-21. The Spending Review 2020 announced a further one-off increase to the Social Care Support Grant for 2021-22 and the provisional LGFS allocation for the Council is an increase of £4.7m, increasing the total grant value for 2021-22 to £ 39.1m.

Covid-19 Support Grants

4.23 In response to the Covid-19 pandemic, the government announced circa £6.6bn in grants to councils in the current year towards the additional expenditure and reduced income, as well as funding for passported business rates (NNDR) relief and passported grants to businesses. KCC has received a total of £131m. These grants have been allocated to local authorities via a formula and do not include those where actual costs can be claimed e.g. loss of sales fees and charges income, NHS discharges, community testing). The national and local shares are shown in table 2 below.

Table 2 – Covid 19 Support Grants

Grant	National Total £m	KCC Share £m
2019-20		
Covid 19 Emergency Grant	1,600	39.0
2020-21		
Covid 19 Emergency Grant	3,100	55.9
Infection Control Fund	1,146	35.5
Contain Outbreak Management Fund	1,385	19.0
Test and Trace Grant	300	6.3
Covid Winter Grant Scheme	170	4.5
Social Care Rapid Testing	149	4.7
ASC Workforce Capacity Fund	120	3.1
Emergency Assistance Grant	63	1.7
Clinically Extremely Vulnerable Grant	32	0.9
Home to School Transport Grant	99	4.5
Bus Services Support Grant	67	2.9
Total	6,631	139.1

4.24 The majority of this funding is intended for 2020-21 and the latest estimates indicate that this funding should be sufficient to cover Covid-19 related spending and income losses. These estimates do not include the impact of the latest national lockdown, the second wave of infections or the new tier 4 restrictions.

4.25 The Covid-19 related funding for KCC in 2021-22 includes £32.9m un-ringfenced emergency grant, Covid-19 Local Council Tax Support grant of £14.3m, Covid-19 Local tax income guarantee to cover 75% of irrecoverable tax losses and grant that is claimed by the council to cover 75% of losses of irrecoverable Sales Fees and Charges income.

KCC Response to Provisional Local Government Finance Settlement

4.26 The Council has submitted a response to the provisional local government finance settlement. This response is largely supportive recognising that in the current unique circumstances councils need as much certainty over funding as can be provided. The settlement provided this through a rollover of core grants from 2020-21, together with additional funding for social care and one-off grants to support additional spending and tax losses stemming from Covid-19 pandemic and subsequent recession.

4.27 The overall settlement is still insufficient to fully cover spending growth and income losses and we have raised concerns about significant reliance on council tax within the government's spending plans. We remain opposed to the council tax referendum principles and remain committed to the principle that council tax should be levied to fund local discretionary spending and demands placed on the Council for statutory services should be funded centrally.

4.28 We are concerned that long-overdue reforms to local government funding through business rate retention and Fair Funding review have been delayed another year. We remain convinced that the redistribution of funding under the business rates retention and grant mechanisms has an adverse impact on county areas. We have repeated our concerns that the funding for special educational needs and disability (SEND) from the Department for Education (DfE) is inadequate and leaves a substantial unresolved deficit on the Dedicated Schools Grant (DSG).

4.29 The response was agreed with the Cabinet Member for Finance, Corporate and Traded Services. Any changes to the final settlement will be set out in the report to County Council if we are notified in time.

Final Local Government Finance Settlement

4.30 The final settlement is scheduled to be approved by parliament on 10th February. This is too late for the publication deadline for papers for the County Council meeting on 10th February. Any changes to the 2021-22 budget as a result of the final settlement will need to be approved under delegated powers.

5.1 The largest single grant received by the Council is the Dedicated Schools Grant (DSG), which is ring-fenced to fund school budgets and services that directly support the education of pupils. The Local Authority receives its DSG allocation gross (including allocations relating to academies and post 16 provision), and then the Education & Skills Funding Agency (ESFA) recoups the actual budget for Academies to pay them directly, based on the same formula as the funding allocations made to maintained schools.

5.2 The DSG is allocated through four blocks: The Schools Block, Central School Services Block, High Needs Block and Early Years Block. All elements of the DSG are calculated based on a national funding formula, however these are calculated using historic funding as a baseline.

5.3 Whilst the Schools Block allocation for 2021-22 is based on allocating a school level budget calculation, the method of distribution to schools is still through a local formula methodology.

5.4 In July 2020 the ESFA published provisional allocations for 2021-22 for the Schools Block, Central Services Block and the High Needs Block. The allocations have been updated on the 17th December with the October 2020 pupil data.

5.5 The early years block is currently only an indicative allocation as this is updated post year end based on the census of January 2021 pupil numbers, with the current indicative allocation based on January 2020 numbers. The hourly rate which is the basis of the allocation was confirmed on the 17th December as £4.62 per hour for 3 and 4 year olds and £5.44 per hour for 2 year olds. The 2 year old rate has increased by 8p for all authorities, whilst the 3 and 4 year old rate has increased by 6p for most authorities except those which fall below the £4.44 minimum or those with higher protected rates in 2020-21.

5.6 The primary pupil funding rate in the Schools Block has increased by 9%. The secondary pupil funding rate by 8.3% including the transfer of teachers pay and pension grants. The per pupil rates in the main calculation vary for individual authorities. The Schools Block also includes a non-pupil element for premises factors in the National Funding Formula. The Schools Block also includes a growth element based on changes in pupil numbers at a fixed national amount weighted for area costs. The amounts notified are indicative based on existing pupil number information and will be updated from subsequent census data. A pupil number modelling tool will be published in January. The amounts are before deductions for academies. The total schools block for Kent has increased by £93.7m (9.5%) to £1.080bn on the comparable figure for 2020-21, of which £47.1m is the protected element for teachers pay and pension grants leaving a net increase of 4.7%.

5.7 The High Needs Block is funding to support costs of pupils with additional education needs, across mainstream and special schools as well as the associated support costs. The allocation of the high needs block for 2021-22 has increased by £25.4m (11.4%) on the comparable figure for 2020-21, of which £4.0m is the protected element for teachers pay and pension grants, leaving a net increase of 9.6%. However, this is insufficient to ease the pressure on current spend and will not bring us to a position of managing the high needs block spend within the financial year.

5.8 The most significant risk at the start of 2020-21 was the continuing underlying deficit and accumulated debt on the High Needs Block of Dedicated Schools Grant (DSG). 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 Health and 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 councils. To date the government has not provided councils with sufficient funding and has not introduced structural reforms to eliminate the overspends or repay the deficits. Whilst the government has confirmed that DSG deficits do not have to be covered from the General Fund, the level of debt remains unsustainable posing a considerable risk in the absence of funding and structural reforms.

5.9 Significant work is being undertaken to identify efficiencies in high needs provision, including

- Reviewing our commissioning strategy for SEN provision across the county including supporting the development of new special schools and SRPs to reduce our increasing reliance on independent schools
- Reviewing commissioning arrangements with independent providers.
- Improving parental confidence through supporting inclusive practice and capacity building in mainstream schools
- Further collaborative working with Health and Social Care partners

The Council is updating its DSG deficit recovery plan in light of further projected overspends during 2020-21.

5.10 The Schools' Funding Forum were requested to consider a 1% transfer from Schools Block to the High Needs Block to support inclusive practices in mainstream schools. This was considered by the Forum in early December and the Forum agreed this transfer to support the delivery of 4 key areas:

1. A comprehensive programme of training to support inclusive practice
2. Development of wider school and community practices to promote inclusion
3. Supporting transition for children and young people with SEND
4. Providing individual case support

This transfer is subject to Secretary of State approval and the outcome is expected before the end of February. The Schools Block calculation outlined in paragraph 5.6 is the basis for this transfer before academy deductions and additional pay and pension grants.

5.11 The Central Schools Services Block (CSSB) was introduced in 2018-19 to fund councils for their statutory duties relating to maintained schools and academies. The CSSB brings together funding previously allocated through the retained duties element of the Education Services Grant (ESG) funding for ongoing central functions e.g. admissions and funding for historic commitments including items previously agreed locally such as combined budgets.

5.12 As part of the national funding formula the DfE are reducing the allocation within the CSSB of historic commitments and therefore the CSSB will be decreased by £1.1m in relation to historic commitment for 2021-22. The element of the CSSB that funds ongoing services has increased by 3% and also includes an additional £1.50 per pupil for the pension increases for centrally employed teachers and does not represent a real terms increase as the same amount was paid as a central grant in 2020-21. The overall CSSB has reduced by £0.5m (4.3%) on the comparable figure for 2020-21. £0.3m of the increase is the protected element for teachers' pay and pension grants leaving a net reduction of 6.9%.

5.13 The table below sets out the latest DSG allocation over the funding blocks for 2021-22.

Table 3 - Dedicated Schools Grant 2021-22 and Final DSG 2020-21

Block	2021-22 £m	2020-21 £m	Gross Change £m
Schools Block	1,079.5	985.8	+93.7
CSSB	11.8	12.4	-0.5
High Needs Block	248.4	222.9	+25.4
Early Years Block	88.4	87.2	+1.2
Total	1,428.1	1,308.3	119.8

Note: 2021-22 Schools Block includes the previously separately funded teacher's pay and pensions grants of £47.1m. The CSSB and High Needs Block includes an allocation of £0.3m and £4.0m respectively, for the same grants

5.15 In addition, the Council receives, and passports fully to schools, funding for the pupil premium (£60.3m in 2020-21) and 6th form funding (£18.7m in 2020-21). Final allocations for the pupil premium will be confirmed in July 2021 and 6th form funding in March 2021.

6.1 Council Tax income is a key source of funding for council services. The amount generated through Council Tax is principally determined by the Council Tax Base (the number of properties adjusted for exemptions and discounts), the rate of charge per property and the collection rate.

6.2 A significant proportion of the funding towards the revenue budget is derived from the County Council's share of council tax. The County Council share of council tax typically amounts to around 70% of a household council tax bill. The County Council charge is the same for all households in the county (as is the share for Police & Crime Commissioner and Fire and Rescue authority), the amount for district/borough and town/parish councils will vary depending on the local area and the individual decisions of these councils.

6.3 The Council currently can, subject to legislative constraints, increase its Council Tax rate through two mechanisms; the Adult Social Care precept and general tax rate increases. Each 1% increase in the Council Tax rate generates circa £7.4m per annum, which equates to approximately 26 pence per week for a Band D property

6.4 The Spending Review 2020 confirmed the referendum level of up to but not exceeding 2% for general tax rate increases, and permitted Councils to add an ASC precept of up to 3%. The government assumes in the Core Spending Power calculation that Councils will increase Council Tax to the maximum allowed. If the Council, therefore, did not implement at the maximum level, then its spending power to provide services would be reduced going forward with no funding from government to mitigate this.

6.5 The County Council's council tax level is currently 12th of the 25 counties and 4th of the 7 south east counties. It is likely that even after implementing the proposed increases, the Council's relative position will be unchanged.

6.6 The county has seen increases in the number of new homes over the last few years, however the Covid-19 pandemic has had a material impact on the level of income received from this source; the pandemic has impacted the number of people in work or receiving low pay and as a consequence increased significantly those claiming benefits, including through the Local Council Tax Reduction Scheme (LCTRS). There has also been a drop in the collection rate as residents have been affected by Covid-19 on their income levels.

6.7 The Council Tax Collection Fund deficit from 2020-21 can now be repaid over the three-year period 2021-24. The level of this deficit (currently estimated in the region of net £12.3m) from slower than anticipated growth, reduction in the collection rate and increased cost of the LCTRS will vary depending on the ongoing level of the pandemic and its economic impact. The Spending Review 2020 announced that the government will fund 75% of the 2020-21 irrecoverable deficit and the MTFP has, therefore, been updated to reflect this as well as the spreading of the 25% remaining deficit repayment over the three-year period 2021-24. Only irrecoverable losses will be eligible for the additional grant, estimated to amount to £10.0m of the £12.3m. The remainder of the estimated deficit will have to be borne by the Council's along with the remaining 25% of irrecoverable losses. The full amount can be spread over three years and impact in 2022-23 and 2023-24 is proposed to be met from the Council Tax Equalisation Reserve to minimise impact over the medium term.

6.8 The council tax charge for 2021-22 must be agreed by County Council. Council tax is raised through a precept from each district based on the band D charge for the year multiplied by the estimated band D equivalent taxbase for each district. The tax base estimate is calculated by each district and the County Council has no discretion to vary this amount. County Council must agree the precept as part of the budget approval. District councils are responsible for collection and must pay the amount of the precept in monthly instalments. Any surpluses or losses on collection must be taken into account in the following year's budget and council tax setting considerations.

6.9 For 2021-22 it is proposed that the County Council be asked to approve an increase up to but not exceeding the 2% referendum limit as supported in the budget consultation. It is also proposed that the County Council be asked to approve taking up the Adult Social Care levy in full. These increases would take the annual total band D charge for 2021-22 to £1,418.76 of which £159.12 would be for the Adult Social Care levy. The proposed increases are the equivalent of £1.30 per week for a band D household.

6.10 The final draft budget includes the estimates of council tax base from all districts. The council tax base estimate shows a net 1% reduction in the band D equivalent tax base due to a combination of housing growth offset by an increase in those eligible for council tax support discounts and lower collection rates. The individual district changes between 2020-21 and 2021-22 provisional estimates are shown in table 4.

Table 4 – Council Tax Base Changes & 2021-22 Precept

District	2020-21	2021-22		% change in Taxbase
	Band D Equivalent Taxbase	Band D Equivalent Taxbase	Precept @ £1,418.76 (including ASCL) £000s	
Ashford	47,300.00	45,173.00	64,089.6	-4.5%
Canterbury	51,300.41	49,624.38	70,405.1	-3.3%
Dartford	38,756.93	38,792.33	55,037.0	0.1%
Dover	39,029.75	38,993.94	55,323.0	-0.1%
Folkestone & Hythe	39,109.15	38,484.69	54,600.5	-1.6%
Gravesham	34,334.50	34,425.11	48,841.0	0.3%
Maidstone	63,319.80	63,550.10	90,162.3	0.4%
Sevenoaks	51,207.88	50,876.85	72,182.0	-0.6%
Swale	48,072.67	48,040.12	68,157.4	-0.1%
Thanet	44,546.40	44,155.70	62,646.3	-0.9%
Tonbridge & Malling	51,371.02	51,374.86	72,888.6	0.0%
Tunbridge Wells	46,277.10	45,371.40	64,371.1	-2.0%
Total	554,625.61	548,862.48	778,704.1	-1.0%

6.11 The final draft budget proposes a council tax increase up to the maximum allowed without exceeding the 2% referendum threshold and by a further 3% 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 11th February.

Table 5 – Proposed Council Tax Increases

Band	Proportion of Band D Tax Rate	2020-21 (incl. ASCL)	2021-22 (excl. increase in ASCL)	2021-22 (incl. increase in ASCL)
A	6/9	£900.84	£918.84	£945.84
B	7/9	£1,050.98	£1,071.98	£1,103.48
C	8/9	£1,201.12	£1,225.12	£1,261.12
D	9/9	£1,351.26	£1,378.26	£1,418.76
E	11/9	£1,651.54	£1,684.54	£1,734.04
F	13/9	£1,951.82	£1,990.82	£2,049.32
G	15/9	£2,252.10	£2,297.10	£2,364.60
H	18/9	£2,702.52	£2,756.52	£2,837.52
	Total Increase £	Weekly Increase £		
Band C	£60.00	£1.15		
Band D	£67.50	£1.30		

7.1 The final draft budget proposals in appendices A and B of this report set out the proposed capital spending plans for 2021-24 together with an outline of longer-term considerations over a ten-year horizon. Appendix A provides a high-level summary of the proposed capital programme and financing requirements. The spending plans in appendix B set out proposed spending on individual projects and rolling programmes by directorate. The financing is a combination of government departmental capital grants and forecast developer contributions, external funding, capital receipts and borrowing. In some instances the programme includes preliminary figures where grants have yet to be confirmed. Approval to plan and spend from the capital programme will only be granted once adequate funding has been secured to fund forecast spending.

7.2 The presentation of the 2021-22 revenue budget has been simplified to focus attention on the key policy and strategic implications of the proposals. The revenue proposals are set out in appendices C to F. Appendix C provides a high-level summary of the proposed revenue budget and financing requirements. Appendix D provides a high-level summary of the proposed budget for each directorate. Appendix E provides details of the additional spending and investment included in the proposed revenue budget. Appendix F provides details of savings and income generation.

7.3 A key part of the annual budget setting process is the review of growth pressures across the MTFP period arising from demographic changes, new requirements or responsibilities or inflationary pressures.

7.4 Additional spending included in appendix E includes the impact of decisions and activities already being delivered in the current year not included in the current base budget and known future contractual obligations. It also includes forecasts for future cost or activity changes for the forthcoming year, or changes in Council policy, and sets out fuller details of these including the reasons for the change and implications. Proposals designed to strengthen the Council's financial resilience have also been identified separately and linked to identified risks.

7.5 The presentation of proposed savings and income in appendix F follows a similar pattern with proposed savings amounts identified separately for full year effect of 2020-21 agreed plans; savings/income from the application of existing policies; savings/income that do not require any changes in policy; and those that require policy changes.

7.6 The original MTFP for 2020-23 had previously identified savings and additional income totalling £9.7m for 2021-22. These plans have been revised and updated as part of 2021-22 budget setting to £8.8m (a reprofiling of £0.9m) largely due to updated income assumptions linked to welfare benefits and inflation indices. £30.7m of the total £39.5m savings and income proposals are new in addition to the £22.2m draw down from reserves.

7.7 The latest estimated budget gaps for both 2022-23 and 2023-24 mean there is a need to identify significant additional savings for these years and to ensure all approved savings remain deliverable. Detailed consultation and impact assessments will be undertaken as the proposals are developed and taken through to implementation.

7.8 It should be noted that some of the new proposed savings identified for consideration for 2021-22 include different options for consideration and have inter-dependencies with other existing and new savings proposals which will need to be reviewed to ensure no double counting as the proposals are developed further.

7.9 The high-level equation for changes in planned revenue spending for 2021-22 (growth and savings), income and net budget, together with the balancing changes in funding is shown in table 4 below. This summarises how the requirement to set a balanced budget has been met.

Table 4 – Net Change in Spending and Funding

Change in Net Spending		Change in Net Funding	
Proposed additional spending	+£110.1m	Changes in un-ringfenced government grants	+£53.4m
Proposed savings from spending reductions	-£34.4m	Change in council tax base	-£7.8m
Proposed changes in income	-£2.5m	Proposed increase in council tax charge	+£37.1m
Changes in specific government grants	-£2.6m	Change in retained business rates	-£7.2m
Proposed net change in reserves	-£5.2m	Change in collection fund balances	-£10.1m
Total Change in Net Spending	+£65.4m	Total Change in Net Funding	+£65.4m

Income generation through fees and charges

7.10 The majority of discretionary fees and charges are raised annually by a minimum of inflation (CPI or RPI). Both of these inflation measures have been depressed recently due to the economic impact of Covid-19. For example, CPI inflation is around 0.7% compared to 1.7% in August 2019 and RPI inflation is around 1.3% compared to 2.6% in August 2019. The current fees and charges income generation assumption for 2021-22 has therefore been reviewed and in future years a consolidated summary of Fees and Charges will be included in the budget report to County council in February for approval.

Proposed 2021-24 Capital Programme – key numbers

£1,058m	Total planned capital spending over the three years 2021-22 to 2023-24.
£21m	Borrowing for new schemes added to the programme. The programme does not include additional spending in the last year of three-year rolling programmes pending announcement of multi-year revenue settlement.
£39m	Borrowing removed since last year.
£168m	Spending rephased from 2020-21 into proposed programme for 2021-24.
£572m	Confirmed or indicative government grants to fund capital expenditure.
£213m	Proposed borrowing to fund the programme. The rephasing and removal of schemes has reduced cost of borrowing (Minimum Revenue Provision and interest) by £7.7m for 2021-22 but will increase in later years as the spend is reinstated.
£273m	Funding from other sources (capital receipts, developer contributions, external funding, recycled loan repayments, revenue contributions).

8.1 The three year Capital Programme 2020-23 was approved by County Council in February 2020. This took into account the need to set a realistic and deliverable programme and avoid the significant over-programming and subsequent underspending against capital that has been a feature for several years.

8.2 The three year Capital Programme 2021-24 and the longer term 10 year programme provides an updated assessment of the capital financing requirements and the consequent impact on the revenue budget and borrowing strategy.

Capital spending: a reminder of what it is

Capital spending is expenditure 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 for capital expenditure to third parties. Capital spending plans are determined according to the Council's statutory responsibilities and local priorities as set out in the MTFP, with the aim of delivering the vision set out in the Strategic Statement.

Capital spending is funded via a variety of sources including government grants, capital receipts, external contributions and borrowing. Borrowing has to be affordable as the cost of interest and setting aside sufficient provision to cover the initial investment funded by loans, are borne as revenue budget each year based on the life of the asset.

8.3 Appendix A of this report sets out a summary of the proposed 2021-24 programme and associated financing requirements for each year. The analysis also includes projections for the subsequent 7 years as an overall amount. The summary provides a high-level overview for the whole council. The individual directorate pages in appendix B provides more detail of rolling programmes and individual projects.

8.4 A significant proportion of the capital programme is funded by grants from government departments, particularly Department for Education (DfE) and Department for Transport (DfT). In many cases future year's grant allocation notifications have not been received and the capital programme is therefore based on estimates. Some schemes also require external funding e.g. Heritage Lottery Fund (HLF) or Developer Contributions, which may not yet have been secured. Schemes that include significant elements of unsecured funding are shown in italics in the capital programme and will only go ahead if the funding is secured.

8.5 There are a number of risks to capital projects which could either affect the viability of schemes or could require the Council to take out additional short-term borrowing (temporary borrowing until alternative sources of funding are secured) or long-term borrowing (permanent alternative funding). These risks include:

- Higher than anticipated inflation on projects
- Lower than forecast developer contributions
- Lower capital receipt proceeds
- Unforeseen additional costs due to delays or scheme design

We will look to minimise the impact of risks through value engineering of schemes and at this stage no additional capital risks have been factored into the revenue budget plan.

Proposed 2021-22 Revenue – key numbers

£1,129.0m	Net revenue budget proposed for 2021-22. This represents a £65.4m increase on the £1,063.7m original approved budget for 2020-21, and £29.1m on the amended budget of £1,099.9m agreed by Council in September 2020.
£110.1m	Additional proposed spending. This includes both business as usual costs and the impact of recurring additional spending associated with the response to Covid-19. £32.8m relates to recurring base budget changes as per 2020-21 budget amendment, and £77.3m of new spending growth in 2021-22 (excluding changes in reserves). Detail in appendix E.
£39.5m	Proposed savings and income. Of this £34.4m relates to proposed savings, £2.5m additional income generation (mainly fees and charges), and £2.6m anticipated increases in public health grants (yet to be confirmed). Detail in appendix F.
-£5.2m	Net change in reserves. This comprises £17m additional contributions to general and specific earmarked reserves, and £22.2m drawdown from 2020-21 forecast underspends and public health reserves.
£778.7m	Proposed to be raised from Council Tax precept. An increase of £29.3m on 2020-21. -£7.8m is due to 1.04% reduction in the tax base due to increased low income discounts and lower collection rates and +£37.1m is raised from the increase in the household charge up to but not exceeding 5% (including the additional adult social care levy).
£53.4m	Confirmed or indicative government grants. An increase of £4.3m in core grants for 2021-22 and £49.1m additional one-off Covid-19 grants supporting spending and council tax/business rates losses.

Revenue spending: a reminder of what it is

Revenue spending is spent on the provision of day to day services, either directly through KCC staff and operational buildings, or commissioned from third parties. Revenue spending is identified as gross spend and net spend after taking account of service income and specific government grants. The net revenue budget requirement is funded by a combination of council tax, locally retained business rates and un-ring-fenced grants from the Ministry of Housing Communities and Local Government (MHCLG) included in the local government finance settlement. Grants from other government departments are ring-fenced to specific activities and are shown as income to offset the related spending.

9.1 The new additional spending growth of £77.2m is summarised in appendix C and detailed in appendix E. It has been subdivided into the following categories:

Service Strategies and Improvements £13.9m	Various changes to address non-inflationary or demand pressures on services and includes the additional revenue cost of borrowing to support the capital programme and the impact of contract tenders.
Pay £4.6m	Net additional cost of proposed 2% award for most Kent scheme staff subject to discussions with trade unions or subject to pay bargaining, the cost of maintaining the current differential between the lowest pay range (KR2/3) and Foundation Living Wage, and the increased cost of employer pension contributions following the 2019 actuarial review of the Pension Fund.
Price inflation £17.4m	Contractual and negotiated price increases.
Increased demand and cost drivers £16.0m	Full year effect of changes in client numbers and care packages/usage in the current year. Includes estimates for future demand-led increases across a range of services including integrated children's services, home to school transport and concessionary bus travel.
Government & Legislative £3.6m	Changes in spending to ensure the Council complies with latest legislative updates and requirements.
Reduction in specific grants £1.5m	Loss of income due to previously announced reductions in specific grants. The consequential reductions in spending are shown as savings.
Base budget changes £8.5m	Changes to reflect known variations from the current year's approved budget. These adjustments are necessary to ensure the budget continues to be on a sustainable basis.
Replace use of one-offs £11.9m	Replacement of draw down from reserves or other one-off sources of funding to increase financial resilience and provide a sustainable basis for recurring expenditure supported in the current budget. This is not a replenishment of the reserves used to support previous budgets.

9.2 The proposed savings and income have been sub-divided between transformation savings (achieving improved outcomes for less money), efficiency savings (same outcomes for less money), income generation, increases in specific government grants, savings from policy changes, and financing savings (changes in debt repayments and draw down from reserves) in appendix C. Proposed savings and income generation are set out in detail in appendix F.

10.1 Reserves are an important part of the Council's financial strategy and are held to create long-term budgetary stability. They enable the Council to manage change without undue impact on the Council Tax and are a key element of its financial standing and resilience.

10.2 The Council's key sources of funding face an uncertain future and the Council, therefore, holds earmarked reserves and a working balance in order to mitigate future financial risks.

10.3 There are two main types of reserves:

- Earmarked Reserves – held for identified purposes and are used to maintain a resource in order to provide for expenditure in a future year/s.
- General Reserves – these are held for 'unforeseen' events.

10.4 The Council maintains reserves both for its General Fund activities and it accounts for the reserves of schools. The amount of reserves held is a matter of judgment which takes into account the reasons why reserves are maintained and the Council's potential financial exposure to risks. A draft Reserves Policy will be included as an Appendix to the budget report to County Council in February 2020

10.5 The Council holds reserves in order to mitigate future risks, such as increased demand and costs; to help absorb the costs of future liabilities; and to enable the Council to resource policy developments and initiatives without a disruptive impact on Council Tax. Capital reserves play a similar role in funding the Council's capital investment strategy.

10.6 The Council also relies on interest earned through holding cash and investment balances to support its general spending plans.

10.7 Reserves are one-off monies and, therefore, the Council generally aims to avoid using reserves to meet on-going financial commitments other than as part of a sustainable budget plan. The Council has to balance the opportunity cost of holding reserves in terms of Council Tax against the importance of interest earning and long-term future planning.

10.8 Reserves are therefore held for the following purposes:

- Providing a working balance
- Smoothing the impact of uneven expenditure profiles between years e.g. collection fund surpluses or deficits, local elections, structural building maintenance and carrying forward expenditure between years.
- Holding funds for future spending plans e.g. capital expenditure plans, and for the renewal of operational assets e.g. information technology renewal.
- Meeting future costs and liabilities where an accounting 'provision' cannot be justified.

- Meeting future costs and liabilities so as to cushion the effect on services e.g. the Insurance Reserve for self-funded liabilities arising from insurance claims.
- To provide resilience against future risks.
- To create policy capacity in a context of forecast declining future external resources.

10.9 All earmarked reserves are held for a specific purpose. A summary of the movement on each reserve is published annually, to accompany the annual Statement of Accounts.

10.10 Following the review of existing reserves we have established two new reserves; to meet the cost of ICT investments required to deliver the council's Strategic Reset Programme objectives, and to cover feasibility work undertaken to support capital programme planning and delivery. Within the budget proposals we are also proposing that insecure and variable funding sources should not be used to fund base budget core activities (e.g. company dividends, proceeds from Kings Hill) and should instead be held in a new reserve to fund time limited key strategic projects and activities.

10.11 Appendix H (i) sets out in more detail the risks and opportunities facing the council and an assessment of the key factors to take into account to determine the adequacy of reserves. Appendix H(ii) includes a register of the budget risks together with likelihood and potential financial impact.

Appendix	
Summary of Proposed Capital Programme and Financing	A
Capital Programme Proposals by Directorate	B
Summary of Proposed Revenue Budget and Financing	C
Summary of Proposed Directorate Revenue Budgets	D
Proposed Spending Growth in Revenue Budget	E
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Budget Risks and Adequacy of Reserves	H(i)
Budget Risk Register	H(ii)
Medium Term Outlook	I
Capital Strategy	J
Treasury Management Strategy	K
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Annual Minimum Revenue Provision Statement	M
Reserves Policy	N

Background documents

Below are click-throughs to reports, more information,
etc.

Click on the item number to be taken to the relevant
webpage.

KCC's Budget webpage	<u>1</u>
KCC's Corporate Risk Register and Risk Management Policy & Strategy	<u>2</u>
KCC's approved 2020-21 Budget	<u>3</u>
KCC's Budget Consultation, launched on 14 th October 2020	<u>4</u>
KCC's report on 2021 Budget Consultation	<u>5</u>

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APPENDIX A - CAPITAL INVESTMENT SUMMARY 2021-22 TO 2023-24

Capital Investment Plans:

Row Ref	Directorate		Total Cost £000s	Prior Years Spend £000s	Cash Limits			
					2021-22 Year 1 £000s	2022-23 Year 2 £000s	2023-24 Year 3 £000s	Later Years Years 4-10 £000s
					1	Adult Social Care & Health	ASCH	25,150
2	Children, Young People & Education	CYPE	837,300	538,621	182,964	84,539	31,176	0
3	Growth, Environment & Transport	GET	998,144	216,088	215,789	194,213	253,758	118,296
4	Strategic & Corporate Services	S&CS	97,644	18,860	21,578	29,206	28,000	0
5	Feasibility Fund		4,000		1,000	1,000	2,000	
6	Total Cash Limit		1,962,238	777,217	424,248	314,743	318,934	127,096

Funded By:

7	Borrowing		356,955	140,484	151,559	62,197	-285	3,000
8	Property Enterprise Fund (PEF) 2		369	369				
9	Grants		1,067,811	456,963	195,145	153,240	223,351	39,112
10	Developer Contributions		276,848	80,063	28,747	51,327	79,338	37,373
11	Other External Funding e.g. Arts Council, District Contributions etc.		84,389	12,014	12,156	12,292	4,127	43,800
12	Revenue Contributions to Capital		22,901	5,142	8,306	8,851	602	
13	Capital Receipts		66,275	42,475	11,930	8,120	3,750	
14	Recycled Loan Repayments		86,690	39,707	16,405	18,716	8,051	3,811
15	Total Finance		1,962,238	777,217	424,248	314,743	318,934	127,096

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APPENDIX B - CAPITAL INVESTMENT PLANS BY DIRECTORATE 2021-22 TO 2023-24

Adult Social Care & Health (ASCH)

Row Ref	Rolling Programmes**	Description of Project	Three Year Budget £000s	Cash Limits		
				2021-22 Year 1 £000s	2022-23 Year 2 £000s	2023-24 Year 3 £000s
				1	<i>Home Support Fund & Equipment</i>	<i>Provision of equipment and/or alterations to individuals' homes</i>
2	Total Rolling Programmes		500	250	250	0

Row Ref	Individual Projects	Description of Project	Total Cost of Scheme £000s	Prior Years Spend £000s	Cash Limits			
					2021-22 Year 1 £000s	2022-23 Year 2 £000s	2023-24 Year 3 £000s	Later Years Years 4-10 £000s
					3	<i>Developer Funded Community Schemes</i>	<i>Community schemes to be funded by developer contributions</i>	1,737
Kent Strategy for Services for Learning Disability (LD):								
4	<i>Learning Disability Good Day Programme</i>	<i>To provide dedicated space, accessible equipment and facilities for people with a learning disability within inclusive community settings across the county</i>	4,813	1,956	1,957	900	0	0
Kent Strategy for Services for Older People (OP):								
5	<i>Extra Care Facilities</i>	<i>Provision of Extra Care Accommodation</i>	16,800	0	0	4,000	4,000	8,800
Other Individual Projects:								
6	<i>Hedgerows</i>	<i>A new purpose-built facility for people with complex needs and also for adult in-house service provision</i>	1,300	0	665	635	0	0
7	Total Individual Projects		24,650	3,648	2,667	5,535	4,000	8,800
8	Total - Adult Social Care & Health		25,150	3,648	2,917	5,785	4,000	8,800

** Rolling programmes have only been included for two years and a review will be undertaken in early 2021-22 as part of the development of the 10 year capital programme
Italic font: these are projects that are relying on significant elements of unsecured funding and will only go ahead if the funding is achieved.

APPENDIX B - CAPITAL INVESTMENT PLANS BY DIRECTORATE 2021-22 TO 2023-24

Children, Young People & Education (CYPE)

Row Ref	Rolling Programmes**	Description of Project	Three Year Budget £000s	Cash Limits		
				2021-22 Year 1 £000s	2022-23 Year 2 £000s	2023-24 Year 3 £000s
				1	<i>Annual Planned Enhancement Programme*</i>	<i>Planned and reactive capital projects to keep schools open and operational</i>
2	Schools Capital Expenditure funded from Devolved Formula Capital Grants for Individual Schools	Enhancement of schools	9,000	4,500	4,500	0
3	Schools Capital Expenditure funded from Revenue	Expenditure on capital projects by individual schools	10,000	5,000	5,000	0
4	Youth - Modernisation of Assets	To purchase vehicles and equipment for youth services	122	72	50	0
5	<i>Schools' Modernisation Programme*</i>	<i>Improving and upgrading school buildings including removal of temporary classrooms</i>	2,650	650	2,000	0
6	Total Rolling Programmes		40,916	20,693	20,223	0

Row Ref	Page 50 Individual Projects	Description of Project	Total Cost of Scheme £000s	Prior Years Spend £000s	Cash Limits			
					2021-22 Year 1 £000s	2022-23 Year 2 £000s	2023-24 Year 3 £000s	Later Years Years 4-10 £000s
					Basic Need Schemes - to provide additional pupil places:			
7	Basic Need Kent Commissioning Plan (KCP) 2016 & previous years	Increasing the capacity of Kent's schools	326,736	316,052	10,684	0	0	0
8	<i>Basic Need KCP 2017</i>	<i>Increasing the capacity of Kent's schools</i>	155,335	88,118	48,598	18,619	0	0
9	<i>Basic Need KCP 2018</i>	<i>Increasing the capacity of Kent's schools</i>	45,294	10,661	31,133	3,500	0	0
10	<i>Basic Need KCP 2019</i>	<i>Increasing the capacity of Kent's schools</i>	65,176	6,629	31,571	26,976	0	0
11	<i>Basic Need KCP 2021-25</i>	<i>Increasing the capacity of Kent's schools</i>	56,638	0	11,741	13,721	31,176	0
Other Projects								
12	Barton Court Free School	Provision of a new secondary school in Canterbury	26,038	8,546	15,992	1,500	0	0
13	John Wallis Academy	Provision of a new primary school building and relocation of children's centre	5,311	4,998	313	0	0	0
14	<i>Nest 2</i>	<i>Provision of a residential facility for children and young people in Kent and Medway with Autistic Spectrum Conditions (ASC)</i>	1,550	0	1,550	0	0	0
15	Priority School Build Programme (PSBP) 1 & 2	Additional works under the PSBP programme not funded by the Education and Skills Funding Agency (ESFA)	23,414	19,912	3,502	0	0	0
16	Special Schools Review Phase 2	Major programme of building works to ensure facilities are fit for purpose	84,265	83,328	937	0	0	0
17	School Roofs	Structural repairs to school roofs	6,627	377	6,250	0	0	0
18	Total Individual Projects		796,384	538,621	162,271	64,316	31,176	0

APPENDIX B - CAPITAL INVESTMENT PLANS BY DIRECTORATE 2021-22 TO 2023-24

19	Total - Children, Young People & Education		837,300	538,621	182,964	84,539	31,176	0
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Italic font: these are projects that are relying on significant elements of unsecured funding and will only go ahead if the funding is achieved

* Estimated allocations have been included for 2021-22 and 2022-23

** Rolling programmes have only been included for two years and a review will be undertaken in early 2021-22 as part of the development of the 10 year capital programme

APPENDIX B - CAPITAL INVESTMENT PLANS BY DIRECTORATE 2021-22 TO 2023-24

Growth, Environment & Transport (GET)

Row Ref	Rolling Programmes**	Description of Project	Three Year Budget £000s	Cash Limits		
				2021-22	2022-23	2023-24
				Year 1 £000s	Year 2 £000s	Year 3 £000s
Environment, Planning & Enforcement						
1	Country Parks Access and Development	Improvements and adaptations to country parks	160	100	60	0
2	Public Rights of Way	Structural improvements of public rights of way	1,803	903	900	0
3	Public Sports Facilities Improvement	Capital grants for new provision/refurbishment of sports facilities and projects in the community	150	75	75	0
Economic Development						
4	Village Halls and Community Centres	Capital Grants for improvements and adaptations to village halls and community centres	150	75	75	0
Highways, Transportion & Waste						
5	Highways Asset Management/Annual Maintenance and programme of Significant and Urgent Safety Critical Works*	Maintaining Kent's roads	163,202	88,576	74,626	0
6	Integrated Transport Schemes*	Improvements to road safety	7,660	3,805	3,855	0
7	Major Schemes - Preliminary Design Fees	Preliminary design of new roads	380	230	150	0
8	Old Highways Schemes, Residual Works, Land Compensation Act (LCA) Part 1	Old Highways Schemes, Residual Works, LCA Part 1	152	138	12	2
9	Total Rolling Programmes		173,657	93,902	79,753	2

Row Ref	Individual Projects	Description of Project	Total Cost of Scheme £000s	Prior Years Spend £000s	Cash Limits			
					2021-22	2022-23	2023-24	Later Years
					Year 1 £000s	Year 2 £000s	Year 3 £000s	Years 4-10 £000s
Environment, Planning & Enforcement								
10	Digital Autopsy	To provide a body storage and digital autopsy facility	3,000	220	2,280	500	0	0
11	Energy and Water Efficiency Investment Fund - External	Energy Efficiency works	3,089	2,409	190	104	386	0
12	Energy Reduction and Water Efficiency Investment - KCC	Energy Efficiency works	2,426	2,035	96	78	217	0
13	Essella Road Bridge (PROW)	Urgent works to ensure footbridge remains open	300	100	200	0	0	0
14	Leigh (Medway) Flood Storage Area	Contribution to partnership-funded projects to provide flood defences for the River Medway	4,000	0	1,500	0	2,500	0

APPENDIX B - CAPITAL INVESTMENT PLANS BY DIRECTORATE 2021-22 TO 2023-24

Row Ref	Individual Projects	Description of Project	Total Cost of Scheme	Prior Years Spend	Cash Limits			
					2021-22	2022-23	2023-24	Later Years
					Year 1	Year 2	Year 3	Years 4-10
			£000s	£000s	£000s	£000s	£000s	
15	Public Mortuary	To consider options for the provision of a public mortuary	3,000	0	0	0	0	3,000
16	Thanet Parkway	Construction of Thanet Parkway Railway Station to enhance rail access in east Kent and act as a catalyst for economic and housing growth	34,512	8,356	13,551	11,450	1,155	0
17	Windmill Weatherproofing	Works to ensure Windmills are in a safe and weatherproof condition	953	369	279	180	125	0
Libraries, Registration & Archives								
18	Herne Bay Library Plus	Project to refurbish the library and address long-term building issues	469	119	350	0	0	0
19	Southborough Hub	Re-provision of library within new Southborough Hub	12,981	12,923	58	0	0	0
20	Tunbridge Wells Cultural Hub (Amelia)	Contribution to the development of a cultural and learning hub in partnership with Tunbridge Wells Borough Council, including library, registration and adult education	1,668	418	550	350	350	0
Economic Development								
21	Broadband Contract 2	To extend the reach of superfast broadband so that 95% of homes and businesses can access superfast broadband	11,814	10,465	0	1,349	0	0
22	Connecting Rural Kent & Medway Broadband Project	Getting Building Fund Project to improve rural broadband connectivity through an enhanced top up voucher scheme	2,291	261	2,030	0	0	0
23	Innovation Investment Initiative (i3)	Provision of loans to small and medium enterprises with the potential for innovation and growth, helping them to improve their productivity and create jobs	11,345	7,098	1,102	1,203	971	971
24	Javelin Way Development	To provide accomodation for creative industries and the creation of industrial units	9,184	4,207	4,977	0	0	0
25	Kent & Medway Business Fund	New fund using recycled receipts from Regional Growth Fund, TIGER and Escalate, to enable creation of jobs and support business start ups	38,038	16,218	9,150	12,670	0	0
26	Kent Empty Property Initiative - No Use Empty (NUE)	Bringing long term empty properties including commercial buildings and vacant sites back into use as quality housing accommodation	46,657	33,818	5,443	4,556	0	2,840
27	Marsh Million	Supporting economic growth on Romney Marsh to develop new jobs and business opportunities following the decommissioning of Dungeness Power Station	1,397	968	342	87	0	0
28	The Kent Broadband Voucher Scheme	Voucher scheme to benefit properties in hard to reach locations	2,862	300	500	2,062	0	0

APPENDIX B - CAPITAL INVESTMENT PLANS BY DIRECTORATE 2021-22 TO 2023-24

Row Ref	Individual Projects	Description of Project	Total Cost of Scheme	Prior Years Spend	Cash Limits			
					2021-22	2022-23	2023-24	Later Years
					Year 1	Year 2	Year 3	Years 4-10
			£000s	£000s	£000s	£000s	£000s	
Highways, Transportion & Waste								
29	A2 Off Slip Wincheap, Canterbury	To deliver an off-slip in the coastbound direction	4,400	0	1,500	2,199	701	0
30	A226 St Clements Way	Road improvement scheme	6,807	6,623	80	60	44	0
31	A2500 Lower Road Improvements	Junction improvements to increase capacity	5,260	5,250	10	0	0	0
32	A28 Chart Road, Ashford	Strategic highway improvement	26,247	3,719	141	528	8,999	12,860
33	Bath Street, Gravesend	Bus Lane project - Fastrack programme extension	5,520	0	5,520	0	0	0
34	Dartford Town Centre	A package of works to improve economic performance of Dartford Town Centre	12,000	5,090	6,408	502	0	0
35	Dover Bus Rapid Transit	To provide a high quality and reliable public transport service in the Dover area, funded from Housing Infrastructure funding.	16,084	2,095	8,055	5,809	125	0
36	Electric Vans	Electric vehicles and charging infrastructure funded by government grant	1,512	1,277	235	0	0	0
37	Fastrack Full Network - Bean Road Tunnels	Construction of a tunnel linking Bluewater and the Eastern Quarry Development,	13,890	1,942	10,248	1,700	0	0
38	Gravesham Swing Bridge	Restoration of an opening bridge	2,550	733	1,017	800	0	0
39	Green Corridors	Programme of schemes to improve walking and cycling in Ebbsfeet	7,400	500	3,500	3,400	0	0
40	Herne Relief Road	Provision of an alternative route between Herne Bay and Canterbury to avoid Herne village	7,691	637	2,437	2,898	1,398	321
41	Housing Infrastructure Fund - Swale Infrastructure Projects	Improvements to A249 Junctions at Grovehurst Road and Keycol Roundabout	38,632	1,396	5,300	13,176	18,760	0
42	Kent Active Travel Fund Phase 2	Investment in active travel initiatives as an alternative to the travelling public for shorter journeys	4,878	200	2,950	1,728	0	0
43	Kent Medical Campus (National Productivity Investment Fund NPIF)	Project to ease congestion in Maidstone	11,309	5,649	5,660	0	0	0
44	Kent Thameside LSTF - Integrated door-to-door journeys	Package of measures to reduce congestion	7,518	5,008	2,510	0	0	0
45	Kent Thameside Strategic Transport Programme	Strategic highway improvement in Dartford & Gravesham	38,205	1,327	8,280	21,500	7,098	0
46	LED Conversion	Upgrading street lights to more energy efficient LED lanterns & implementation of Central Monitoring System	40,754	39,658	1,096	0	0	0
47	Live Labs	Research project into use of digital technology and intelligent analytics within Highways Asset Management	1,975	1,775	200	0	0	0
48	Maidstone Integrated Transport	Improving transport links with various schemes in Maidstone	10,850	6,584	2,316	1,950	0	0
49	Manston Green	Project to deliver a junction improvement scheme	6,290	0	0	1,213	4,215	862
50	Market Square Dover	Project to improve access and public realm at Market Square in Dover	2,940	570	2,360	5	5	0

APPENDIX B - CAPITAL INVESTMENT PLANS BY DIRECTORATE 2021-22 TO 2023-24

Row Ref	Individual Projects	Description of Project	Total Cost of Scheme	Prior Years Spend	Cash Limits			
					2021-22	2022-23	2023-24	Later Years
					Year 1	Year 2	Year 3	Years 4-10
			£000s	£000s	£000s	£000s	£000s	
51	M20 Junction 4 Eastern over bridge	Carriageway widening	6,196	6,153	22	13	8	0
52	<i>Newingreen A20 Junction Improvement</i>	<i>Junction improvement scheme</i>	3,038	2	120	2,500	416	0
53	New Transfer Station - Folkestone & Hythe	To provide a new waste transfer station in Folkestone & Hythe	9,585	201	1,000	8,384	0	0
54	Rathmore Road Link	Road improvement scheme	8,008	7,873	69	66	0	0
55	Street Lighting Concrete Column - Replacement Scheme	Replacement of concrete columns	2,629	2,543	86	0	0	0
56	<i>Sturry Link Road, Canterbury</i>	<i>Construction of bypass</i>	29,600	2,030	6,061	11,440	7,627	2,442
57	Tunbridge Wells Junction Improvements	Junction improvements to ease congestion	1,957	1,226	731	0	0	0
58	Waste Compactor Replacement	To replace waste compactors at Household Waste Recycle Centres to ensure efficient waste site operation	1,070	443	627	0	0	0
59	West Kent local sustainable transport - tackling congestion	Package of measures to reduce congestion and carbon footprint	6,050	5,300	750	0	0	0
60	<i>A229 Bluebell Hill M2 & M20 Interchange Upgrades</i>	<i>Scheme to upgrade junctions to increase capacity and provide freeflowing interchange wherever possible</i>	99,657	0	0	0	99,657	0
61	<i>A28 Birchington, Acol and Westgate-on-Sea Relief Road</i>	<i>Creation of a relief road</i>	49,000	0	0	0	49,000	0
62	<i>Thanet Way</i>	<i>Structural improvement to the Thanet Way A299</i>	50,000	0	0	0	50,000	0
63	<i>A228 Colts Hill Strategic Link - Road Scheme</i>	<i>Construction of bypass</i>	45,000	0	0	0	0	45,000
64	<i>Orchard Way Railway bridge, Ashford</i>	<i>Strategic highway improvement</i>	15,000	0	0	0	0	15,000
65	<i>South East Maidstone Strategic Link - Road Scheme</i>	<i>Construction of bypass</i>	35,000	0	0	0	0	35,000
66	Total Individual Projects		824,487	216,088	121,887	114,460	253,756	118,296
67	Total - Growth, Environment & Transport		998,144	216,088	215,789	194,213	253,758	118,296

Italic font: these are projects that are relying on significant elements of unsecured funding and will only go ahead if the funding is achieved

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APPENDIX B - CAPITAL INVESTMENT PLANS BY DIRECTORATE 2021-22 TO 2023-24

Strategic & Corporate Services (S&CS)

Row Ref	Rolling Programmes**	Description of Project	Three Year Budget £000s	Cash Limits		
				2021-22 Year 1 £000s	2022-23 Year 2 £000s	2023-24 Year 3 £000s
1	<i>Corporate Property Strategic Capital Delivery*</i>	<i>Costs associated with delivering the capital programme</i>	5,000	2,500	2,500	0
2	<i>Disposal Costs</i>	<i>Costs of disposing of surplus property</i>	1,300	650	650	0
3	Modernisation of Assets (MOA)	Maintaining KCC estates	5,696	3,000	2,696	0
4	Total Rolling Programmes		11,996	6,150	5,846	0

Row Ref	Individual Projects	Description of Project	Total Cost of Scheme £000s	Prior Years Spend £000s	Cash Limits			
					2021-22 Year 1 £000s	2022-23 Year 2 £000s	2023-24 Year 3 £000s	Later Years Years 4-10 £000s
5	Asset Utilisation	Strategic utilisation of assets in order to achieve revenue savings and capital receipts	2,043	219	920	904	0	0
6	Asset Utilisation - Oakwood House Transformation	Reconfiguration of Oakwood House to relocate other KCC services and release assets	7,027	684	3,343	3,000	0	0
7	Community Sexual Health Services	Development of premises for delivery of community sexual health services	1,589	839	750	0	0	0
8	<i>Strategic Reset Programme</i>	<i>Shape our organisation through our people, technology & infrastructure, identifying & connecting priority projects for maximum impact</i>	8,000	0	1,000	2,000	5,000	0
9	<i>Dover Discovery Centre</i>	<i>Refurbishment to make the building fit for purpose</i>	6,066	281	2,000	3,785	0	0
10	<i>LIVE Margate</i>	<i>Replace empty and poorly managed housing in Margate with high quality and well managed family housing to regenerate the area</i>	10,208	8,437	300	1,471	0	0
11	<i>MOA Plus</i>	<i>Works required to ensure KCC buildings are fit for purpose and are in a statutory compliant condition</i>	15,715	6,600	5,115	4,000	0	0
12	<i>Strategic Estate Programme</i>	<i>Options for the council's future strategic estate.</i>	35,000	1,800	2,000	8,200	23,000	0
13	Total Individual Projects		85,648	18,860	15,428	23,360	28,000	0
14	Total - Strategic & Corporate Services		97,644	18,860	21,578	29,206	28,000	0

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Appendix C - High Level 2021-22 Revenue Budget

2020-21			2021-22	
£000s	£000s		£000s	£000s
	986,374.4	Approved Base Budget per 13th February 2020 County Council		1,063,654.3
		Recurring Base Budget changes per Budget Amendment approved at County Council 10th September 2020		32,821.8
		Growth Proposals		
10,153.4		Net Base Budget Changes	8,512.3	
21,115.2		Replacement of Use of Reserves and Other One-off Budget Solutions	11,892.5	
1,400.0		Reduction in Grant Funding	1,463.3	
7,893.0		Pay	4,609.6	
23,806.5		Prices	17,316.8	
21,229.0		Demand & Cost Drivers	16,007.5	
9.5		Government & Legislative	3,638.6	
		<u>Service Strategies and Improvements</u>		
		Contributions to reserves	17,000.0	
21,867.3		Other	13,865.4	
	107,473.9	Growth Proposals		94,306.0
		Total Growth Proposals including recurring changes to budgets in the Budget Amendment approved at County Council 10th September 2020		127,127.8
		Savings & Income		
		<u>Transformation Savings</u>		
-6,200.0		Adults Transformation Programmes	-7,700.0	
-1,733.0		Other Transformation Programmes	-1,024.0	
-6,253.0		Income Generation	-2,459.1	
4,451.9		Increases in Grants & Contributions	-2,642.0	
		<u>Efficiency Savings</u>		
-40.0		Staffing	-481.9	
-110.0		Premises	-108.0	
-4,245.2		Contracts & Procurement	-7,450.6	
-842.0		Other	-2,748.4	
		<u>Financing Savings</u>		
-9,061.5		Drawdowns from reserves	-22,227.3	
-5,066.0		Other	-5,913.0	
-1,095.2		Policy Savings	-8,995.9	
	-30,194.0	Total Savings & Income		-61,750.2
	1,063,654.3	Net Budget Requirement		1,129,031.9
		<u>Funded by</u>		
9,641.7		Revenue Support Grant	9,695.0	
10,530.9		Social Care Support Grant	34,366.8	
23,835.9		New Social Care Grant for 2021-22	4,776.5	
		Covid 19 grant	32,357.0	
		Compensation for irrecoverable local taxation losses due to Covid 19 *	2,511.6	
		Local Council Tax Support grant *	14,281.5	
138,429.0		Business Rate Top-Up Grant	138,429.0	
48,544.2		Improved Better Care Fund	48,544.2	
20,830.0		Other un-ringfenced grants *	20,293.8	
55,938.0		Local Share of Retained Business Rates *	48,700.6	
2,562.9		Business Rate Collection Fund *	-586.5	
683,653.7		Council Tax Yield (including increase up to referendum limit but excluding social care levy)	691,369.1	
65,789.7		Council Tax Adult Social Care Levy	87,335.0	
3,898.3		Council Tax Collection Fund	-3,041.7	
	1,063,654.3	Total Funding		1,129,031.9
		* These figures are estimates and are subject to change		

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APPENDIX D

2021-22 PROPOSED BUDGET BY DIRECTORATE

	ASCH	CYPE	GET	PH	S&CS	Non Apportionable	TOTAL
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
2020-21 Base Budget approved by County Council on 13th February 2020	410,401.9	274,420.6	182,571.0	0.0	84,240.2	112,020.6	1,063,654.3
Growth Proposals <i>(including recurring changes to budgets included in the Budget Amendment approved at County Council 10th September 2020)</i>	40,099.7	35,883.8	4,112.6	7,912.6	11,946.8	27,172.3	127,127.8
Savings & Income Proposals	-13,003.5	-6,411.3	-8,511.6	-7,912.6	-1,444.8	-24,466.4	-61,750.2
TOTAL 2021-22 PROPOSED BUDGET	437,498.1	303,893.1	178,172.0	0.0	94,742.2	114,726.5	1,129,031.9

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Appendix E - Detailed 2021-22 Revenue Growth Proposals

Directo rate	Heading	Description	TOTAL £000s
	Base Adjustments (internal) 2020-21 Budget Amendment	Recurring changes to budgets included in the Budget Amendment approved at County Council 10th September 2020	32,821.8
	Growth Proposals	Details provided of growth proposals where there is an element of choice	
	<i>Net Base Budget Changes</i>	<i>Growth proposals based on current and forecast activity levels</i>	8,512.3
	Various	Total changes for current known levels of activity	328.2
	Various	Total known unavoidable changes	3,608.0
	Covid related provision	Revisions to estimated Covid related provisions approved in the September 2020 budget amendment	-9,000.0
CYPE	Special Educational Needs & Disability (SEND)	Impact of Covid 19 pandemic on referrals for Education, Health and Care Plan assessments	500.0
NA	Investment Income	Impact of Covid on the financial markets resulting in a reduced return on our investments	2,150.0
	Growth for Strategic Statement Priorities	Releasing the uncommitted balance of the base funding provided in the 2020-21 budget for high impact improvements in support of Strategic Statement Priorities to help balance the 2021-22 budget	-2,862.2
CYPE	Dedicated Schools Grant (DSG)	Provision for temporarily offsetting the reductions in Central Services Schools Block DSG and costs which have been charged to DSG but no longer meet the criteria of the grant, until longer term solutions are identified	7,000.0
S&CS	Corporate Landlord - Adult Social Care accommodation	Provision for annual cost of occupying NHS buildings - under new leases, KCC would be liable to pay rent and service charges for buildings that have always been occupied free of charge.	200.0
S&CS	Corporate Landlord	Provision for potential loss of rental income from tenants who deferred rent from 2020-21 and have subsequently gone out of business	200.0
S&CS	Corporate Landlord	Potential savings on utilities and facilities management costs from buildings remaining closed	-133.0
GET	Trading Standards	Loss of income from "Check Trade" service as service launched without fees being charged to ease impact on businesses during covid pandemic	21.3
NA	Return from our companies	Remove the dividends from our companies from the base budget due to their insecure and variable nature. Future returns to be used to fund time limited activities to support Strategic Priorities	6,500.0
	<i>Replace use of one-offs</i>	<i>Planned removal of one-off use of reserves and underspends in approved base budget for 2020-21</i>	11,892.5
CYPE & PH	<i>Reduction In Grant Income</i>	<i>Total known unavoidable changes</i>	1,463.3
	<i>Pay and Prices</i>		
	<i>Pay</i>		4,609.6
	Various	Total known unavoidable changes	293.0
All	Pay and Reward	Contribution to pay pot and impact on base budget of uplifting pay grades. This contribution together with the savings from staff turnover will provide a pay pot capable of providing a 2% uplift for all staff, subject to negotiations with Trade Unions	4,100.0
PH	Public Health Pay & Pensions	Estimated impact of increases in NHS Pension costs and KCC pay award for KCC Public Health staff	216.6

Appendix E - Detailed 2021-22 Revenue Growth Proposals

Directo rate	Heading	Description	TOTAL £000s
	<u>Inflation</u>		17,316.8
	Various	Total changes for current known levels of activity	-853.1
	Various	Total known unavoidable changes	3,652.9
ASCH & CYPE	Adult Social Care	Provision for contractual and negotiated price increases across all adult social care packages including nursing, residential, domiciliary, supporting independence and direct payments. Contracted services already allow for separate uplifts for National Living Wage/National Minimum Wage and Consumer Prices elements through formulaic approach	10,512.2
CYPE	Children's Social Care	Provision for price negotiations with external providers and uplift to in-house foster carers in line with DFE guidance	1,117.0
NA	Levies	Estimated increase in Environment Agency Levy together with impact of estimated change in taxbase	24.3
PH	Public Health contracts	Estimated increase in contract prices due to uplift in NHS Pension costs	2,357.0
PH	Public Health - Sexual Health & Healthy Lifestyles	Increased costs of prescription drugs due to impact of Brexit	506.5
	<i>Demand & Cost Drivers</i>	<i>Additional spending associated with change in demand, population growth and other cost drivers</i>	16,007.5
	Various	Total known unavoidable changes	2,594.1
ASCH & CYPE	Adult Social Care	Estimated impact of an increase in client numbers and additional costs resulting from existing and new clients whose needs are becoming more complex, including the transition of known clients at age 26 from Lifespan Pathway age 18-25	7,354.7
CYPE	Children's Social Care	Estimated impact of an increase in the population of children in Kent, leading to increased demand for children's social work and disabled children's services	3,235.0
CYPE	Home to School transport - SEN	Estimated impact of rising pupil population on SEN Home to School and College Transport	2,798.0
CYPE	Home to School transport - Mainstream	Estimated impact of rising pupil population on Mainstream Home to School transport	339.0
GET	English National Concessionary Travel Scheme	Temporary reduction in journeys travelled due to the Covid 19 pandemic	-2,000.0
PH	Public Health - Sexual Health	Increase in online contract for sexual health services based on anticipated service trends	150.0
PH	Public Health - Healthy Lifestyles	Increase in number of people eligible for health checks based on predicted population growth for 40-70 year olds	124.0
CYPE	Special Educational Needs & Disability (SEND)	Increasing number of Education Health & Care Plan assessments	200.0
GET	Waste	Increase in kerbside waste collection due to more homeworking during the Covid pandemic, the cost of which is higher to process than waste disposed of at HWRCs, where waste tonnage has reduced due to current restrictions	1,144.0
PH	Public Health	Other minor demographic pressures	68.7
	<i>Government & Legislative</i>		3,638.6
	Various	Total known unavoidable changes	1,201.0
GET	Coroners Service	A reduction in the additional budget provided in 2019-20 for the new burdens impact of the Medical Examiner Service, and new responsibilities and services as a result of legislative reform including increased responsibilities in relation to Duty Officer Scheme	-80.0
PH	Public Health - Sexual Health	Additional premises costs as a result of Covid-19	75.0
PH	Public Health - Children's	Additional premises costs for Children's Centres	100.0
S&CS	Corporate Landlord	Increase in cleaning costs of buildings to ensure they are Covid secure	200.0
S&CS	Infrastructure	Additional ICT equipment and peripherals to enable more flexible working required as a result of Covid	250.0

Appendix E - Detailed 2021-22 Revenue Growth Proposals

Directo rate	Heading	Description	TOTAL £000s
S&CS	Contact Centre	Continuation of the Kent Together service, a single convenient point of contact for anyone in the county who is in urgent need of help during the Covid pandemic	150.0
S&CS	Personal Protective Equipment	Warehousing and distribution costs of PPE	360.0
CYPE	Community Learning & Skills	Continued loss of income as a result of the Covid pandemic	150.0
GET	Regeneration	Continuation of the Covid Business Help Line	200.0
GET	Coroners	Increased referrals, a backlog of cases due to delays and additional measures required social distancing as a result of the Covid pandemic	320.0
GET	Library Service	Continued loss of income as a result of the Covid pandemic	146.3
GET	Registration Service	Continued loss of income as a result of the Covid pandemic	506.3
GET	Loss of Service income	Continued loss of income as a result of the Covid pandemic in a number of smaller services such as Country Parks, Kent Scientific Services, Public Rights of Way & Planning Applications	60.0
Service Strategies & Improvements			30,865.4
	Various	Total changes for current known levels of activity	146.1
	Various	Total known unavoidable changes including additional debt charges relating to prior year capital programme decisions	10,649.0
CYPE	Special Educational Needs & Disability (SEND)	Implementation of our joint Written Statement of Action with the Kent Clinical Commissioning Groups to improve services for children with Special Educational Needs and Disabilities following inspection by Ofsted and the Care Quality Commission	500.0
NA	Capital Programme	Impact on debt charges of review of 2021-24 capital programme	-1,830.0
GET	Highway Maintenance Contract	Removal of one-off set up costs in 2020-21 associated with the recommissioning of the highways term maintenance contract, including procurement and pre-commencement costs	-425.0
GET	Economic Development Recovery Plan	Re-design of the service to accommodate the Economic Recovery Plan following the Covid pandemic	150.0
GET	Economic Development Straits Committee	Support for the new Straits Committee, an initiative for cross border relations with local authorities of Nord Pas de Calais, East Flanders, West Flanders and Zeeland following the UK departure from the EU.	100.0
GET	Highways Drainage	Increase base budget provision for clearing highways drains	1,250.0
PH	Public Health - Children's Programme	Investment in Bereavement Counselling Service	175.0
PH	Public Health - Mental Health	Investment in Suicide Bereavement Counselling Service	125.0
ASCH	Loneliness & Social Isolation Select Committee	Removal of one-off additional costs in 2020-21 of implementing initiatives to tackle loneliness and social isolation as recommended by the Select Committee, including an awareness raising campaign; expanding community transport schemes and implementing a social prescribing model which enables organisations to refer people to a range of services that offer support for social, emotional and practical needs.	-50.0
GET	Waste enforcement	Removal of temporary funding provided in 2019-20 and 2020-21 to strengthen waste enforcement activity to work in conjunction with the District Councils to combat fly tipping	-125.0
GET	Business Case/bid writing development	To increase capacity to bid for external funding to support future capital projects for enhancing infrastructure in Kent	150.0
S&CS	Kent Public Services Network (KPSN)	Removal of one-off provision in 2020-21 for potential loss of business from schools thereby increasing the cost to KCC of core provision	-424.7
CYPE	Education Basic Need Programme	Provision for COVID specific expenses in relation to the basic need programme (provision of sufficient school places)	1,121.0

Appendix E - Detailed 2021-22 Revenue Growth Proposals

Directo rate	Heading	Description	TOTAL £000s
S&CS	Systems Development	Investment in systems to enable greater flexible working and optimal use of office space including digitalisation of paper records, electronic signatures and desk booking system	555.0
PH	Public Health - Children's Programme	New online platform aimed at parents	100.0
PH	Public Health - Substance Misuse	Outreach service for homeless and change resistance drinkers	100.0
PH	Public Health - Children's Programme	Maintain resilience hub for children's services	100.0
PH	Public Health - Sexual Health	Integrated Sexual Health Electronic Patient Record system	50.0
PH	Public Health - Healthy Lifestyles	Investment in Kent Sports Unit	100.0
PH	Public Health - Healthy Lifestyles	Additional investment in voluntary sector	100.0
PH	Public Health - Children's Programme	Investment in Children's Centres	1,000.0
GET	Planning Applications	Provide enforcement resource to address significant increase in unauthorised development and breaches of planning control across the county	75.0
GET	Public Rights of Way	Increase the number of surveyors in order to better identify risk and enable more effective asset management together with an increase in minor works and maintenance	150.0
	Other	Other minor service improvements	24.0
NA	Contribution to reserves - workforce reduction	Contribution to Workforce Reduction reserve to manage the impact on staffing of the policy savings required over the medium term	3,000.0
NA	Contribution to Reserves	Contribution to General Reserves to improve financial resilience	14,000.0
Total Additional Growth Proposals			94,306.0
Total Additional Growth Proposals and Recurring base adjustments included in the 2020-21 budget amendment			127,127.8

DIRECTORATE BREAKDOWN

ASCH	Adult Social Care & Health	40,099.7
CYPE	Children, Young People & Education	35,883.8
GET	Growth, Environment & Transport	4,112.6
PH	Public Health	7,912.6
S&CS	Strategic & Corporate Services	11,946.8
NA	Non Apportionable	27,172.3
		127,127.8

Appendix F - Detailed 2021-22 Revenue Savings and Income

Direct orate	Heading	Description	TOTAL £000s
<u>Savings and Income</u>			
<u>Transformation Savings</u>			-8,724.0
	Various	Full year effect of existing savings	-197.8
ASCH	Adult Social Care service redesign	The redesign of the Adult Social Care operating model, focusing on social care practice, data led decision making and innovation which will reduce and manage the costs and future demand for social care	-7,700.0
CYPE	Foster Care	Savings in Independent Foster Agency placement costs resulting from recruitment of additional in house foster carers	-726.2
GET	Sport and Physical Activity	Fund from Public Health Grant	-100.0
<u>Income</u>			-2,459.1
	Various	Full year effect of existing savings	-93.0
	Various	Routine savings in line with existing policy	-1,754.5
GET	Economic Development	Increase in profit share from East Kent Opportunities joint venture with Thanet District Council	-100.0
PH	Public Health Pay & Pensions	Additional income from Kent Community Health Foundation Trust to cover staff costs	-126.6
PH	Public Health - Children's Programme	Additional income from CCG for Bereavement Counselling Service	-175.0
PH	Public Health - Mental Health	Additional income from CCG for Suicide Bereavement Counselling Service	-125.0
GET	Trading Standards	New income stream from safeguarding against rogue traders	-85.0
<u>Increases in Grants & Contributions</u>			-2,642.0
PH	Public Health Grant	Anticipated increase in Public Health Grant pending announcement from Department of Health and Social Care including funding for PrEP	-2,642.0
<u>Efficiency Savings</u>			
<u>Staffing</u>			-481.9
GET	Staffing Restructures	Service re-design, integration of services and more efficient ways of working resulting in a reduction of staff and staff related costs	-30.0
PH	Public Health - Mental Health	Reduction in suicide prevention costs due to loss of income	-345.9
PH	Public Health	Realignment of staffing related budgets	-106.0
<u>Infrastructure</u>			-108.0
PH	Public Health - Sexual Health	Maintain virtual delivery of Psychosexual Health Counselling post Covid 19	-8.0
PH	Public Health - Sexual Health	Rationalisation of properties used for providing Sexual Health services	-100.0
<u>Contracts & Procurement</u>			-7,450.6
	Various	Full year effect of existing savings	-1,920.8
	Various	Routine savings in line with existing policy	-242.0
GET	Highways	One-off use of grant funding to offset cost of works and operating fees	-2,000.0
PH	Public Health - Sexual Health	Increased take-up of online sexual health services	-87.8
ASCH	Hospital Discharge	Improvements in the efficiency and effectiveness of discharge pathways by jointly commissioning services with the NHS that support pathways for hospital discharge and hospital avoidance	-1,000.0

Appendix F - Detailed 2021-22 Revenue Savings and Income

Direct orate	Heading	Description	TOTAL
			£000s
GET	Reduction of cost to process residual waste	Renegotiation of gate fee at offtakers dealing with residual waste	-200.0
CYPE	Home to School Transport - Procurement	Restructure and Retender the SEN transport network to achieve efficiencies	-2,000.0
	<u>Other</u>		-2,748.4
	Various	Routine savings in line with existing policy	-290.0
GET	Libraries, Registration & Archives (LRA)	Release of Libraries, Registration & Archives Ambition delivery budget	-75.0
CYPE	Central Services for Schools	Efficiency savings to offset the balance of the 2020-21 reduction in Dedicated Schools Grant: Central Services for Schools Block yet to be resolved. One off funding from reserves was provided in 2020-21 to provide time to consider more permanent solutions	-700.0
CYPE	Central Services for Schools	Efficiency savings to offset the anticipated 20% annual reduction in Dedicated Schools Grant: Central Services for Schools Block	-1,117.4
S&CS	Early retirements	Review of early retirement budget	-500.0
GET	Sustainable Business & Communities	Reduce external support for delivery of environment and climate change evidence-bases, analysis/ engagement/ partnership activity, and on renewable energy projects	-66.0
	Financing Savings		-28,140.3
NA	Debt repayment	Reduction in overall level of prudential borrowing as a result of rephasing in prior years; assessment of government funding levels to finance the capital programme and review amounts set aside for debt repayment (MRP) based on review of asset life	-5,913.0
CYPE	Public Health	One off release of Public Health reserve for funding Children's Centres	-500.0
PH	Public Health Reserves	Use of Public Health reserves to fund invest to save initiatives and one-off costs	-2,957.7
PH	Test & Trace grant reserve	Use of 2020-21 Test and Trace grant held in reserves to fund the test and trace programme	-216.2
NA	Drawdown corporate reserves	Drawdown of reserves related to underspending in 2020-21	-18,553.4
	Policy Savings		-8,995.9
	Various	Full year effect of existing savings	-193.5
GET	Prevention of queuing at Household Waste Recycling Centres (HWRCs)	Improvements to the customer experience and to prevent traffic queuing through the management of daily demand at HWRCs through the retention of a booking system at the HWRCs.	-1,300.0
GET	One-off Library Material Funds reduction	One-off reduction in Materials budget that is used to purchase all books, physical and e-books, magazines and newspapers as well as all our online resources and study resources	-300.0
GET	Household Waste Recycling Centre - charging	Introduce charging for the use of Kent HWRCs for all non-Kent residents	-100.0
S&CS	Member Community Grants	Reduction in Member Community Grants budget from £20k to £10k per Member	-810.0
GET	Economic Development	Review of core services	-100.0
ASCH	Adult Social Care - Non Framework Placements	Maximising the use of negotiated framework providers to improve quality and efficiency	-1,000.0
GET	Highways Fees and Charges	Review of Highways Asset Management and Transportation Team Fees & Charges and increase above usual rate of inflation uplift	-50.0

Appendix F - Detailed 2021-22 Revenue Savings and Income

Directorate	Heading	Description	TOTAL
			£000s
GET	Capitalisation of Highways Inspectors time	Capitalisation of staff time involved in statutory inspections which result in highway repair works	-100.0
GET	Libraries, Registration & Archives fees and income	Increase in fees and charges for library and registration services	-50.0
GET	Highways development agreement & pre-application charges	Increase Highways, Transport & Waste development agreement fees and pre-application charges by 10%	-120.0
GET	Strategic Planning & Infrastructure	Digitise only existing or immediately available data in 2021-22 to inform a refreshed Growth and Infrastructure Framework	-75.0
GET	Regeneration	Review of grants to and contracts with Kent's Regeneration Organisations	-250.0
GET	Review of Economic Development spend	Capitalisation of project management, staff time and legal costs and other savings related to Economic Development activity	-200.0
CYPE	Children's Services Placement Cost Reductions - Care Leavers & Looked After Children	Review and rationalise the Care Leavers offer where appropriate including maximising use of housing benefit where possible	-1,125.0
GET	Arts	Review of grants to and contracts with Kent's Arts & Creative Organisations	-50.0
ASCH	Strategic Review of In House Adult Social Care Services	This review will be undertaken to determine the future role of the service. In 2021-22, whilst the review is underway, there will be a continuation of the current management action, which will deliver the required savings, until the review is completed	-1,750.0
CYPE	Home to School Transport (HTST) - Hubs	Introduction of standard pick up points for HTST for SEN children, for whom it is appropriate	-100.0
GET	Turner Contemporary	Reduction of revenue investment to Turner Contemporary	-80.0
GET	Review of Community Wardens	Freeze current vacant posts	-220.0
PH	Public Health - Healthy Lifestyles	Retain virtual delivery of the Postural Stability Service post covid	-100.0
PH	Public Health - Healthy Lifestyles	Reduce the contribution to voluntary sector provided during lockdown	-70.0
PH	Public Health - Children's Programme	Remove the additional investment in childhood obesity	-400.0
PH	Public Health - Sexual Health	Reduce spend on Sexual Health activity	-26.8
PH	Public Health - Children's Programme	Reduce spend on Canterbury Early Years project	-9.6
PH	Public Health - Children's Programme	Reduce spend on Oral Health promotion	-30.0
PH	Public Health - Children's Programme	Remove Hearing Screening for school age children	-256.0
PH	Public Health - Children's Programme	Reduce spend on Targeted Relationships	-100.0
PH	Public Health - Healthy Lifestyles	Reduce spend on the Healthy Walks programme	-30.0
Total savings and Income			-61,750.2

DIRECTORATE BREAKDOWN

ASCH	Adult Social Care & Health	-13,003.5
CYPE	Children, Young People & Education	-6,411.3
GET	Growth, Environment & Transport	-8,511.6
PH	Public Health	-7,912.6
S&CS	Strategic & Corporate Services	-1,444.8
NA	Non Apportionable	-24,466.4
		-61,750.2

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National Fiscal and Economic Context

A) Public Spending

Spending Review 2020 (SR2020) sets out the government's spending plans. The total public spending is referred to as Total Managed Expenditure (TME). This is broken down into departmental expenditure limits (DEL) and annually managed expenditure (AME). Fixed DEL budgets are set for each department. Spending that is considered difficult to control within fixed budgets due to its size or volatility is categorised as AME. Budgets are separated into capital, which generally equates to spending that scores within Public Spending Gross Investment (PSGI) in the national accounts, and resource, generally within Public Sector Current Expenditure (PSCE). Table 1 provides a high-level summary of spending plans from SR2020. TME accounts for 39.8% of the country's total output (measured as Gross Domestic Product, (GDP)) in 2019-20, 56.3% forecast for 2020-21 and 45.6% forecast for 2022-23. Further statistical tables from SR2020 are reproduced at the end of this appendix.

Table 1

	£ billion						
	Outturn	Forecast					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Public sector current expenditure (PSCE)							
PCSE in AME	409.1	494.0	422.9	435.6	450.0	463.4	481.0
PSCE in RDEL	345.2	506.1	439.6	397.0	412.8	430.5	449.1
of which:							
Core RDEL	343.0	369.9	384.6	397.0	412.8	430.5	449.1
Covid-19 related	2.2	141.1	55.0				
Ring-fenced Depreciation	35.6	28.8	30.3	31.3	32.5	33.9	35.4
Total PCSE	790.0	1,028.9	892.8	863.8	895.3	927.8	965.4
Public sector gross investment (PSGI)							
PSGI in AME	23.3	29.4	18.3	19.4	22.9	23.3	23.3
PSGI in CDEL	70.4	106.3	100.4	107.3	109.1	112.8	117.4
of which:							
Core CDEL	70.4	97.2	98.8	107.3	109.1	112.8	117.4
Covid-19 related		9.1	0.6				
Total PSGI	93.7	135.7	118.7	126.7	132.0	136.1	140.7
Total Managed Expenditure	883.7	1,164.6	1,011.5	990.5	1,027.4	1,064.0	1,106.1

The element of local government expenditure funded by central government grants is included in Resource DEL (RDEL)/Capital DEL (CDEL). The element funded from local taxation is included in AME. Table 2 is an extract from the SR2020 publication showing the amounts included in Ministry of Housing, Communities and local Government (MHCLG) DEL for local government, and the government's estimate of the overall core spending power (CSP) for local government as a whole taking account of the departmental element and the assumed tax receipts included in AME. The increased RDEL for 2021-22 includes the inflationary uplift in Revenue Support Grant (RSG) and an additional £300m social care support grant (in addition to the social care support grants included in the current year settlement)

Table 2 – in £ billions

	2019-20	2020-21	2021-22
Resource DEL excluding depreciation[1]	7.5	8.6	9.1
Covid-19 resource DEL excluding depreciation	1.6	3.52	3.0
Total DEL3	9.1	12.1	12.0
Core Spending Power (CSP)	46.2	49.0	51.2

1 Local government DEL figures provide a consistent series for core local government grant, adjusting for technical budget switches and movements in grant between years. They reverse the switch from DEL to AME for Business Rates Retention Pilots, of £1.4 billion in 2019-20, £0.8 billion in 2020-21 and £0.6 billion in 2021-22. They remove the £0.9 billion New Homes Bonus switch from LG DEL to MHCLG Communities DEL in 2020-21 and the early payment of £1.5 billion business rates reliefs compensation, moved from 2020-21 to 2019-20.

2 Covid-19 Resource DEL does not include compensation for the additional Covid-19 business rates reliefs, which totals £11.0 billion in 2020-21.

3 Total DEL figures represent the sum of rows above, including adjustments to provide a more consistent time series. They therefore differ from the LG DEL control totals in the DEL table in the statistical annex

The £3bn Covid-19 resource is to provide local authorities with additional funding in 2021-22 to support the response to the pandemic including:

- £1.55bn of additional grant funding to help local authorities to meet additional spending pressures as a result of Covid-19 in 2021-22
- £0.67bn of additional grant funding to help local authorities manage the cost of households least able to afford council tax payments
- An estimated £0.762bn to compensate local authorities for 75% of irrecoverable loss of council tax and business rates revenue in 2020-21 that would otherwise need to be funded through local authority budgets in 2021-22 and later years
- Extending the existing Covid-19 sales, fees and charges reimbursement scheme for a further 3 months until June 2021.

Further details of the allocations of the core grants and Covid-19 are included in the section on the provisional local government finance settlement in the main report. This settlement does not include specific grants from other government departments RDEL such as Department for Health and Social Care, Department for Education, Department for Transport, Home Office, etc. Notifications of the grants from these departments are received separately.

B) Borrowing and Debt

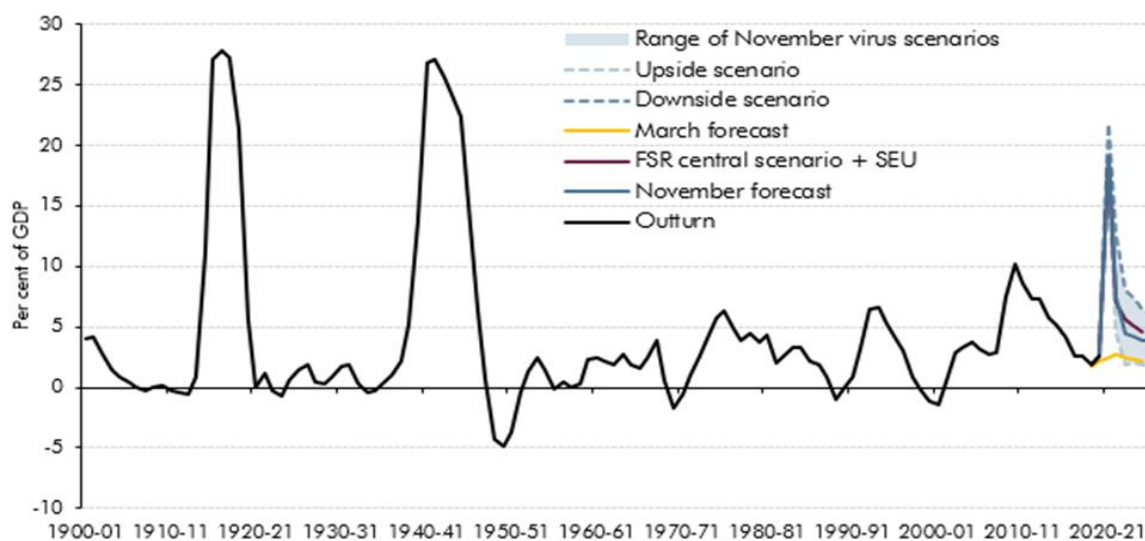
The Covid-19 pandemic has presented an extraordinary and unexpected challenge to the UK economy and economies across the world. The combination of additional public spending both on dealing with the pandemic and the economic fallout from the subsequent recession, and reduced tax yields, has resulted in an unprecedented peacetime budget deficit. Table 3 shows the central Office for Budget Responsibility (OBR) fiscal forecasts for public sector spending, receipts, net borrowing, and total debt. In the central scenario spending in 2020-21 is forecast to be £281bn higher than the previous year and receipts £57bn lower, resulting in an annual deficit of £394bn. It should be noted that the economic outlook remains highly uncertain and the OBR have produced a number of alternative scenarios reflecting different assumptions on the path of the virus and its impact on the economy (with a range for the annual deficit of £353bn to £440bn under the various scenarios for the pace of economic recovery).

Table 3

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
OBR Fiscal Forecasts	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Total Public Spending	883.7	1,164.6	1,011.5	990.5	1,027.4	1,064.0	1,106.1
(as % of GDP)	39.8%	56.3%	45.6%	42.1%	42.1%	42.0%	41.9%
Total Public Receipts	827.6	771.0	847.3	885.9	927.0	964.4	1,004.3
(as % of GDP)	37.3%	37.3%	38.2%	37.7%	38.0%	38.0%	38.1%
Net Borrowing	56.1	393.5	164.2	104.6	100.4	99.6	101.8
(as % of GDP)	2.5%	19.0%	7.4%	4.4%	4.1%	3.9%	3.9%
Total Accumaltd Debt	1,800.5	2,273.9	2,478.4	2,602.2	2,720.9	2,714.1	2,816.6
(as % of GDP)	85.5%	105.2%	108.0%	108.6%	109.4%	105.0%	104.7%

Under the OBR forecasts government borrowing is at its highest level since 1944-45, and total accumulated debt at 105% of GDP at its highest level since 1959-60. Chart 1 is an extract from the OBR report showing current borrowing forecasts in an historical context.

Chart 1



Source: ONS, OBR

In the OBR central forecast borrowing reduces to around £102bn (3.9% of GDP) by 2025-26, but even on the loosest conventional definition of balancing the books, a fiscal adjustment of £27 bn (1% of GDP) would be required to match day-to-day spending to receipts by the end of the five-year forecast period.

C) Economic Forecasts

The OBR central forecast is that the size of the UK economy, as measured by Gross Domestic Product (GDP), will reduce by 11.3% in the current year (11.8% per capita). This is the largest annual reduction in over 300 years. Under the various scenarios, the upside GDP shrinks by 10.6% in the current year, and the downside by 12%.

In the OBR's upside scenario, consistent with a vaccine becoming widely available in the spring of 2021, activity rebounds quickly and GDP recovers to pre-virus levels by the end of 2021, and there is no enduring economic scarring. However, under the downside scenario, where subsequent waves of infection require periodic re-imposition of health restrictions, output does not recover to its pre-virus levels until the third quarter of 2024 with persistently higher levels of unemployment and enduring economic scarring.

Table 4 is an extract from the OBR report which summarises the scenarios and economic impact, which was produced before the introduction of the new tier 4 and latest national lockdown restrictions.

Table 4

	Virus scenarios		
	Upside	Central	Downside
Public health assumptions			
Lockdown ends	2 December	2 December	2 December
Test, trace and isolate	Effective	Partly effective	Ineffective
Public health restrictions: lockdown to vaccine ¹	Medium-low	High-medium	Very high ²
Vaccines widely available	From Spring 2021	From mid-2021	Ineffective
Economic effects (per cent, unless otherwise stated)			
Real GDP growth in 2020	-10.6	-11.3	-12.0
Return to pre-virus peak (2019Q4)	2021Q4	2022Q4	2024Q4
Peak unemployment rate	5.1	7.5	11.0
Long-term GDP scarring	0.0	3.0	6.0
Fiscal effects (per cent)			
Public sector net borrowing in 2020-21	16.7	19.0	21.7
Public sector net borrowing in 2025-26	1.7	3.9	6.1
Public sector net debt in 2025-26	90.5	104.7	123.1
Budget 2020 fiscal targets			
Current budget balance in 2023-24	Met	Not Met	Not Met
Net investment below 3 per cent of GDP	Met	Met	Not Met
Debt interest to revenue ratio below 6 per cent	Met	Met	Met

¹ Low, medium and high are broadly equivalent to October 2020 tiers 1, 2 and 3 in England. Very high is between October 2020 tier 3 and November 2020 lockdown in England.

² Restrictions to ease to low by end of 2021.

All the OBR scenarios assume a smooth transition to a free-trade agreement with the EU in the new year. However, they also described an alternative scenario in which the Brexit negotiations ended without a deal. This would have further reduced output by 2% initially, and by 1½% at the end of the forecast period.

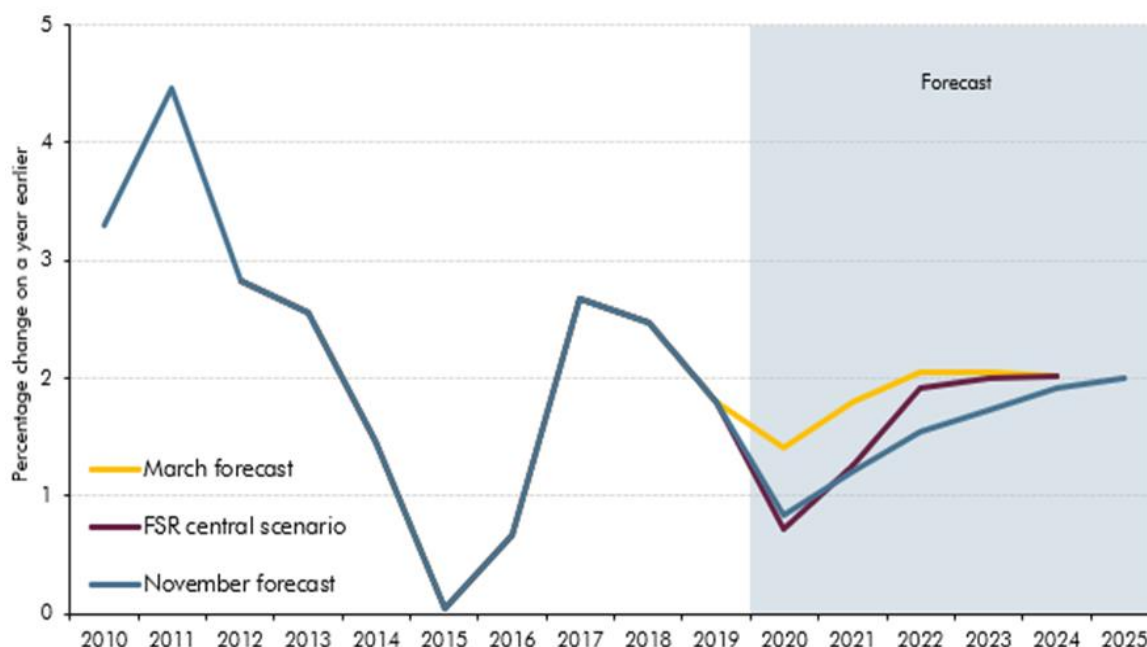
The OBR central forecast for unemployment is for it to peak at 7.5% in quarter 2 of 2021 (up from 4% in quarter 1 of 2020), with a subsequent recovery to 4.4% by quarter 4 of 2024. Under the upside scenario unemployment would peak at 5.1% in quarter 2 of 2021, with a more rapid and full recovery to 3.9% by quarter 1 of 2022. Under the downside the peak would be higher and later at 11% in quarter 1 of 2022, recovery would be slower and more damaging with unemployment at 5.2% at quarter 1 of 2025. The changes in forecast unemployment levels are shown in table 5. Unemployment will have a greater impact on the Council than previous recessions following the localisation of council tax support for low income households.

Table 5

Unemployment Forecasts	Central Forecast		Upside Scenario		Downside Scenario	
	Rate	Quarter	Rate	Quarter	Rate	Quarter
Prior to Pandemic	4.0%	2020Q1	4.0%	2020Q1	4.0%	2020Q1
Peak Rate	7.5%	2021Q2	5.1%	2021Q2	11.0%	2022Q1
Recovery to	4.4%	2024Q4	3.9%	2022Q1	5.2%	2025Q1

3.14 Forecasts for Consumer Price Index (CPI) inflation fall under all three scenarios from 1.8% last year to 0.8% in 2020, due in part to lower indirect taxes and energy prices, as well as increased slack in the economy. Inflation remains subdued over the next three years, primarily due to relatively weak average earnings growth, returning to the 2% target by the end of 2024. Chart 2 shows the OBR forecasts for CPI.

Chart 2



Source: ONS, OBR

Average earnings are forecast to continue to rise this year in the upside and central scenarios, despite the pandemic. In the medium term, earnings growth picks up steadily as labour market slack declines, reaching 3.5% by 2025. Chart 3 shows the OBR forecasts for earnings growth.

Chart 3



Source: ONS, OBR

Budget risks and adequacy of reserves

When setting the draft budget and MTFP, Corporate Directors have provided their best estimate of their service costs and income based on the information currently available to them. However, there will always be factors outside of the Council's direct control which have the potential to vary the key planning assumptions that underpin those estimates.

There are a number of significant risks that could affect either the level of service demand (and therefore service delivery costs) or its main sources of funding. In addition, there are general economic factors, such as the level of inflation and interest rates that can impact on the net cost of services going forward. Pressures in service demand are demonstrated in children's and adults social care and home to school and special educational needs transport.

Similarly, there are opportunities to either reduce costs or increase income which will not, as yet, be fully factored into the planning assumptions. The main risks and opportunities are summarised below.

Risks

Covid-19 Pandemic

- Public health and wellbeing – both residents and staff
- Increase in service demand – especially mental health, social care, drug and alcohol misuse and domestic abuse
- Increased levels of unemployment and financial hardship, with poverty exacerbating existing inequalities
- Economic impact on Council funding
 - Decreased business rates and council tax income
 - Decreased sales, fees and charges income
 - Decreased treasury investments income due to lower interest rates

Impact of decision to leave European Union (Brexit)

- Potential workforce impact arising from direct or indirect employment of EU nationals.
- Supply chains could be affected by any changes in procurement legislation, and there are potential cost implications associated with currency fluctuations.
- The implications for pension funds are mixed as global investment vehicles have already priced in much of the uncertainty, but valuations on balance sheets and the cost of borrowing may lead to greater vulnerability.
- Commercial strategies may need to take into account the potential for any downturn in demand for properties in their investment portfolios which impact rental income and profitability.

Regulatory Risk

- **Business Rate Reset** – A proposed business rates reset by the Ministry of Housing, Communities and Local Government (MHCLG) means that the baseline level will be raised in 2022-23 to the current level of business rates.
- **Fair Funding Review** - The government has committed to reforming the way local authorities are funded. Its Fair Funding Review aimed to introduce a new funding formula from April 2021, now delayed to at least April 2022. Given the impact of the pandemic, it may bring into question whether the review will happen at all. Nevertheless, the government has said that the Fair Funding Review will: -
 - set new baseline funding allocations for local authorities;
 - deliver an up-to-date assessment of the relative needs of local authorities;
 - examine the relative resources available to local authorities;
 - focus initially on the services currently funded through the local government finance settlement;
 - be developed through close collaboration with local government to seek views on the right approach.

General Economic Factors

- Economic growth slows down or disappears
- A general reduction in debt recovery levels
- Reductions in grant and third party funding
- Reductions in the level of income generated through sales, fees and charges
- Increase in fraud

Increases in Service Demand

- Adult Social Care homecare and residential care services
- Children's Social Care including an increase in the number of looked after children, unaccompanied asylum seekers or those with no recourse to public funds
- General demographic trends (including a rising and ageing population)
- Impact of unemployment and changes to Welfare Benefits

Efficiencies and Savings Programme




- Slippage in the expected delivery of the savings programme
- Non-delivery of savings remains a risk to the Council and will be monitored during the year

Opportunities

- Growth in local taxbase for both housing and businesses
- Service transformation and redesign including digital services
- Invest to save approach to reduce revenue costs

Adequacy of Reserves

Reviewing the level of reserves the Council holds is an important part of the budget setting 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. The assessment of reserves is based on factors recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) as set out below together with an indication of the direction of travel (up arrow represents an improved position i.e. the risk is less than it was last year).

Assumptions for inflation		Inflation has been on a downward trend since its peak of 2.8% in autumn 2017 (barring the occasional seasonal fluctuation). Rates of inflation have fallen sharply during 2020 as a result of the Covid-19 pandemic due to lower indirect taxes and energy prices, as well as significant slack in the economy. Office for Budget Responsibility (OBR) forecasts are for inflation to remain below the 2% target until the end of 2024
Estimates of the level and timing of capital receipts		The Council uses receipts as part of the funding for the capital programme. The Council has not applied the flexible use of capital receipts to fund revenue costs since the 2018-19 budget and does not propose to use the extension to 2021-22. Delivery of receipts against the target has fallen behind in recent years necessitating additional short-term borrowing/use of reserves. Performance in the current year has been sluggish due to the economic turbulence and although there is a reasonable pipeline of assets for disposal the risk profile for potential delays remains high.
Capacity to manage in-year budget pressures and strategy for dealing with demand and service delivery in the longer term		2020-21 has been a highly unusual year due to the Covid-19 pandemic. The pandemic has placed substantial additional spending pressures and income losses on the Council. The latest forecast is that additional un-ringfenced and specific grants are broadly sufficient to cover the impact in year for 2020-21, although forecasts do not fully reflect the impact of the second wave of infections, the additional restrictions imposed in

November/December and the latest national lockdown. The sustained period of lockdown and subsequent restrictions have also resulted in significant in year underspends against the base budget for some services.

Although the local government finance settlement is better than expected for 2021-22 it is still insufficient to fully fund additional spending growth and relies heavily on council tax increases. The Council has taken a new approach to funding demographic pressures for 2021-22 and budgets will only be adjusted as and when demand growth has actually led to additional spending, with an expectation that services will manage demand pressures more effectively. To mitigate this risk the Council's general reserves have been increased.

Strength of financial reporting and ability to activate contingency plans if planned savings cannot be achieved



There continues to be a reasonable degree of confidence in the validity of financial reporting despite the uncertainties caused by the pandemic and economic turbulence. Reporting has been enhanced to include separate analysis of budget variances for business as usual activities and the impact of Covid-19. Most of the attention has focussed on capturing the Covid-19 impact although it is not always possible to completely separate out the core service and Covid-19 impacts.

Some areas of spending can still be changed at short notice if required as a contingency response if planned savings cannot be achieved (or there are unexpected changes in spending). However, there is also a plan to increase general reserves as part of 2021-22 budget strategy. This is in response to heightened risks and therefore does not improve the direction of travel.

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



The Covid-19 pandemic has seen improved partnership working with NHS and districts. However, further sustained improvements are still needed to change the direction of travel.

Trading conditions for Council owned companies have been incredibly challenging and earlier in the year one company suffered from a cyber breach which affected several systems.

A number of outsourced contracts are due for retender and although provision for revised tender costs have been made in the budget the Council is still vulnerable to price changes due to market

conditions.

The ability to sustain the capital programme remains a significant challenge. The programme focuses on securing the Council's statutory responsibilities although there are still shortfalls in funding for some elements of the programme. The Council has recognised that increasing borrowing to unsustainable levels to fund infrastructure is not an option and this is being addressed as part of the further work to develop the council's ten-year capital strategy and programme.

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



The Council has included additional contributions to general reserves in the 2021-22 budget in response to increased risks and to improve resilience. The Council has also undertaken a comprehensive review of its existing reserves and established new reserves to meet the cost of ICT investments required to deliver the council's Strategic Reset Programme objectives and to cover feasibility work undertaken to support capital programme planning and delivery.

The levels of legacy borrowing remain relatively high with 88% of debt not due to mature within the next 5 years. The debt includes loans taken out under the previous supported borrowing regime and more recent loans taken out under the prudential regime. Just over 10% of debt is in long term Lender Option Borrower Option Loans which can only be redeemed without significant penalties at the lender's discretion.

In recent years the Council has adopted a policy of funding additional borrowing requirements from reserves rather than additional external borrowing. Whilst this remains sustainable for the next 2 to 3 years without impacting on long term investments it needs to be kept under review.

The Authority's record of budget and financial management including robustness of medium-term plans



The Council continues to have a sound record of effective financial management delivering the outturn within budget and with a small underspend in each of the last 20 years up to 2019-20.

Due to uncertainty over future government settlements the Council did not formally publish a medium term financial plan for 2020-23. However senior leadership were provided with a number of potential medium to longer term scenarios in advance of agreeing 2020-21 budget.

The forecast impact of the Covid-19 pandemic

required the Council to consider a formal amendment to the 2020-21 budget in September 2020 to ensure that budget plans continued to balance. This amendment included an additional £12.8m of savings and income. A medium term plan outlook for 2021-2024 has been produced.

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. As for all councils, the Covid-19 pandemic impacted on the Council's ability to close the 2019-20 accounts. The draft outturn was reported to Cabinet on 22nd June outlining the main overspends and underspends together with roll-forward requests. A net underspend of £6.2m was reported which included £3.1m roll forward requests. The draft accounts were approved in October 2020 and signed off in November 2020.

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



The Council continues to have adequate reserves although some significant risks remain unresolved which could impact on reserves if a solution is not found.

The most significant risk at the start of 2020-21 was the continuing underlying deficit and accumulated debt on the High Needs Block of 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 councils. To date the government has not provided councils with sufficient funding and has not introduced structural reforms to eliminate the overspends or repay the deficits. Whilst the government has confirmed that DSG deficits do not have to be covered from the General Fund, the level of debt remains unsustainable posing a considerable risk in the absence of funding and structural reforms. The Council is updating its DSG deficit recovery plan in light of further projected overspends during 2020-21.

In previous years the Council has had to use reserves to fund shortfalls in grant from Home Office to support unaccompanied asylum seeking children and care leavers. Whilst the Council has had some success in negotiating sufficient grant for the current year, the Council is continuing to lobby for compensation for the impact of previous shortfalls on the Council's reserves.

Another concern is the grant funding made available to prepare for EU transition or to deal with significant disruption. Whilst additional funding has been allocated to 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.

At this stage the additional funding for the Covid-19 pandemic has ensured there is no forecast material impact on reserves in the current year but the full impact remains highly uncertain.

The general financial climate including future expected levels of funding



Spending Review 2020 only covers 2021-22. There are no specific departmental spending plans beyond the provisional local government settlement for 2021-22. Added to the lack of indicative funding settlement is a worsening of the ability to forecast additional spending demands and council tax/business rates funding following the pandemic and subsequent economic recession. Furthermore the anticipated reforms to business rate retention and fair funding review have been further delayed by the pandemic. The combination of these makes medium term financial planning highly uncertain. Plans can only be prepared based on a range of potential scenarios. This is consistent with the scenario approach adopted by the Office for Budget Responsibility (OBR) in the national economic and fiscal outlook.

The adequacy of insurance arrangements



The Council's insurance policies were reviewed in January 2016, insuring the same levels of risk as previously, 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 used to assess risk and the adequacy of reserves, one has shown an improvement from twelve months ago, six are relatively unchanged, and four 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.

The review of existing reserves is being finalised. All reserves have been reviewed to ensure the Council enhances compliance with Local Authority Accounting Panel (LAAP) Bulletin 99. This bulletin set out the recommendations on the purposes for holding reserves. Reserves are split between general reserves (working balance to help cushion the impact of uneven cashflows/avoiding unnecessary temporary borrowing and contingency to cushion the impact of unexpected events/emergencies) and earmarked reserves to build up funds for known/predicted specific events. The review includes the closure of reserves where the original predicted events are now unlikely and the establishments of new reserves.

The budget proposals for 2021-22 include a net drawdown to reserves of £5.2m.

Appendix H(ii): Budget Risks Register 2021-22

TOTAL	40,000	235,000
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Directorate	Risk Title	Source/Cause of Risk	Risk Event	Consequence	Current Likelihood (1-5)	Financial Impact (range if known) £000's	
						from	to
Page 83	Covid 19 additional revenue costs/ loss of income	<p>Additional costs arising from the impact of the Covid 19 pandemic and the consequential loss of income for services exceed the estimates included in the budget. Additional costs could arise from:</p> <ul style="list-style-type: none"> * needing to make further continuity payments to support the market in key service areas such as social care, transport and early years * increased demand to address unmet need in adults and children's social care, domestic abuse, mental health and drug and alcohol services as a consequence of the national lockdown and related restrictions * the impact of changes to the way people access our services such as waste recycling * provision of emergency response services * support for vulnerable residents, local communities and businesses <p>Loss of income could arise from reduced take up of services or council decisions to waive fees to support residents and businesses.</p>	Financial impact of Covid 19 pandemic continues and increases and is not fully compensated by Government. The situation is still too uncertain and unpredictable to quantify at this stage.	Additional unfunded costs that lead to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years. Circa £50m of government emergency grant funding which the government have provided for Covid-19 has already been used to support the 2021-22 revenue budget.	5	0	?
ALL	Capital - additional Covid 19 Costs	Additional costs arising from the Covid 19 pandemic exceed the capital estimates and are not fully reimbursed by Government.	Project costs increase due to additional Covid measures that contractors have to put in place and higher costs passed on by contractors.	Overspend on the capital budget, impacting on future years and borrowing.	5	0	?

Appendix H(ii): Budget Risks Register 2021-22

Directorate	Risk Title	Source/Cause of Risk	Risk Event	Consequence	Current Likelihood (1-5)	Financial Impact (range if known) £000's	
						from	to
CYPE	High Needs Demand	The Dedicated Schools Grant (DSG) High Needs Block does not meet the cost of demand for placements in schools, academies, colleges and independent providers.	There is an unacceptable deficit on the unallocated Schools Budget (DSG) Reserve. Whilst this has been partially mitigated by agreeing with the Schools' Forum a 1% transfer of the Schools Block into the High Needs Block over three years, which has been submitted to the Secretary of State to approve, this still leaves a material forecast overspend on the high needs budget in 2021-22 and further increases the accumulated deficit on the unallocated Schools Budget (DSG) Reserve. A deficit recovery plan will need to outline how the council intends to address this issue. However it is acknowledged that this is a structural deficit and legislative changes will be required in addition to policy and service changes at a local level. It is also noted that any changes will take time to embed and reduce costs going forward.	The government now requires the total deficit on the schools budget to be carried forward each year and not allow local authorities to offset with general funds without express approval from the Secretary of State. In addition, the DSG deficit should also be held separately from the main council accounts until March 2023. This approach does not resolve how the deficit will be eliminated and therefore still poses a substantial risk to the Council. Without legislative change it is unlikely that local policy changes will reduce the deficit sufficiently. Any reductions to existing funding rates could have an adverse impact on schools, academies, colleges and independent providers. (Continuation of policy of not using general KCC reserves to top up DSG).	5	30,000	40,000
GET	Capital - highways grant allocation	The Highways DfT capital grant allocation is announced at a lower amount than built into the funding assumptions for the capital rolling programme of asset management, replacement and maintenance of all highways assets	Pending decisions on Government Department priorities, the annual Block Maintenance, Integrated Transport and Incentive Fund grants (currently some £33m per annum) are confirmed at a reduced level for 2021-22 (and beyond) resulting in KCC having insufficient funding to continue at current budgeted and approved service/investment levels	A funding gap exists when compared to the budgeted spending plans. Therefore either additional funding would be required, KCC capital programme re-prioritised, or alternatively service levels/spend would need to be reviewed. In light of increased investment in recent years, and with roads/other highways assets continuing to deteriorate due to increasing traffic volumes, the asset management backlog would continue to grow at a quicker rate than currently.	5	5,000	15,000
ASCH	Backlog of Social Care clients	There is a backlog of social care clients awaiting assessment that have been funded by the NHS since the start of the pandemic	As part of the response to the pandemic, the NHS assumed financial responsibility for people discharged into care from hospital. These individuals are due to be assessed to determine who will be responsible for funding their care. This means they may become the financial responsibility of the County Council rather than the NHS or as self funders.	Additional unfunded cost that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	5	0	7,000

Appendix H(ii): Budget Risks Register 2021-22

Directorate	Risk Title	Source/Cause of Risk	Risk Event	Consequence	Current Likelihood (1-5)	Financial Impact (range if known) £000's	
						from	to
S&CS	Corporate Landlord: NHS Properties occupied by ASCH free of charge under prior agreements	NHS Property Services took over management of these properties several years ago and have issued retrospective invoices for rent and service charges. These are disputed by KCC as no agreements are in place to pay rent and service charges.	New leases agreed with NHS Property Services Ltd which are in excess of the budget provision and a settlement is required in relation to backdated charges.	Additional unfunded cost that leads to an overspend on the revenue budget, requiring alternative in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	5	0	1,000
ASCH	Increased cost of care packages for service users due to price and need	Demographic assumptions relating to the price, number and complexity of care packages for adult social care clients are greater than budgeted	Insufficient budget for changes in the cost of care packages	Additional unfunded cost that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	5	0	?
ALL	Capital - Developer Contributions	Developer contributions built into funding assumptions for capital projects are not all banked.	Developer contributions are delayed or insufficient to fund projects at the assumed budget level.	Additional unbudgeted forward funding requirement and potential unfunded gaps in the capital programme	4	0	28,747
ALL	Capital - Building Inflation	Capital project costs are subject to higher than budgeted building inflation.	Increase in building inflation above that built into business cases.	Capital projects cost more than budgeted resulting in an overspend on the capital budget.	4	0	2,100
GET	Revenue - drainage	Persistent heavy rainfall and more frequent storm events mean insufficient revenue and capital budget to cope with the reactive and proactive demands on the service	Following a £2.2m overspend in 2019-20 and a forecast £1.4m overspend in 2020-21 on the revenue drainage budget, the base budget for 2021-22 is being increased by £1.25m. It is not being funded at the level of the overspends on the basis that the past two years have been excessively bad in terms of rainfall and storm events. The risk is that this weather pattern continues and additional unbudgeted funding required.	Additional unfunded cost that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves	4	0	2,000
GET	Coroners restructure of service	Significant one-off costs required if service transforms to one Senior Coroner led jurisdiction as opposed to the current multiple Senior Coroners structure	Service implements new structure that will have a number of one-off costs associated with the restructuring of the service	Additional unfunded cost that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	4	0	500
S&CS	Highways unadopted land	Maintenance costs for residual pieces of land bought by Highways for schemes and subsequently tiny pieces not required or adopted.	Work becomes necessary on these pieces of land and neither Highways or Corporate Landlord have budget to pay for it.	Work needs to be completed whilst estates work to return the land to the original landowner	4	0	50

Appendix H(ii): Budget Risks Register 2021-22

Directorate	Risk Title	Source/Cause of Risk	Risk Event	Consequence	Current Likelihood (1-5)	Financial Impact (range if known) £000's	
						from	to
ALL	Non Delivery of Savings	Changes in circumstances due to covid or other factors such as delayed elections, result in delays in the delivery of agreed savings	Inability to progress with savings plans as scheduled due to changing circumstances	Overspend on the revenue budget, requiring alternative compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	3	0	22,200
ALL	Capital - Capital Receipts	Capital receipts not yet banked are built into the budget to fund projects.	Capital receipts are not achieved as expected in terms of timing and/or quantum.	Funding gap on capital projects requiring additional forward funding.	3	0	11,930
ALL	BREXIT and EU Transition	The Council requires full reimbursement from Central Government for the additional costs in preparing for BREXIT and dealing with potential significant disruption during the transition period	Full cost reimbursement not received from government. The grants received to date in 2018-19 and 2019-20 have not been sufficient to cover the council's additional spending on BREXIT preparations (£1.2m anticipated shortfall over the two years)	Additional unfunded cost that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves	3	5,000	7,000
ASCH	Underlying cost pressure in operational care budgets in 2020-21	3 areas with underlying cost pressures, PD Residential & Supported Living, MH Residential & Supported Living & OP Homecare (partly arising from the impact of Covid) This could include pent-up demand that has not been addressed during Covid-19 lockdowns and/or supporting clients who become eligible for support due to complications arising from lockdown	Cost pressures are not reduced by year end and continue into 2021-22 with an even greater full year cost	Additional unfunded cost that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	3	0	3,283
Non Apportionable	Loss of Investment Income	Investments can go down as well as up. For 2021-22 and future years investment income will reflect lower interest rates and reduced dividend income from pooled funds. Rates are likely to be at current levels for some time to come. Extent and timeframe of impact of Covid-19 on financial markets uncertain.	Performance of our investments falls below predicted levels as a result of external factors such as impact of Covid-19 on the economy	Reduction in investment income and fall in capital values leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves Potential recurring budget pressure for future years.	3	0	3,000
CYPE	Troubled Families	The Government grant allocation for KCC for 2021-22 has not been confirmed. Commitments total £2.952m.	There is a risk that the service is unable to reduce costs sufficiently to match the reduced level of grant funding and achieve the Government's expected outcomes.	Additional unfunded cost that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	3	0	2,952

Appendix H(ii): Budget Risks Register 2021-22

Directorate	Risk Title	Source/Cause of Risk	Risk Event	Consequence	Current Likelihood (1-5)	Financial Impact (range if known) £000's	
						from	to
S&CS	Uplift in Public Health Grant	It is anticipated that additional costs relating to NHS Pensions will be passed through to commissioners of Public Health services from 2021-22 onwards. This would be in addition to NHS pay increases and the costs associated with the transfer of responsibility around PrEP.	The increase in the Public Health grant is less than these increases in costs to Public Health.	(i) Public Health reserves would be exhausted (ii) Additional unfunded cost that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves.	3	0	2,642
CYPE	Change for Kent Children Programme (Service Integration)	The programme is reliant on recruiting and retaining sufficient newly qualified social workers and foster carers	Inability to recruit and retain sufficient newly qualified social workers resulting in continued reliance on agency staff, at additional cost. Inability to recruit and retain sufficient foster carers resulting in continued reliance on external commissioned placements, at additional cost.	Additional unfunded cost that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	3	0	2,400
CYPE Page 87	SEN Reprourement	Restructure and retender the SEN network and development of hub pick up points	Total savings are not in line with initial estimates. The reprourement coincides with the SEND OFSTED reinspection process resulting in possible delays	Additional unfunded cost due to delay or non-delivery of saving that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	3	0	2,100
GET	English National Concessionary Travel Scheme (ENCTS) journey levels	ENCTS journeys are not expected to return to their pre-Covid-19 levels for 1-2 years and a £2m reduction has been reflected in the MTFP	Activity levels return to a level of journeys in excess of the revised budget, therefore causing a financial pressure.	Additional unfunded cost that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	3	0	2,000
Non Apportionable	Unexpected cash flows	Unexpected costs such as Covid-19 which have not been allowed for in the cash flow forecasts	Value of payments exceed the cash balances available	Short term borrowing required that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves.	3	0	1,000
S&CS	Making temporarily closed buildings covid secure	The Council may come under public pressure to open up more buildings which are currently closed, as restrictions relax. These will need to be made Covid secure	Decision made to open buildings that are currently closed that then need to be made Covid secure	Increased unfunded Facilities Management and utilities costs that lead to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	3	0	350

Appendix H(ii): Budget Risks Register 2021-22

Directorate	Risk Title	Source/Cause of Risk	Risk Event	Consequence	Current Likelihood (1-5)	Financial Impact (range if known) £000's	
						from	to
ASCH	Market Sustainability	The long term impact of Covid-19 and long term concerns about the sustainability of the adult social care market particularly residential and nursing care provision is unknown but is likely to require significant reshaping	If occupancy levels fall below an affordable level, providers will look to the council to potentially pay more for beds to compensate for loss of self funders. Significant market reshaping will require funding to make changes in the type and range of care provided	Additional unfunded cost that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	3	0	?
ASCH	Sleep in Nights	Court of Appeal ruling in favour of MENCAP that sleep nights do not constitute paid work and thus are not subject to requirement to comply with National Living Wage is overturned by the Supreme Court. The new contracts provide for sleep nights from April 2020 so the risk only remains if this Court of Appeal rules that this needs to be backdated.	UNISON has already lodged an appeal to the Supreme Court which results in a ruling that directs us to pay higher than budgeted sums for sleep in nights	Additional unfunded cost that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	3	0	?
ALL	Capital Costs	Pre-Capital Works Expenditure.	Capital project doesn't proceed as planned and capital costs are transferred to revenue.	Aborted capital cost that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves.	3	0	?
ALL	Inflation	The Council must ensure that the Medium Term Financial Plan (MTFP) includes robust estimates for spending demands.	Inflation rises above the current MTFP assumptions.	Additional unfunded cost that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	3	0	?
ALL	Demand	The Council must ensure that the Medium Term Financial Plan (MTFP) includes robust estimates for spending demands.	Demand for business as usual services exceeds the budget available e.g. children's social care, older people, waste, public transport, coroners etc.	Additional unfunded cost that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	3	0	?
CYPE	Capital - Basic Need Allocations	Estimates of future basic need allocations are included in the capital programme.	Basic need allocations are less than expected.	Funding gap for basic need projects which will need to be funded either by reprioritising the capital programme or by additional borrowing with a consequential unbudgeted impact on the revenue position of the costs of borrowing.	2	0	12,682
ALL	VAT Partial Exemption	KCC VAT Partial Exemption Limit is almost exceeded.	Additional capital schemes which are hosted by KCC result in partial exemption limit being exceeded.	Loss of ability to recovery VAT that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	2	0	8,700

Appendix H(ii): Budget Risks Register 2021-22

Directorate	Risk Title	Source/Cause of Risk	Risk Event	Consequence	Current Likelihood (1-5)	Financial Impact (range if known) £000's	
						from	to
GET	Investment in the Public Rights of Way (PROW) network	Insufficient funding to adequately maintain the PROW network	Condition of the PROW network suffering from under-investment. A modest £150k allocation has been included in the 2021-22 but additional one-off and base funding is likely to be needed for a service that is already operating at funding levels below recommended asset management levels. This has been further exacerbated by the increased usage arising from the covid related restrictions and national lockdown	The potential for claims against the council due to injury and from landowners and the need to undertake urgent works that lead to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves.	2	0	2,000
Non Apportionable	Internal Borrowing	Inability to continue with the policy of internal borrowing leading to the need to revert to external borrowing	Cash balances are insufficient to cover both our borrowing requirements and our daily cash flow needs	Increased costs of borrowing that lead to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	2	0	1,000
S&CS	Backlog of maintenance for properties transferring to Corporate Landlord	Maintenance backlog historically funded by services from reserves or time limited resources which have been exhausted. Properties that have been transferred to the corporate landlord require investment.	Urgent repairs required which cannot be met from the Modernisation of Assets planned programme within the capital budget	Unavoidable urgent works that lead to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	2	0	400
ALL	Income	The Council must ensure that the Medium Term Financial Plan (MTFP) includes robust income estimates relating to savings plans.	Income is less than that assumed in the MTFP.	Loss of income or reduced collection that leads to an overspend on the revenue budget, requiring compensating in year savings or temporary unbudgeted funding from reserves. Potential recurring budget pressure for future years.	2	0	?

Likelihood Rating

Very Likely	5
Likely	4
Possible	3
Unlikely	2
Very Unlikely	1

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Medium Term Outlook

This medium term outlook is based around a number of potential scenarios. These include a central case (not necessarily the most likely scenario) together with upside scenarios (based on a rapid recovery) and downside scenarios (based on a slower recovery with lasting impact of Covid-19 pandemic). This is consistent with the approach adopted by the Office for Budget Responsibility (OBR) in its November 2020 Economic and Fiscal Outlook report.

The scenarios encompass both spending growth and funding forecasts and result in wide range for future budget gaps. The gaps make no assumptions about the Council agreeing further savings although do include the full year effect of 2021-22 savings in 2022-23 plus any annual savings/income from continuation of existing policies e.g. fees and charges. Each scenario assumes future 2%+2% council tax increases. All the scenarios are based on high level assumptions to give an indication of the potential scale of the challenge and are not predictions.

The central case is based on a scenario that recovery from the pandemic and recession is partly successful. Under this scenario we have assumed the council tax base would show 1% growth after 2021-22. Growth at this rate would see the net reduction in 2021-22 recovered through a combination of a reduction in the number of households receiving support discounts and growth in the number of households but neither would return to pre pandemic/recession levels. The central case scenario assumes a rollover of existing core grants (but no repeat of Covid-19 emergency grants). Spending growth forecasts assume 6% business as usual growth and ongoing (but diminishing) recurring additional spending associated with the pandemic due to pent-up demand and the need to continue with some form of preventative measures.

The upside scenario is based on a successful eradication of the virus and full and speedy recovery. Under this scenario we have assumed 2% council tax base growth which encompasses a reduction in the number of support discounts and a return to pre-recession anticipated housing growth. The upside scenario also includes 5% increase in core government grants (but no repeat of Covid-19 emergency grants). Spending growth forecasts assume 5% business as usual and no recurring additional Covid-19 costs.

The downside scenario is based on continuing need to take measures to tackle the virus and continued economic consequences. Under this scenario we have assumed a 2% reduction in the council tax base for 2022-23 due to further increase in support discounts, followed by 1% growth in 2023-24 (consistent with the central case). The downside scenario includes a 5% reduction in core grants as the government starts to reduce borrowing through national public spending restraint. Spending growth forecasts assume 7% business as usual and the need for recurring additional spend associated with the pandemic at similar levels to the amount identified in 2021-22 budget.

A summary of these scenarios is shown in table 1. The gaps would need to be closed through further savings/income generation or resisting spending growth.

Table 1 – Summary of Medium Term Scenarios

	Upside Scenario		Central Case		Downside Scenario	
	2022-23 £m	2023-24 £m	2022-23 £m	2023-24 £m	2022-23 £m	2023-24 £m
Spending Growth Forecasts						
Business as usual	57.0	57.0	68.0	68.0	79.0	79.0
Covid-19			14.0	7.0	21.0	21.0
Replace one-offs from unstable sources in 2021-22	13.0		13.0		13.0	
Remove One-off spending in 2021-22	-10.0		-10.0		-10.0	
Existing savings and policy	-27.0	-20.0	-27.0	-20.0	-27.0	-20.0
Total Spending Growth	33.0	37.0	58.0	55.0	76.0	80.0
Funding Change Forecasts						
Council Tax Base	15.6	16.5	7.8	8.2	-15.6	7.9
Assumed 2%+2% Tax Increases	31.8	33.7	31.5	33.0	30.5	30.5
Government Core Grants	12.5	13.1	0.8	0.8	-12.5	-13.1
Covid-19 Grants	-46.7		-46.7		-46.7	
Total Funding Change	13.1	63.3	-6.6	42.0	-44.2	25.4
Gap	19.9	-26.3	64.6	13.0	120.2	54.6

CAPITAL STRATEGY

INTRODUCTION

- 1.1 This Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It sets out the strategic direction for KCC's capital management and investment plans and is an integral part of our medium to long term financial and service planning and budget setting process. It establishes the principles for prioritising KCC's capital investment and incorporates requirements from the prudential system.

Capital Expenditure and Financing

- 1.2 Capital expenditure is where the Council spends money on assets, such as property, highways assets or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are deemed *de-minimis*, they are not capitalised and are instead charged to revenue in year.

- 1.3 Details of the Council's policy on capitalisation are included in the Council's annual Statement of Accounts, the relevant extract is set out below:

“Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

- 1.4 All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment above our *de-minimis* of £10k (£2k in schools) is capitalised on an accruals basis. In this context, enhancement means work that has substantially increased the value or use of the assets. Work that has not been completed by the end of the year is carried forward as “assets under construction”.

Capital Strategy Principles

- 1.5 The core principles of the Council's Capital Strategy are as follows:

The Capital Strategy will:

- Be based on delivering the Council's strategic priorities,
- Set out and deliver the Council's statutory responsibilities on a risk-based approach,

- Ensure the capital programme is long term (10 years), deliverable, realistic and affordable,
- Exclude property investments where loans are provided to third parties, such as No Use Empty – these will be considered as part of the Treasury Management Strategy,
- View borrowing as a last resort – affordability across the medium to long term will be key.

The Council's Strategic Outcomes

- 1.6 Work is progressing on the new 5-year plan and is due to be completed in the latter part of 2021. The launch of this has been delayed to take into account the impact of the pandemic, however the Interim Strategic Plan which focuses on priorities over the next 18 months was approved at County Council in October and the capital strategy will be refreshed annually to incorporate this. The capital programme will continue to be aligned with the 3-year rolling Strategic Delivery Plan.
- 1.7 Capital investment should also evidence how it will support the priorities and principles set out in significant strategies. The following are examples of the Council's key strategies:
- Kent and Medway Growth and Infrastructure Framework – this sets out the future strategic infrastructure requirements for the county
 - Local Transport Plan 4 – this plan sets out strategic transport priorities
 - Commissioning Plan for Education Provision – this sets out changes to existing schools and the commissioning of new schools
 - Kent Environment Strategy – this sets out priorities to support economic growth whilst protecting and enhancing Kent's environment
 - KCC Net Zero 2030 – this sets out the targets and approach for KCC to reach net-zero emissions by 2030
 - ICT Strategy – this provides direction and strategic priorities to shape KCC's technology environment
 - Asset Management Strategy – this sets the framework for managing the Council's property portfolio effectively

Affordability

- 1.8 Capital plays an important role in delivering long-term priorities as it can be targeted in creative and innovative ways. However, capital is not unlimited or "free money" – capital funding decisions can have significant revenue implications. Every £10m of prudential borrowing costs approximately £0.7m per annum in revenue financing costs (including repayment of the principal) for 25 years, assuming an asset life of 25 years. For Information Technology projects the revenue costs are much higher per annum as the life is shorter. This is in addition to any ongoing maintenance and running costs associated with the investment. The more revenue that is tied up to repay borrowing, the less is available for service provision, and this is considered alongside revenue pressures.

- 1.9 In assessing affordability, indicators set by the Prudential Code and the Council's own internal set of fiscal indicators are considered. The fiscal indicator "net debt costs should not exceed 15% of net revenue spending" has been reviewed and this will now be reduced towards 10% over the medium term. This is considered a more suitable maximum to ensure long-term affordability of the capital programme.
- 1.10 In 2021-22, the Council is planning capital expenditure of £424.2m as shown in the following table:

Table 1: Prudential Indicator 1: Estimates of Capital Expenditure in £millions

	2019-20 Actuals	2020-21 Forecast	2021-22 budget	2022-23 budget	2023-24 budget
General Fund services	229.4	367.3	424.2	314.7	318.9
Capital investments	24.2	0.5	0.0	0.0	0.0
TOTAL	253.6	367.8	424.2	314.7	318.9

- 1.11 The main General Fund capital projects include: investments in additional school places to increase capacity (£134m), highways, structures & waste enhancement (£89m), highways and other transport improvements (£98m), modernisation and improved utilisation of council premises (£22m), other school projects (£48m), economic development initiatives (£24m), community projects (£5m) and adults projects (£3m).
- 1.12 **Governance:** Service managers bid to include projects in the Council's capital programme. Capital finance colleagues provide advice during this process. Projects must come forward with alternative options for delivering outcomes, and with a variety of funding options. All projects must be supported by a business case, using the agreed template which captures this information. The business case must also show realistic phasing of the proposed project, with project plans to support this. If a project slips, funding assigned to that project could have been attributed to other projects that were ready to proceed. A critical element of the business case is to identify revenue costs and revenue savings as these will be integral to the budget setting process. Bids are collated by the Capital Team in Corporate Finance who calculate the financing cost (which can be nil if the project is fully externally financed). These are then discussed as part of the budget process, and the final capital programme is presented to Cabinet in January and to County Council in February each year for approval.

Statutory Requirements

- 1.13 The Council will ensure that appropriate capital funding is allocated on a risk-based approach, to meet immediate statutory requirements, such as health and safety, Disability Discrimination Act (DDA), basic need and other legal requirements. Increasingly, it is anticipated that satisfying statutory requirements and avoidance of legal challenges will need to play a more prominent role in capital investment decisions. Nonetheless, whilst there may be a statutory requirement, capital bids will still need to explore alternative options to satisfy the affordability requirement. Capital spend may not always be necessary to achieve the minimum or required outcomes. Funding for capital projects will be applied in the most logical and efficient way, for example, to use specific grants for their intended purpose or time limited funding first, and where grant is not sufficient other sources of external funding will be explored, before using the Council's resources.

Invest/Spend to save bids

- 1.12 Invest/spend to save bids are encouraged as these will be integral to achieving additional savings/income which is increasingly important to ease the pressure on the revenue budget, although not at the expense of meeting the Council's statutory obligations and strategic priorities. Any bids under this category will be rigorously reviewed and challenged to ensure all relevant costs including any costs of borrowing or other revenue impacts have been adequately accounted for and the identified savings are realistically achievable within a reasonable period.

Enhancement of Existing Estate and Roads

- 1.13 Maintenance of the estate and highway roads and structures network is coming under increasing pressure following years of reactive works. The development of a longer-term capital planning period will help provide the service with future funding stability and the ability to highlight forthcoming pressures for early consideration by Members. The level of investment in this area will ensure our statutory responsibilities are met, again using a risk-based approach.

- Full details of the Council's capital programme are set out in Appendices A and B.

FUNDING

- 1.14 All capital expenditure must be financed, either from external sources (government grants, developer contributions and other external funding), the Council's own resources (revenue, reserves and capital receipts from sale of assets) or borrowing. The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £millions

	2019-20 actual	2020-21 forecast	2021-22 budget	2022-23 budget	2023-24 budget
External sources*	158.5	260.8	252.5	235.5	314.8
Own resources	35.3	22.5	20.1	17.0	4.4
Borrowing	59.8	84.5	151.6	62.2	-0.3
TOTAL	253.6	367.8	424.2	314.7	318.9

*External sources include funding from loan repayments. The Council operates a number of revolving loan schemes, the majority of which are funded from external sources. However, this will also include an element of funding that was originally from the Council's own resources but cannot now be separately identified.

Grants

- 1.15 The challenging financial environment means that national government grants are reducing or changing in nature and becoming more heavily prescribed. These prescriptions reduce the freedom to decide where and how to spend grants – they are largely tied to specific service areas such as education or highways. An increasing number of funding schemes directly relate to housing and economic growth such as Local Growth Funding (LGF) from Local Enterprise Partnerships (LEPs). This funding is specific to individual projects and must be closely monitored. The Council's aim is to use other, less specific grants for their intended purpose in a way that meets statutory obligations. Where the grant is not sufficient, other sources of external funding such as Central Government grants and s106/Community Infrastructure Levy (CIL) will be explored first, before using the Council's resources such as capital receipts and borrowing.

Developer Contributions: Community Infrastructure Levy (CIL)/S106

- 1.16 Developer contributions continue to be a challenging issue and need careful consideration when they are put forward to fund major projects. The nature of s106 agreements means that once the total funding figure has been secured with a s106 contract, the funding is received by the County Council in staged payments as the development is built out, with the full funding potentially not received until the development has been fully completed. Depending on size, a development can take several years to be fully completed. Developer contributions will be built into the programme at the point they are secured within s106 agreements, but it must also be recognised that at this point there are still risks around housing development and realisation of the funding. Careful monitoring of expenditure against this funding is critical.
- 1.17 Any forward funding arrangements of developer contributions must be approved to ensure appropriate debt costs arising from forward funding are built into the repayments. The repayment schedule must be formalised by

being built into the s106 agreement. Delays in housebuilding due to Covid-19 and additional costs to builders to ensure covid-safe workplaces means there is likely to be even greater requirements for forward funding, and renegotiation of agreements.

- 1.18 Several districts in Kent have adopted the Community Infrastructure Levy (CIL), a flat rate tariff charge. CIL rates are set by districts as the Charging Authorities, they are also responsible for collection and spend of the levy. The share of CIL funding which the County Council will receive in the future is unknown and cannot currently be forecast as unlike s106 agreements the money raised through CIL is administered by the district council and KCC does not automatically receive a share.
- 1.19 The “pooling restriction” has been removed in recent regulations. This had previously prevented local authorities using more than five section 106 obligations to fund a single infrastructure project. This is a positive move as it will help to unlock funds. However, the monitoring requirements have increased significantly, and revised arrangements will need to be put in place to ensure compliance with the new regulations.
- 1.20 The Planning White Paper is likely to have a significant impact on the way developer contribution funding is distributed in the future. The likely impacts will continue to be investigated as more details are forthcoming, but initial indications are that it could create a significant forward funding requirement which would need to be carefully managed by the Council.

Borrowing

- 1.20 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Borrowing is a combination of external loans and internal borrowing (from cash reserves). Debt is usually only repaid when a loan matures. Occasionally the Council can refinance debt with replacement borrowing at a lower rate of interest, this is rare as there are usually excessive penalties to repay loans earlier than their normal maturity. Planned MRP debt during the medium-term planning period is as follows:

Table 3: Replacement of debt finance (MRP) in £millions

	2019-20 actual	2020-21 forecast	2021-22 budget	2022-23 budget	2023-24 budget
MRP	59.3	59.1	59.4	60.5	58.2

- The Council’s full minimum revenue provision statement is at Appendix M.

- 1.21 The level of borrowing to fund the capital programme considers the revenue implications and the requirements of the prudential code. In line with the Code, borrowing is not undertaken in advance of need. The 10-year capital programme planning period will assist in more effective management of borrowing levels over the longer-term.
- 1.22 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with repayments from MRP and capital receipts used to replace debt. The CFR is expected to increase by £92.2m during 2021-22 to £1.4bn. Based on the above figures for expenditure and financing, the Council's estimated CFR is shown in table 4:

*Table 4: Prudential Indicator 2: Estimates of Capital Financing Requirement
£millions*

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
TOTAL CFR	1,285.0	1,310.3	1,402.5	1,404.2	1,345.7

The in-year movement in the total row equals borrowing from table 2 less MRP from table 3

Asset Management and Capital Receipts

- 1.23 To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place. This sets the framework for managing the property portfolio effectively over the next 3 to 5 years. It will guide future strategic property decisions to make sure the property portfolio is managed sustainably and efficiently so that it can adapt to remain fit for the future and support frontline delivery. Property assets are an important part of supporting and enabling the Council to transform the way public services are delivered with partners and it is therefore essential that an innovative and forward-thinking strategy is in place.
- The Council's asset management strategy can be found here: [Asset management strategy - Kent County Council](#)
- 1.24 When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can repay debt or be spent on new assets. The Council has had a rigorous disposal programme over the past few years which has helped to minimise the level of borrowing. Going forward the same level of receipts will not be achievable as many surplus assets have already been sold. Increasingly capital receipts will need to be generated from underutilised assets rather than surplus assets. In some cases this may require additional capital investment to develop these assets which would need to be included and approved on an individual scheme basis as part of refreshing future capital programmes. The Council's Infrastructure division

will continue to work with service directorates and public sector partners to explore options to release property and maximise capital receipts, with a view to creating a sustainable pipeline of funds in the future.

- 1.25 Repayments to the Council of capital grants, loans to third parties and investments also generate capital receipts. The timing of when capital receipts are banked and applied to fund the capital programme will not necessarily match, and where necessary, timing differences will be managed through short term internal borrowing from cash balances. The following table shows when the Council plans to apply capital receipts and loan repayments in the coming financial years:

Table 5: Capital receipts to be applied in £millions

	Prior Years	2021-22 budget	2022-23 budget	2023-24 budget
Application of asset sales	42.5	11.9	8.1	3.8
Loan repayments	39.7	16.4	18.7	8.1

Treasury Management

- 1.15 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 1.16 As at 31 December 2020 the Council had £877.1m external borrowing, at an average interest rate of 4.51% and £440m treasury investments at an average rate of 2.18%. Where possible internal borrowing is used before borrowing externally. However, this is under constant review, to ensure it is still an appropriate funding source.
- 1.17 **Borrowing strategy:** The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.10%) and long-term fixed rate loans where the future cost is known but higher (currently 1.50 to 2.50%).
- 1.18 Projected levels of the Council's total outstanding debt comprising external borrowing and other long-term liabilities identified in the balance sheet (including PFI liabilities, leases, etc) are shown below, compared with the

capital financing requirement (see above) and the resulting balance funded from internal borrowing (cash balances).

Table 6: Prudential Indicator 3: Gross Debt and the Capital Financing Requirement in £millions

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
Other Long-term Liabilities	245.2	245.2	245.2	245.2	245.2
External Borrowing	883.8	853.7	826.0	802.5	776.9
Total Debt	1,129.0	1,098.9	1,071.2	1,047.7	1,022.1
Capital Financing Requirement	1,284.5	1,310.3	1,402.5	1,404.2	1,345.7
Internal Borrowing (cash balances)	155.5	211.4	331.3	356.5	323.6

1.19 Statutory guidance is that total debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

1.20 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit. Both limits are set with reference to the Council’s plans for capital expenditure and financing. The authorised limit provides headroom over and above the operational boundary sufficient for unusual cash movements.

Table 7: Prudential Indicator 4: Authorised limit and operational boundary for external debt in £millions

	2020-21 limit	2021-22 limit	2022-23 limit	2023-24 limit
Authorised limit – borrowing	1,050	1,016	988	965
Authorised limit – PFI and leases	246	245	245	245
Authorised limit – total external debt	1,296	1,261	1,233	1,210
Operational boundary – borrowing	995	991	963	940
Operational boundary – PFI and leases	246	245	245	245
Operational boundary – total external debt	1,241	1,236	1,208	1,185

It is likely that the lease liability figure on the balance sheet will increase as a result of IFRS16, however the implementation of this has been deferred until the 2022-23 financial reporting year. Under this new IFRS standard the treatment of leases will change from the current distinction between operating and finance leases, leading to more leases being recognised on the balance sheet. Work is ongoing to determine the implications of this for the Council.

- Further details on borrowing are in the Treasury Management Strategy – see Appendix K.

1.21 **Treasury Investment strategy:** Treasury investments arise from receiving cash before it is paid out again, including balances of reserves. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

1.22 The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, in particular in Money Market Funds, with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, equity and property funds, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments in £millions

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
Near-term investments	140.5	95.9	100	100	100
Longer-term investments	266.3	250	250	200	200
TOTAL	406.8	345.9	350	300	300

- Further details on treasury investments are in the Treasury Management Strategy at Appendix K.
- 1.23 **Risk management:** The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to

constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

- 1.24 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Corporate Director of Finance and finance staff, who must act in line with the treasury management strategy approved by Council. Quarterly reports on treasury management activity are presented at Governance and Audit Committee with half-yearly and annual reports presented at County Council. The Treasury Management Advisory Group (TMAG) is responsible for scrutinising treasury management decisions. This is a Member group supported by officers and chaired by the Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services.

Investments for Service Purposes

- 1.25 The Council makes investments to assist local public services, including making loans to or buying shares in other organisations (service investments). In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to generate a surplus after all costs.
- 1.26 **Governance:** Decisions on service investments are made by the relevant service manager after consultation with and approval of the Corporate Director of Finance and must meet the criteria and limits laid down in the Investment Strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.
- Further details on service investments are in the Investment Strategy at Appendix L.

Commercial Activities

- 1.27 With central government financial support for local public services declining, the Council has, in the past, strategically invested in commercial property purely or mainly for financial gain. A number of purchases, some of which are still held, were made through the Property Investment and Acquisition Funds (PIF1 and PIF2) and the Acquisition of Strategic Assets.
- 1.31 With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include void periods when properties are empty and reductions in market value. These risks are managed by a rigorous appraisal process prior to any acquisition decision. Total commercial investments as at 31st March 2020 were valued at £33.1m with the largest being the two office buildings at Kings Hill.

- 1.32 **Governance:** Decisions on commercial investments and disposals have been made by the Director of Infrastructure in accordance with the Council's constitution, and more relevantly the Property Management Protocol, and following consultation with and approval of the Corporate Director of Finance. Property and most other commercial investments are also capital expenditure and purchases have also been approved as part of the capital programme.
- Further details on commercial investments and limits on their use are included in the investment strategy – Appendix L.
 - The Council also has commercial activities in several trading companies, details of which are included in the investment strategy – Appendix L.
- 1.33 In line with Government expectations, the Council will not be pursuing commercial investments going forward and has removed the remainder of the Property Investment Funds and Acquisition of Strategic Assets from the Capital Programme.

Liabilities

- 1.34 In addition to debt of £853.7m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £1,363.2m). It has also set aside £51.1m in general reserves to cover unforeseen risks as identified in the Reserves Policy – Appendix N to this document. The Council has identified a number of budget risks but has not put aside any money because the Council has sufficient reserves to cover these eventualities should they arise. These risks are identified in the Budget Risks Register at Appendix H to this document.
- 1.35 **Governance:** Decisions on incurring new discretionary liabilities are taken by service managers after consultation with and approval of the Corporate Director of Finance. The risk of liabilities crystallising and requiring payment is monitored by Corporate Finance and included in monitoring reports.

Revenue Budget Implications

- 1.36 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator 5: Proportion of financing costs to net revenue stream

	2019-20 actual	2020-21 forecast	2021-22 budget	2022-23 budget	2023-24 budget
Proportion of net revenue stream	10.8%	10.04%	9.58%	10.14%	9.43%

- 1.37 In light of the one-year revenue spending round for 2021, the future year net revenue budgets are likely to change significantly, which will impact on future years' indicators.
- 1.38 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Corporate Director of Finance is satisfied with the rigour that has been applied to the appraisal of schemes and the application of an affordable future borrowing strategy based on an absolute fiscal limit that the costs of borrowing cannot exceed 15% (working towards 10% over the medium term) of the annual revenue budget. The Capital Programme will be reviewed and revised to ensure that it is prudent, affordable and sustainable in the medium term.

Knowledge and Skills

- 1.39 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Corporate Director of Finance is a Fellow of the Association of Chartered Certified Accountants (FCCA) with 20 years' post-qualification experience, and the Council's finance team at the last review included a number of qualified accountants who are members of professional accountancy bodies including ACCA, CIMA, CIPFA and ICAEW. In addition, KCC Finance is an approved employer with professional accreditations from ACCA and CIPFA.
- 1.40 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, Amey/Kier/Skanska as property consultants/facilities management contractors. The Council will use the services of other specialists and consultants as necessary. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.
- 1.41 The Council's policy on the use of external advisers is that where a contract for a consultant is estimated to cost £50,000 or more; details of the proposed

award must be forwarded to the relevant Cabinet Member prior to the appropriate officer making the award.

Governance Arrangements

- 1.42 The governance arrangements for the capital programme are as set out in the Council's constitution.

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Treasury Management Strategy

Introduction

1. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
2. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year. This strategy fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
3. Investments held for service purposes or for commercial profit are considered in the separate Appendix L - Investment Strategy.

Governance

4. The Corporate Director of Finance is responsible for the Council's treasury management operations and day to day responsibility is delegated to the Head of Finance (Policy, Planning & Strategy) / Head of Finance (Operations) and Treasury and Investments Manager. The detailed responsibilities are set out in the Council's Treasury Management Practices.
5. The Treasury Management Advisory Group (TMAG) has been established to work with Officers on treasury management. The agreed terms of reference are "The Treasury Management Advisory Group will be responsible for advising the Cabinet and Corporate Director of Finance on treasury management policy within the Council's overarching Treasury Management Strategy". TMAG meets the requirement in the CIPFA Code for a member body focussing specifically on treasury management. TMAG meets half yearly and members of the group receive detailed information on a monthly basis.
6. Council agrees the Treasury Management Strategy and receives annual and half yearly reports on treasury management activity. Governance and Audit Committee receives quarterly updates as well as annual and half-yearly reports and makes recommendations to County Council.

External Context

Economic background

7. The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Council's Treasury Management Strategy for 2021-22.
8. The Bank of England (BoE) maintained Bank Rate at 0.10% in December 2020 and Quantitative Easing programme at £895 billion having extended it by £150 billion in the previous month. The Monetary Policy Committee (MPC) voted unanimously for both, but no mention was made of the potential future use of negative interest rates. In the November Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a COVID-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks to the economic outlook outlined in the November MPR.
9. UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In October, the headline 3-month average annual growth rates for wages were 2.7% for total pay and 2.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up by 1.9% while regular pay was up 2.1%
10. GDP growth rebounded by 16.0% in Q3 2020 having fallen by -18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE's November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

Credit outlook

11. After spiking in late March as coronavirus became a global pandemic and then rising again in October/November, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainty around COVID-19 related loan defaults led to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 and 2021 may be significantly lower than in previous years.

12. The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.
13. Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Interest rate forecast

14. The Council's treasury management advisor Arlingclose is forecasting the BoE Bank Rate will remain at 0.1% until at least the first quarter of 2024. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the new EU trading arrangements. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold and maintained this position in December. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.
15. Gilt yields are expected to remain very low in the medium-term while short-term yields are likely to remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year gilt yields to rise to around 0.60% and 0.90% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

Local Context

16. On 31 December 2020 the Council held £877m of external borrowing and £440m of treasury investments. This is set out in further detail in Annexe A. Forecast changes in these sums are shown in the balance sheet analysis below.

	31.3.20	31.3.21	31.3.22	31.3.23	31.3.24
	Actual	Estimate	Forecast	Forecast	Forecast
	£m	£m	£m	£m	£m
Loans CFR	1,039.3	1,065.1	1,157.3	1,159.0	1,100.5
External borrowing	-883.8	-853.7	-826.0	-802.5	-776.9
Internal borrowing	155.5	211.4	331.3	356.5	323.6
Less: Usable reserves	-393.0	-413.0	-422.0	-422.0	-422.0
Less: Working capital	-144.3	-144.3	-144.3	-144.3	-144.3
Net investments	381.8	345.9	235.0	209.8	242.7

17. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the

underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

18. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years and the Council expects to comply with this recommendation.

Borrowing Strategy

19. On 31 December 2020, the Council had £877.1m external debt, including £31.6m attributable to Medway Council, as part of its strategy for funding previous years' capital programmes. This represents a decrease of £7m on 31 March 2020 and reflects the Council's strategy of maintaining borrowing below the underlying levels.
20. The balance sheet forecast in the above table shows that the Council does not expect to need to borrow in 2021-22. The Council may borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £1,016m.

Objective

21. The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy

22. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability or sustainability of the debt portfolio.
23. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
24. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Using cash available on the Council's balance sheet is also known as internal borrowing and at the end of March 2020 the Council had supplemented external debt with £156m of internal borrowing. Internal borrowing is not cost free as it is at the expense of investment returns and does not remove the need for Minimum Revenue Provision (MRP) to be made.
25. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. The Council will use the services of its treasury advisor to develop this 'cost of carry' and breakeven analysis

and based on the results the Council will determine whether to borrow additional sums at long-term fixed rates in 2021-22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

26. The Council has previously raised the majority of its long-term borrowing from the PWLB and is likely to continue with this practice following the publication in November of the results of the HM Treasury consultation on changes to the PWLB's lending policy. The new lending terms include a reduction of 1% in all Standard Rate and Certainty Rate PWLB loans and the PWLB will not lend to any Council that plans to buy investment assets primarily for yield anywhere in their capital plans.
27. The Council will also consider long-term loans from other sources in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA code. Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.
28. **Prudential Indicators:** The Council's capital strategy prudential indicator 3 indicates that the Council does not expect to increase its external borrowing in 2021-22 but it retains the flexibility to consider borrowing either long term or short term as well as using its cash balances.
29. **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:
 - HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
 - any institution approved for investments (see below)
 - any other bank or building society authorised to operate in the UK
 - any other UK public sector body
 - UK public and private sector pension funds (except the Kent County Council Superannuation Fund)
 - capital market bond investors
 - UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues
 - UK Government backed funding initiatives
30. **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
 - leasing
 - hire purchase
 - Private Finance Initiative
 - sale and leaseback
31. **LOBO (Lender's Option Borrower's Option) loans:** The Council holds £90m of LOBO loans (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. LOBOs totalling £90m have option dates during 2021-22, and although the Council understands that lenders are unlikely to exercise their options in the current

low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if the opportunity arises.

32. **Short-term and variable rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.
33. **Debt rescheduling:** The PWLB allows councils to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk in the current interest rate environment

Treasury Investment Strategy

34. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Since the beginning of April 2020 the Council's cash balance has ranged between £296m and £530m. The average balance is expected to reduce in 2021-22 reflecting the Council's policy of using cash balances to repay maturing loans and internally funding capital expenditure.
35. **Objectives:** The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults, the liquidity of investments and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
36. **Negative interest rates:** The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
37. **Strategy:** The Council's strategy for 2021-22 is essentially the same as that for 2020-21. Given the risk and very low returns from short-term unsecured bank investments the Council will continue to invest a significant proportion of the cash available for longer term investment in secure and / or higher yielding asset classes. It will continue to invest in money market funds and Government including local authority deposits to meet its liquidity requirements.
38. **Business models:** Under IFRS 9, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cash

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flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost. The IFRS 9 statutory override ends in 2024 so the Council is exploring options for mitigating the risks related to the fluctuation in the value of its investments in pooled funds.

Approved counterparties

39. The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the limits shown.

	Minimum Credit rating	Individual Maximum Cash Limit	Total Maximum Cash Limit	Maximum Duration
Government				
- UK Government		unlimited		50 years
- UK Local Authorities		£25m		2 years
- Kent local authorities for cashflow purposes only			£70m	1 year
Supranational banks	AAA	£20m	£30m	25 years
Non-UK Government	AA+	£20m	£30m	25 years
UK banks and building societies (unsecured)	A-	£15m		13 months
Council's banking services provider		£20m		Overnight
Overseas banks (unsecured)	Country limit AA+,	£20m	£30m country limit	13 months
	Individual limit A-			
Short-term Money Market Funds	A+	£20m per fund or 0.5% of the fund size if lower		
Cashplus / short bond funds		£20m per fund		
Secured investments				
- Covered bonds	AAA	£20m	£100m	5 years
- Reverse repurchase agreements	collateral of AA or better	£20m each		5 years
Corporates (non-financials)	A	£2m per issuer	£20m	2 years
Registered Providers		£10m	£50m	5 years
Loans incl. to developers in the No Use Empty programme			£24m	
Strategic pooled funds and real estate investment trusts			£250m	
- Absolute Return funds		£25m per fund		

- Multi Asset Income funds	£25m per fund		
- Property funds	£75m or 5% of total fund value if greater		
- Bond funds	£25m per fund		
- Equity Income Funds	£25m per fund		
- Real Estate Investment Trusts	£25m per fund		

40. **Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years. The loans to other Kent authorities will be interest free because of the financial benefits other than earning an interest rate return.
41. Loans to all local authorities are assessed in terms of the Council's cashflow requirements and within its effective lending policies and procedures and this lending will be diversified across many local authorities. Reputational risk will be taken into account in addition to the financial risks of this investment.
42. **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used.
43. **Banks and building societies unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investments with banks rated below the agreed minimum rating of A- are restricted to overnight deposits with the Council's current banking services provider.
44. **Money Market Funds:** Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to Money Market Funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
45. **Cash plus / Short Bond Funds:** Pooled investment funds whose values change with market prices and have a notice period, will be used as alternatives to unsecured bank deposits for longer investment periods.

46. **Corporates:** Bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent.
47. **Registered providers:** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing. As providers of public services, they retain the likelihood of receiving government support if needed.
48. **Loans:** Loans to entities set up on an arms-length basis from the Council, and other suitable opportunities, on which the Council will take advice from Arlingclose with regard to the appropriate structure of the loans and applicable rate of interest. Included are interest bearing loans to developers under the No Use Empty Development Programme.
49. **Pooled investment funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
50. **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.
51. **Operational bank accounts:** The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £50,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk assessment and credit ratings

52. Credit ratings are obtained and monitored by the Council's treasury advisors, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
 - no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

53. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that entity until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments

54. The Council understands that credit ratings are good but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the entities in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from Arlingclose, the Council’s treasury management advisor. No investments will be made with an entity if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
55. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits

56. The Council may invest its surplus funds with any of the counterparty types listed above subject to the cash limits per counterparty and the durations shown in the table at paragraph 39.
57. The Council’s revenue reserves available to cover investment losses are forecast to be £272m on 31 March 2021. In order that no more than 10% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one counterparty (other than the UK Government and the Churches, Charities and Local Authorities - Local Authorities Mutual Investment Trust (CCLA LAMIT) property fund) will be £25m.

Liquidity management

58. The Council forecasts its cash flow requirements to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council’s medium-term financial plan and cash flow forecast.

59. The Council will spread its liquid cash over several bank accounts and money market funds to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Indicators

60. The Council measures and manages its exposures to treasury management risks using the following indicators.

61. **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its internally managed investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating	AA

62. **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£100m

63. **Interest rate exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£10m
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£10m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

64. **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and within 20 years	50%	0%
20 years and within 40 years	50%	0%
40 years and longer	50%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

65. **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2021-22	2021-22	2022-23
Limit on principal invested beyond year end	£300m	£300m	£300m

Related Matters

66. The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.
67. **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over councils' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
68. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
69. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
70. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

71. **Markets in Financial Instruments Directive:** The Council has opted up to professional client status with its providers of financial services, including advisors, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council’s treasury management activities, the Corporate Director of Finance believes this to be the most appropriate status.

Financial Implications

72. The budget for investment income in 2021-22 is £8.2m, based on an average investment portfolio of £440m at an interest rate of 2.18%. The budget for debt interest payable in 2021-22 is £39.8m, based on an average debt portfolio of £841.2m at an average interest rate of 4.50%. If actual levels of investments and borrowing, or actual interest rates, differ from forecast, performance against budget will be correspondingly different.

Other Options Considered

73. The CIPFA Code does not prescribe any particular Treasury Management Strategy for councils to adopt. The Corporate Director of Finance, having consulted the Deputy Leader and Cabinet Member for Finance, Traded and Corporate Services, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain

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Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain
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Annexe A – Existing Investment & Debt Portfolio Position

	31-Dec-20	31-Dec-20
	Actual Portfolio	Average Rate
	£m	%
External borrowing		
Public Works Loan Board	470.9	4.99
LOBO loans from banks	90.0	4.15
Banks and other lenders (Fixed term)	291.8	4.40
Streetlighting Project	24.3	1.21
Total external borrowing	877.1	4.51
Treasury investments		
Bank Call Accounts	48.0	0.04
Covered bonds (secured)	79.7	0.65
Government (incl. local authorities)	85.4	0.10
Money Market Funds	50.7	0.02
Equity	2.1	
No Use Empty Loans	3.7	1.50
Total internally managed investments	269.6	0.25
Pooled investments funds		
- Property	56.3	3.09
- Multi Asset	59.9	2.76
- Absolute Return	5.0	1.80
- Equity UK	26.8	4.03
- Equity Global	22.2	2.77
Total pooled investments	170.2	4.14
Total treasury investments	439.8	2.18
Net debt	437.3	

GLOSSARY

Local Authority Treasury Management Terms

Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets
Borrowing	Usually refers to the stock of outstanding loans owed and bonds issued.
CFR	Capital Financing Requirement. A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and MRP.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
Collective investment scheme	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
Covered bond	Bond issued by a financial institution that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds. Covered bonds are exempt from bail-in.
CPI	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee.
Deposit	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.
Diversified income fund	A collective investment scheme that invests in a range of bonds, equity and property in order to minimise price risk, and also focuses on investments that pay income.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DMADF	Debt Management Account Deposit Facility – a facility offered by the DMO enabling councils to deposit cash at very low credit risk. Not available in Northern Ireland.
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
Equity	An investment which usually confers ownership and voting rights
Floating rate note (FRN)	Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA

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FTSE	Financial Times stock exchange – a series of indices on the London Stock Exchange. The FTSE 100 is the index of the largest 100 companies on the exchange, the FTSE 250 is the next largest 250 and the FTSE 350 combines the two
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
Income return	Return on investment from dividends, interest and rent but excluding capital gains and losses.
GILT	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
LIBID	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR.
LIBOR	London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. Due to be phased out by 2022.
LOBO	Lender's Option Borrower's option
MMF	Money Market Funds. A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to Constant Net Asset Value (CNAV) and Low Volatility Net Asset Value (LVNAV) funds with a Weighted Average Maturity (WAM) under 60 days which offer instant access, but the European Union definition extends to include cash plus funds
Pooled Fund	Scheme in which multiple investors hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
PWLB	Public Works Loan Board – a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Quantitative easing (QE)	Process by which central banks directly increase the quantity of money in the economy in order to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money.
SONIA	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
Short-dated	Usually means less than one year
Total return	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.

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INVESTMENT STRATEGY

Introduction

- 1.1 This Investment Strategy meets the statutory guidance issued by the government in January 2018 (Statutory Guidance on Local Government Investments 3rd Edition).
- 1.2 The Council invests its money for three broad purposes:
- To utilise surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
 - To support local public services by lending to or buying shares in other organisations (service investments), and
 - To earn investment income (known as commercial investments where this is the main purpose).
- 1.3 The Investment Strategy focusses on the second and third of these categories. Treasury Management investments are covered separately in the Treasury Management Strategy - see Section 4.
- 1.4 The Council will also be looking to invest in schemes where there is an environmental benefit in its future strategy linked to the Council's state ambition to achieve the net zero target by 2030.

Service Investments: Loans

- 1.5 As at 31.03.20 the Council had the following amounts outstanding in relation to loans distributed by its own funding:

Loans in relation to:	Investment Value £
Kent Empty Property Initiative - No Use Empty	11.5m
Marsh Millions	0.3m
Kent PFI Company 1 Ltd	2.4m
Marlowe Theatre	2.0m
EDSECo (Trading as The Education People)	2.2m
Kent Holdco Ltd	0.5m
Invicta Law	1.0m
Total service investments - loans	19.9m

Kent Empty Property Initiative - No Use Empty

- 1.6 The Council runs a “No Use Empty” initiative, which was set up in 2005 with the aim of returning long term empty properties back into use. This operates as a revolving loan fund and is open to those who currently own or have acquired a long-term empty property which needs financial assistance to bring the property back into use for rental or sale. As at 31 March 2020 the debt due to KCC under the scheme totalled £11.5m. The scheme has been running since 2005 and since then has awarded £35.4m in loans, of which only £143k has been written off as a bad debt. This represents a mere 0.4% of the total loans awarded. The extremely low value of bad debts is aided by the scheme operating a robust application and assessment process, which includes ID checks and proof of additional funds. The applicant must provide at their cost an independent valuation undertaken by a Chartered Surveyor (RICS) to establish current and future values. This is also used within the assessment process as any loan awarded is secured as a charge and registered with Land Registry or Companies House if applicable. Loans are typically offered over 2 or 3 years.

Marsh Millions

- 1.7 KCC contributed to the Marsh Millions loan scheme. This was set up to aid small businesses in the Romney Marsh area. As at 31.03.20 the balance outstanding to KCC was £0.278m.

Kent PFI Company 1 Ltd

- 1.8 In 2013-14 KCC purchased loan notes in Kent PFI Company 1 Ltd, which is the holding company to the contractor who runs six schools for KCC under a Private Finance Initiative (PFI) arrangement. As at 31.03.20 the balance outstanding to KCC was £2.4m.

Marlowe Loan

- 1.9 In 2010-11 KCC loaned £2m to aid the refurbishment of the Marlowe Theatre in Canterbury. Repayment of the loan is due in 2020-21.

Invicta Law Ltd

- 1.10 Invicta Law Ltd is a law firm, wholly owned by KCC. It commenced trading on 1 June 2017. KCC provided a £1.8m working capital loan to aid the start-up of this company. The balance of this loan as at 31.03.20 was £1.0m, and a further £0.2m has been repaid during 2020-21.

Others

- 1.11 During 2019-20, two additional loan agreements were drawn up, one with EDSECo, trading as The Education People, for £2.2m to aid the start-up of the company and one for Kent Holdco Ltd for £0.5m.

Service Investments: Shares

- 1.12 As at 31.03.20 the Council had the following equity investments:

Company	Amount Invested £	Value in Accounts (Fair Value) £
Invicta Law Ltd	2.0m	2.138m
Kent PFI Company 1 Ltd (Note 1)	1.9m	1.242m
Kent Holdco	5.9m	8.749m
Total service investments - shares	9.8m	12.129m

Note 1: Kent PFI Company 1 Ltd is the special purpose vehicle (SPV) for the BSF School's PFI contract. The PFI contract is the only asset of the SPV and, as such, the value of the investment in Kent PFI Company 1 Ltd is expected to diminish over the remainder of the PFI contract term.

- 1.13 During 2019-20 Kent Holdco Ltd was established and the shares that the Council held in Gen2, Cantium Business Solutions and Kent County Trading were all transferred to Kent Holdco Ltd. During 2020-21 the shares in Invicta Law have also been transferred to Holdco.
- 1.14 The Council considers each investment on a case-by-case basis and uses a number of criteria to obtain a risk/benefit analysis for the Council. Overall, the value of loans outstanding and equity investments as at 31.03.20 are immaterial in relation to the Council's balance sheet as a whole. The service benefits derived from these investments are deemed to outweigh the risks. The Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue payments.

Commercial Investments: Property

- 1.15 The following table provides details of the individual properties that meet the definition of investment (as per the Statutory Guidance on Local Government Investments), that were owned by KCC as of 31 March 2020:

Property	Purchase cost (including fees)	Value in accounts as at 31.03.20
	£m	£m
Sheehan House	0.723	1.404
Royal Mail Site	3.309	3.310
Eurogate	2.275	4.512
1 & 42 Kings Hill Avenue	23.000	23.836
Total commercial investments - property	29.307	33.062

- 1.16 The Royal Mail site is being held for future regeneration purposes. For this reason, the value in the accounts is based on existing use value, rather than fair value, in accordance with CIPFA guidance.
- 1.17 Towards the end of 2019-20, the Council purchased 2 office buildings at Kings Hill, totalling £23m, which is intended to provide an income stream over the short to medium term. Both buildings have retained their existing tenants during the covid-19 pandemic. One of the buildings is fully let whilst the other is 62% let.
- 1.18 **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs, which the table above shows is the case for all such properties.
- A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2020-21 year-end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments including any revenue consequences. However, the Council is not specifically relying on the sale of these assets to fund future expenditure, therefore the risk relating to fluctuations in the property market is minimal. The Council is not seeking to make further commercial investments in property, reflecting the Government's stance on local authority commercial property investments. In line with Government expectations, the Council will not be pursuing commercial investments going forward and has removed the remainder of the Property Investment Funds and Acquisition of Strategic Assets from the Capital Programme.

Investment Indicators

1.19 The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions:

- 1) Total Risk Exposure: the first indicator shows the Council's total exposure to potential investment losses.

Total investment exposure	31.03.20 Actual £
Service investments: Loans	19.9m
Service investments: Shares	9.8m
Commercial investments: Property	29.307m

- 2) Rate of return received: this indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred. It should be noted that it is not always the Council's aim to achieve the highest rate of return on investments, for example, some loans are given at a rate below market value to encourage take up, for regeneration or other service delivery reasons. These are correctly treated and accounted for as soft loans in the Statement of Accounts.

Investments net rate of return	2019-20
Service investments: Loans*	12.0%
Service investments: Shares:	
- Kent PFI Co 1 Ltd	4.0%
- Invicta Law	0.0%
- Kent Holdco Ltd**	33.3%
Commercial investments: Property:	
- Eurogate	12.1%
- Royal Mail Site***	See note below
- Kings Hill ****	5.2%

*only includes Kent PFI Company 1 Ltd as loans on Empty Property Initiative and Marsh Millions are at 0%, and repayments are not due on the loans to the Marlowe Theatre and Invicta Law.

** Includes debtor raised as at 31.03.20 for Cantium dividend of £1.76m. This has since been received.

***Royal Mail Site – The short-term strategy was implemented during 2017-18 and up until the start of the pandemic was expected to generate sufficient income to mitigate the site holding costs, with a small surplus from 2019-20 onwards. The covid-19 pandemic has had a significant detrimental impact on the income generated from the site, particularly from the public car park. However, the main purpose of this site is for future regeneration rather than rental income.

****Kings Hill Although there had been demand for the vacant space at Kings Hill, the covid-19 pandemic has meant that it has not yet been possible to let the remaining vacant space at Kings Hill.

It is not possible to accurately forecast dividends or asset values for the current or future years, so these have not been included.

3) Other investment indicators:

It is not considered necessary to publish any additional investment indicators at this time, but this will be reviewed annually.

Annual Minimum Revenue Provision (MRP) Statement

Councils are asked to submit a statement on their policy of making Minimum Revenue Provision (MRP) under the guidance issued by the Secretary of State for the Ministry of Housing, Communities and Local Government, under section 21(1A) of the *Local Government Act 2003* to full Council or similar. Any revision to the original statement must also be issued.

MRP represents the minimum amount that must be charged to a council's revenue account each year for financing capital expenditure, which will have initially been funded by borrowing.

In 2008 the Department for Communities and Local Government (DCLG) issued new guidance on the Minimum Revenue Provision. This guidance provided four ready-made options which would be most relevant for the majority of councils but stated that other approaches are not meant to be ruled out, provided that they are **fully consistent with the statutory duty to make prudent revenue provision**. The options that we have implemented since this new guidance came into operation are:

- 4% of our capital finance requirement before the change in regulations.
- The asset life method in subsequent years. This method provides authorities with the option of applying MRP over the life of the asset once it is in operation, so for assets that are not yet operational and still under construction we effectively have an "MRP holiday".

The total of these two methods has provided the annual MRP figure since the regulations changed up until 1 April 2014. However, what this did not do was align the MRP with the repayment of debt and other long term liabilities. Since 1 April 2014 we have continued with the existing calculations but then considered whether an adjustment is required to reflect the timing of internal and external debt repayment and other long term liabilities. We will continue with this approach, which is more prudent, given the challenges that the Council continues to face.

Any adjustment made will be reflected in later years to ensure the overall repayment of our liabilities is covered at the appropriate point in time. This will depend on the position of the balance sheet each year and will be a new calculation each year but using the same principles.

This method retains the guidance calculations but allows for a more prudent approach, ensuring that adequate provision is made to ensure debt is repaid.

Each year an updated MRP statement will be presented.

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Reserves Policy

1. Background and Context

- 1.1. Sections 32 and 43 of the Local Government Finance Act 1992 require councils to consider the level of reserves when setting a budget requirement. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of proposed reserves when setting a budget requirement. The accounting treatment for reserves is set out in the Code of Practice on Local Authority Accounting.
- 1.2. CIPFA issued Local Authority Accounting Panel (LAAP) Bulletin No.99, Guidance Note on Local Authority Reserves and Balances in July 2014, which updated previous Bulletins to reflect the new requirements of the International Financial Reporting Standards (IFRS) Code of Practice. In addition, during the period of financial austerity for the public sector, the Local Authority Accounting Panel considered it necessary to update the guidance on local authority reserves and balances. Compliance with the guidance is recommended in CIPFA's Statement on the Role of the Chief Financial Officer in Local Government. In response to the above requirements, this policy sets out the Council's approach for compliance with the statutory regime and relevant non-statutory guidance for the Council's cash backed usable reserves.
- 1.3. All reserves are categorised as per the Local Authority Accounting Practice guidance, into the following groups:
- **Smoothing** – These are reserves which are used to manage large fluctuations in spend or income across years e.g., PFI equalisation reserves. These reserves recognise the differences over time between the unitary charge and PFI credits received.
 - **Trading** – this reserve relates to the non-company trading entities of Laser and Commercial Services to cover potential trading losses and investment in business development.
 - **Renewals for Vehicles Plant & Equipment** – these reserves should be supported by an asset management plan, showing projected replacement profile and cost. These reserves help to reduce fluctuations in spend.
 - **Major projects** – set aside for future spending on projects.
 - **Insurance** - To fund the potential cost of insurance claims in excess of the amount provided for in the Insurance Fund provision, (potential or contingent liabilities)
 - **Unspent grant/external funding** – these are for unspent grants which the Council is not required to repay, but which have restrictions on what they may be used for e.g., the Public Health grant must be used on public health services. This category also consists of time limited projects funded from ringfenced external sources.
 - **Special Funds** – these are mainly held for economic development, tourism and regeneration initiatives.
 - **Partnerships** – these are reserves resulting from Council partnerships and are usually ringfenced for the benefit of the partnership or are held for investing in Strategic Priorities.
 - **Departmental underspends** – these reserves relate to re-phasing of projects/initiatives and bids for use of year end underspending which are requested to roll forward into the following year..
- 1.4 Within the Statement of Accounts, individual reserves with a balance of £500k or over are reported on. By categorising the reserves into the headings above, this is limited to the nine groups, plus Public Health, Schools and General. Operationally, each will be divided into the relevant sub reserves to ensure that ownership and effective management is maintained.

- 1.5 Reserves are an important part of the Council's financial strategy and are held to create long-term budgetary stability. They enable the Council to manage change without undue impact on the Council Tax and are a key element of ensuring the Council's strong financial standing and resilience. The Council's key sources of funding face an uncertain future and the Council therefore holds earmarked reserves and a working balance in order to mitigate future financial risks.
- 1.6 Earmarked reserves are reviewed quarterly as part of the monitoring process and annually as part of the budget process, to determine whether the original purpose for the creation of the reserve still exists and whether or not the reserves should be released in full or in part or require topping up based on known/expected calls upon them. Particular attention is paid in the annual review to those reserves whose balances have not moved over a three-year period.

2. Overview

2.1. The Council's overall approach to reserves will be defined by the system of internal control. The system of internal control is set out, and its effectiveness reviewed, in the Annual Governance Statement (AGS). Key elements of the internal control environment are objective setting and monitoring, policy and decision-making, compliance with statute and procedure rules, risk management, achieving value for money, financial management and performance management. The AGS includes an overview of the general financial climate which the Council is operating within and significant funding risks.

2.2. The Council will maintain:

- a general reserve; and
- a number of earmarked reserves.

2.3. The level of the general reserve is a matter for the Council to determine having had regard to the advice of the S151 Officer. The level of the reserve will be a matter of judgement which will take account of the specific risks identified through the various corporate processes. It will also take account of the extent to which specific risks are supported through earmarked reserves. The level will be expressed as a cash sum over the period of the general fund medium-term financial strategy. The level will also be expressed as a percentage of the general funding requirement (to provide an indication of financial context). The Council's aim is to hold general reserves of 5% of the net revenue budget to recognise the heightened financial risk the Council is facing.

3. Strategic context

3.1. The Council continues to face a shortfall in funding compared to spending demands and must annually review its priorities in order to address the shortfall.

3.2. The Council also relies on interest earned through investments of our cash balances to support its general spending plans.

3.3. Reserves are one-off money. The Council aims to avoid using reserves to meet ongoing financial commitments other than as part of a sustainable budget plan and one of the Council's financial principles is to stop the use of one-off funding to support the base budget. The Council has to balance the opportunity cost of holding reserves in terms of Council Tax against the importance of interest earning and long-term future planning.

4. Management and governance

- 4.1 Each reserve must be supported by a protocol. All protocols should have an end date and at that point any balance should be transferred to the general reserve. If there is a genuine reason for slippage then the protocol will need to be updated.

A questionnaire is completed by the relevant budget holder and reviewed by Finance to ensure all reserves comply with legislative and accounting requirements.

A de-minimus has been set to avoid small funds being set up which could be managed within existing budgets or declared as an overspend and then managed collectively. This has been set at £250k.

- 4.2 Reserves protocols and questionnaires must be sent to the Chief Accountant's Team for review and will be approved by the Corporate Director of Finance, CMT and then by the Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services. Protocols should clearly identify contributions to and drawdowns from reserves, and these will be built into the MTFP and monitored on a quarterly basis.

Accessing reserves will only be for significant unusual spend, more minor fluctuations will be managed or declared as budget variances. In-year draw-downs from reserves will be subject to the governance process set out in the revised financial regulations. Ongoing recurring costs should not be funded from reserves. Any request contrary to this will only be considered during the budget setting process. The short term use of reserves may be agreed to provide time to plan for a sustainable funding solution in the following financial year.

Decisions on the use of reserves may be delayed until financial year end and will be dependent on the overall financial position of the council rather than the position of just one budget area.

The current Financial Regulations state:

Maintenance of reserves & provisions

A.24 The Corporate Director of Finance is responsible for:

- i. advising the Leader and the Council on prudent levels of reserves for the Authority when the annual budget is being considered having regard to assessment of the financial risks facing the Authority;
- ii. ensuring that reserves are not only adequate but also necessary;
- iii. ensuring that there are clear protocols for the establishment and use of each earmarked reserve. Reserves should not be held without a clear purpose or without a planned profile of spend and contributions, procedures for the reserves managements and control, and a process and timescale for review of the reserve to ensure continuing relevance and adequacy;
- iv. ensuring that all renewals reserves are supported by a plan of budgeted contributions, based on an asset renewal plan that links to the fixed asset register;
- v. ensuring that no money is transferred into reserves after 31st December each financial year without prior agreement.

- 4.1. All reserves are reviewed as part of the monitoring process, the budget preparation, financial management and closing of accounts processes. Cabinet is presented with the monitoring of reserves on a half yearly basis and in the outturn report and the Council will consider a report from the S151 Officer on the adequacy of the level of reserves in the annual budget-setting

process. The report will contain estimates of reserves where necessary. The Governance and Audit Committee will consider actual reserves when approving the statement of accounts each year.

4.2. The following rules apply:

- Any in year use of the General Reserve will need to be approved by Cabinet and any planned use will be part of the budget setting process.
- In considering the use of reserves, there will be no or minimal impairment to the Council's financial resilience unless there is no alternative.

4.3. The Council will review the Reserves Policy on an annual basis.