Final Draft Budget 2022-23 and 2022-25 MTFP

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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
NAC - Non-Attributable Costs

1.1 This report sets out the proposals in the final draft revenue budget 2022-23, medium term plan (MTFP) 2022-25 and ten-year capital programme 2022-32. The report and appendices provide the essential information about the revenue budget, MTFP and capital programme for County Council approval on 10th February. This final draft report updates and replaces the earlier draft published on 5th January.

1.2 The final draft capital programme sets out planned infrastructure investments and funding over the 10 years 2022-32. The capital planning horizon has been extended to 10 years, up to 2022-32 for rolling programmes. This together with a new reserve to fund feasibility costs will help to reduce slippage by creating a more realistic programme. The introduction of a new capital monitoring and reporting solution in the new financial year, will provide more detail and transparency on the capital programme. In the programme we have sought to minimise additional borrowing, especially in 2022-23, and only borrowing where essential to meet statutory obligations. The inclusion of a schedule of potential projects ensures schemes in the initial stages of development and/or where funding has not yet been secured are not included in the programme too early in their development.

1.3 The final draft revenue budget and MTFP are prepared on an incremental basis. The starting point is the approved net budget for 2021-22 which is updated for known and forecast changes to derive the final draft budget for 2022-23. The changes are set out showing planned spending growth and net spending reductions from savings and income (including specific grants) separately. Planned changes to reserves are also shown separately.

1.4 The draft 2022-23 revenue proposals include £83.6m of spending growth (7% of the net budget). This continues to be higher than we would normally expect from population demographic changes and inflation at the government target level.

1.5 The Covid-19 pandemic has had a lasting impact and we are seeing significant spending pressures associated with latent demand, increasing complexity, and changes in social and working lives. Spending growth pressures have been volatile and increasing since the 2021-22 budget was approved. These growth pressures are reflected in the in-year monitoring report with the revenue budget showing a forecast net overspend of £18.7m as at the end of September 2021. In addition to the forecast overspend, a further £37.9m forecast spend has been funded from the one-off emergency Covid grant.

1.6 Added to these changes in spending patterns, inflation has risen dramatically over the autumn with high rates likely to continue into the new year. At the time the 2021-22 budget was set it was noted that the Office for Budget Responsibility (OBR) forecast for inflation was expected to remain subdued over the next three years, primarily due to relatively weak average earnings growth, returning to the 2% target by the end of 2024. In the March 2021 Budget, the OBR forecast that over the remainder of 2021 and 2022, they expected CPI inflation to remain a little below the 2% target. In July 2021 CPI inflation was 2%, but in the subsequent months has risen sharply to 5.4% by December 2021.

1.7 The Council has a number of contracts which include indexation clauses as well as negotiated uplifts. An example of index linked contracts are those for waste recycling and disposal where uplifts for 2022-23 range between 3.0% to 5.0%. Energy prices (affecting Council buildings and streetlights) are budgeted to increase between 19.7% to 22.5% (with some of this increase being felt in the current financial year). Facilities Management contracts have 5.4% indexation clause for 2022-23. The budget assumes that negotiated contract uplifts will be held to an average of 3%. This will be a challenging target to achieve bearing in mind the increases in inflation over Autumn 2021 and forecasts for 2022, and cost pressures on providers.

1.8 The final draft 2022-23 budget includes the impact of activity/cost changes in the current year as well as forecasts for the forthcoming year. Within these forecasts we have set challenging targets to bear down on future prices and demand pressures in order to set an affordable and balanced budget. This approach of setting challenging targets for holding down prices and demands is part of a planned strategy to revise the way in which the budget and medium-term plan are developed so that alternative actions including policy choices are considered as part of the response to growth demands using an outcomes based approach. It is acknowledged that this does not come without risks particularly as we transition to the new budgeting approach. These risks will be closely monitored and reported on during the year, to ensure that appropriate mitigation measures are identified and to minimise the call on reserves, which if needed would weaken the Council's financial resilience.

1.9 We already knew when the 2021-22 budget was agreed that including one-off central government Covid-19 emergency grant funding would present an additional challenge in 2022-23 and subsequent years, especially where this grant supported recurring spending. We were aware of the risks associated with this but at the time we recognised the impact of the pandemic on spending demands and the ability to deliver savings remained highly uncertain. In particular the impact of the Government's tier 3/4 restrictions in December and third national lockdown in January could not be fully assessed in time for the 2021-22 budget.

1.10 Whilst the Local Government Finance Settlement (LGFS) for 2022-23 has prioritised maintaining financial stability in the immediate term (with increased grants for social care and additional one-off grant to support the full range of council services) it is not enough to fund all the spending growth and the loss of one-off grants used in 2021-22.

1.11 The LGFS is only for one year (effectively the 4th consecutive one-year settlement) which makes medium term financial planning highly unpredictable. We know from the Spending Review that any new money (other than funding to implement the reforms to social care charging) is likely to have to come from Council Tax. We also now have the added uncertainty of how the new one-off Services Grant will be distributed in future years as well as the unknown impact of any changes to the current distribution of government grants. Within the MTFP we have included a prudent forecast for future settlements although there is scope for considerable variations once we have a clearer picture.

1.12 The final draft budget includes a 2.99% proposed increase in Council Tax charge for 2022-23. This would increase the county council share of the bill for a typical band D household by £0.81 per week. Council Tax is the most significant source of income to fund essential services, and whilst we seek to keep increases to a minimum, the proposed amount is in line with the government's 2% referendum limit and 1% adult social care precept. The estimated taxbase (the number of dwellings liable for council tax after discounts, exemptions and assumed collection rates) is returning to a healthy level of growth after the unprecedented reduction last year.

1.13 The combination of additional grants from central government and increased Council Tax (household charge and taxbase) is not enough to fully fund the increased spending growth and loss of one-off grants from 2021-22. The final draft budget for 2022-23 therefore includes £37.9m of savings and other income to reduce net costs and help balance the budget. Delivering a savings programme of this magnitude will be challenging and will require some tough decisions as it comes on top of over £750m of savings that have been made over the last 11 years.

1.14 The 2022-23 draft budget also includes a £4.5m net impact from changes in the use of reserves. This includes additional contributions to reserves of £14.1m, (including £8.4m to strategic priorities and £3.0m to economic development/regeneration reserves from variable funding sources, and a one-off additional contribution of £2.5m to general reserves to maintain these at 5% of the proposed 2022-23 net revenue budget). The strategic priorities reserve will be used to fund non-recurring/time limited projects and initiatives to support delivery of the Council's key priorities as set out in the Strategic Statement which will be considered by County Council in May. These additional contributions are offset by £8.7m additional drawdown from public health and smoothing reserves. The budget also reflects a net £0.9m removal of one-off contributions and drawdowns in 2021-22. The use of the smoothing reserve in 2022-23 is to take account of timing differences between spending requirements, funding and income sources, and delivery of savings.

1.15 The MTFP identifies further savings in 2023-24 and 2024-25 of a similar magnitude to 2022-23 based on assumptions for spending growth returning to more normal expected patterns, prudent assumptions for the local government settlement, and modest Council Tax increases. The forecast savings ensure a balanced 3-year plan with a modest surplus at the end of 2024-25 to allow a little headroom for some variations over the lifetime of the plan. At this early stage it is not considered appropriate to include detailed estimates for all the new savings in later years, but we have identified the areas of spending that will be reviewed taking an outcomes based approach to achieve the target amount. As plans are evolved, we aim to achieve the savings through service remodeling (delivering improved outcomes at reduced costs) rather than service reductions wherever possible. The plan includes a further small amount from smoothing reserves in 2023-24 to ensure each year is balanced for the same reasons as 2022-23.

2.1 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.

2.2 The overall strategy for the budget is to ensure that the Council continues to plan for revenue and capital budgets which are affordable, reflects the Council's strategic priorities, allows the Council to fulfil its statutory responsibilities and continues to maintain and improve the Council's financial resilience. However, it is also important that spending plans take account of the local priorities of the Council, Kent residents and businesses, and local communities. This is not always an easy combination and involves some difficult decisions about service levels and provision both for the forthcoming year and over the medium term. In reaching this balance it is essential that the Council has regard to bearing down on spending growth (particularly future price and demand increases) while making the necessary investments to support improvement and delivering savings/income generation. The proposed draft budget should be assessed against these aims.

2.3 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. However, it must also be acknowledged that despite a 3-year Spending Review announcement in October setting out multi-year departmental plans, the LGFS is only for one year (2022-23). This means that the funding for later years remains highly uncertain and planning has to be sufficiently flexible to respond accordingly.

2.4 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.

2.5 In accordance with Financial Regulations, a medium-term capital programme and financing plan is prepared on an annual basis. Where capital estimates are included, funding must be secured and approved prior to any expenditure being incurred.

2.6 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 2022-23 budget, capital programme and MTFP have 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

2.7 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 in final draft for County Council approval following a careful analysis of the responses to the 5 Year Plan consultation.

2.8 However, 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 the Interim Strategic Plan.

2.9 "Setting the Course" is our Interim Strategic Plan for 2021 and the first half of 2022. It was approved by County Council on 10th December 2020, and explains the immediate challenges we face, and the actions the Council will prioritise to lead the county over the first half of 2022.

2.10 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.

2.11 The budget for 2022-23 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 continues to face a highly uncertain medium term financial position. A one-year settlement has been announced for 2022-23, effectively the fourth consecutive one-year settlement. In the settlement the government has set out that the objective is to give priority to "stability in the immediate term", with a more fundamental review of local government funding starting in 2022. This means the Council cannot make medium term financial plans with certainty but still needs to make some difficult decisions in the short-to medium-term based on prudent forecasts, while maintaining a longer-term view of what is best for the county.

Economic – the economic downturn caused by coronavirus (COVID-19) caused widespread economic impacts. The economy has recovered during 2021 close to pre-pandemic levels by September 2021, although the rate of recovery has slowed in recent months. Gross Domestic Product (GDP) is forecast to fully recover to pre-pandemic levels early in 2022. However, of more significant economic concern is the rise in inflation over the second half of 2021 which has seen rates of inflation more than double since July with further increases forecast early in 2022. Inflation has a significant impact on the Council's budget especially through commissioned services.

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. In particular we have seen increased spending on social care services mainly due to additional complexity of cases following the pandemic and hospital discharges, and increases in household waste to be recycled/disposed of due to levels of home working.

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.

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

B) Requirement to set a balanced budget

2.13 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, 2022-23. There is no requirement to set a balanced MTFP, however this is considered good practice and the financial strategy is based on a balanced plan in the medium term (the three-year Spending Review announcement still leaves the overall resource equation uncertain in the absence of confirmation or otherwise of the delayed reforms to local government funding).

2.14 Setting the Council's revenue and capital budgets for the forthcoming year has been incredibly challenging due to the continuing uncertainties arising from the Covid-19 pandemic and subsequent economic recession. This has made current year budgets more volatile due to unpredictable demand for council services with knock-on consequences in our ability to forecast future spending requirements and income levels.

2.15 The three-year Spending Review announcement on 27th October 2021 provided some additional certainty around the resources available to the local government sector as a whole. However, the detail of allocations to individual authorities was not available until the provisional LGFS announcement on 16th December. This announcement confirmed that the core grant allocations and council tax referendum principles for 2022-23 were within the range we had anticipated at the time of the October Spending Review announcement.

2.16 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.

2.17 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.

2.18 The draft budget does include an increase in risks, particularly where we have had to limit spending growth within the available resources. This means that we will have to adopt a very robust approach to negotiating prices for a range of council services and adopt a more rigorous approach to managing, monitoring and reporting on demand for council services.

2.19 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 undertaken a review of each Directorate's financial management arrangements, following the Council wide financial management review undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Council is also developing Outcomes Based Budgeting which will see a more integrated approach to budget and service planning over the MTFP period focussing on priority outcomes and value for money.

2.20 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.

C) Budget Consultation

2.21 The Council launched a consultation on the 2022-23 budget on 28th July. The consultation was open until 19th September and can still be viewed via the Council's website.

2.22 We received 2,028 responses which is fewer than the 2,985 responses to last year's budget consultation but more than previous years e.g. 1,360 responses to the 2020-21 budget consultation. Responses were received from Kent residents, KCC staff and local businesses. Just under 50% of respondents found out about the consultation via Facebook advertising.

2.23 The consultation focused on the financial challenge the Council potentially faces if sufficient funding was not forthcoming, and we had to consider spending reductions. The consultation sought views on the future of Council services (how comfortable respondents would be to see spending reductions across the range of services), council tax levels (whether modest increases would be acceptable to help to sustain services) and whether the Council should look to do things differently in the future. The feedback from the public consultation has been taken into account in the draft budget proposals. We have also used the feedback from this consultation to shape the new 5 year Strategic Plan and the priorities we focus on.

2.24 A separate detailed report setting out the responses received is included as a 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.

2.25 No changes to the draft budget were proposed although the final draft budget and Section 25 Assurance statement include further information on the following:

- Levels and adequacy of KCC reserves including the impact if current year overspend is a call on reserves at year end
- Impact of deficits on Dedicated School Grant High Needs block on KCC's relative financial resilience as measured by debt to reserves ratio
- The treatment of allocations for demographic demand pressures and contingency reserves
- Allowances for price inflation within the final draft budget

D) Equalities Considerations

2.26 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.

2.27 To help meet its duty under the Equality Act the council undertakes equality impact assessments to analyse a proposed change 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.

2.28 The amounts for some savings can only be confirmed following consultation and completion of equalities impact. Consequently, amounts are only planned at the time the budget is approved and can change. Any changes will be reported through the in-year budget monitoring reports which will include separate and specific consideration of delivery of savings plans.

E) Treasury Management Strategy

2.29 The Treasury Management Strategy Statement is included as an appendix to this report for approval by full Council in accordance with the CIPFA Treasury Management Code of Practice. The Statement sets out the proposed strategy with regard to borrowing, the investment of cash balances and the associated monitoring arrangements.

2.30 The prudential indicators set out in the Treasury Management Strategy and Capital Strategy are based on the first three years of the 10 year Capital Programme.

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 and the wider economy. The Spending Review and LGFS sets the government's expectations of how much local authorities can raise through local taxation. A fuller analysis of the Fiscal and Economic context and provisional LGFS was presented to Cabinet on 6th January and that report can also be accessed as a background document to this report.

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 of £319.9bn in 2020-21.

3.3 The performance of the economy has been particularly volatile following the start of the pandemic. The pace of economic recovery has slowed in recent months and inflation has been rising over late summer and autumn. Unemployment has not been as adversely affected as originally feared although underlying wage growth for those in continuous employment is difficult to measure due to the high level of changes in employment.

4.1 The Secretary of State for Levelling Up, Housing and Communities published a written statement on the provisional local government finance settlement on 16th December. The settlement sets out the core spending power (CSP) including main grant allocations for individual authorities from the Department for Levelling-up, Housing and Communities (DLUHC) and forecast council tax precepts for 2022-23. The announcement is a one-year settlement and does not include indicative allocations for subsequent years (2023-24 and 2024-25) despite the announcement of three-year departmental spending plans in the Spending Review 2021 (SR21) on 27th October.

4.2 The Government's stated objective in the settlement was to give priority to "stability in the immediate term", with a more fundamental review of local government funding starting in 2022. A one-year settlement leaves capacity for the impact of reforms in later years.

4.3 The settlement provides details of the allocations of the departmental budgets to individual councils of the amounts announced in Spending Review (SR21). The settlement together with the provisional tax base estimates from 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 13th January. The allocations in the settlement were largely as anticipated.

4.4 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. Comparison of the main elements of CSP for KCC for 2021-22 and 2022-23 are set out in table1 below (note the 2021-22 CSP has been recalculated from the original 2021-22 settlement to reflect the final council tax precept)

Table 1 – KCC Core Spending Power	2022-23 CSP	2021-22 Revised CSP	Change	*Memo Original 2021-22 CSP*
Business Rate Baseline	£187.9m	£187.9m	-	£187.9m
Revenue Support Grant	£10.0m	£9.7m	+0.3m	£9.7m
Settlement Funding Assessment	£197.9m	£197.6m	+0.3m	*£197.6m*
Improved Better Care Fund	£50.0m	£48.5m	+£1.5m	*£48.5m*
Social Care Support Grant	£54.5m	£39.1m	+£15.3m	*£39.1m*
Compensation for Business Rates	£15.4m	£9.8m	+£5.6m	*+9.8m*
New Homes Bonus	£4.4m	£4.6m	-£0.2m	*£4.6m*
Services Grant (new)	£13.0m		+£13.0m	
Fair Cost of Care Fund (new)	£4.2m		+£4.2m	
Council Tax	£810.6m	£778.7m	+£31.8m	*£801.9m*
Total	£1,149.9m	£1,078.4m	+£71.5m	*£1,101.6m*

4.5 As widely anticipated, the 2022-23 announcement includes roll-forward of the main grants including Revenue Support Grant (RSG), Social Care Support Grant (SSG), Improved Better Care Fund (iBCF) and compensation for previous business rates discounts/exceptions/ caps on increases. There have been no changes to the methodology for allocating grants and new grants and increased grants have been allocated using existing methodologies. RSG includes a 3.1% inflationary uplift and the transfer of two small new burdens grants from the Electoral Registration grant and the Financial Transparency of Local Authority Maintained Schools grant. Appendix H provides further details on all the core grants within the LGFS.

4.6 The settlement includes the allocation of the new £4.8bn additional grant over 3 years for local government announced as part of SR21. Approximately £1.6bn of this money has been allocated in 2022-23:

- £636m increase in SSG (£15.3m for KCC) using the existing Adult Relative Needs Formula (RNF) and equalisation of the Adult Social Care council tax precept
- £63m increase in iBCF (£1.5m for KCC) which together with the additional Social Care Support Grant represents £700m new grant funding for social care
- £822m for new one-off Services Grant for 2022-23 (£13.0m for KCC) allocated to all authorities using the same formula as the Settlement Funding Assessment (SFA)
- Inflationary increase in RSG (£0.3m for KCC)

4.7 SR21 included £3.6bn for local government over 3 years to implement the social care reforms announced in September. The LGFS allocates £1.4bn of this (£162m in 2022-23, with a further £600m planned in each of 2023-24 and 2024-25 subject to meeting certain conditions) through the "Market Sustainability and Fair Cost of Care Fund". This fund is to support local authorities to prepare markets for reform and move towards paying providers a more equitable cost of care. The funding in 2022-23 has been allocated using the same Adult RNF as SSG. KCC's share in 2022-23 is £4.2m. At this stage we do not have sufficient information about the impact of the reforms to assess whether the grant will be sufficient. This grant will be subject to separate conditions set by government.

4.8 The settlement also confirms the proposed council tax referendum limits of up to but not exceeding 2% for the general precept and 1% for the adult social care precept. The CSP should be treated with some caution as it assumes a 4.1% increase in council tax precept from a combination of the referendum/adult social care increases in full and the Government's assumption of 1.1% increase in the tax base. The County Council's precept must be based on the estimated tax base notified by Kent districts and the council tax agreed by full Council. The estimate for the draft budget proposals assumes a 2.63% increase in the tax base and 2.99% increase in the County Council share of council tax charge for 2022-23. This results in an estimated precept of £823.1m, which is around £12.5m (1.5%) more than that assumed by government in CSP.

4.9 In a written ministerial statement the Secretary of State reaffirmed the Government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. As part of this the Government will look at options to support local authorities through transitional protection. The one-off 2022-23 Services Grant provided in the LGFS will be excluded from potential transitional protections.

4.10 The one-year announcement in the provisional settlement leaves scope for changes in the distribution of funding through Settlement Funding Assessment (SFA) and other grants in later years to take account of the Fair Funding reforms which have been delayed for several years. The data used to assess both SFA and Adults RNF has not been updated for a number of years, dating from 2013-14 to a large degree, and even as far back as 2000. However, this commitment to update the distribution does add a further degree of uncertainty whether funding from the non-council tax elements of the Council's budget will be more, flat, or less than 2022-23.

4.11 The 2022-23 settlement includes the baseline for business rates retention (including tariffs and top-ups) which together with RSG makes up the SFA within the CSP. The calculation of SFA takes account of the impact of previous business rates revaluations but does not include any additional business rates receipts (or business rates losses) under retention arrangements. The 2021 business rates revaluation (which would have impacted on the baselines for 2022-23) has been delayed until 2023.

4.12 The New Homes Bonus includes the final year's legacy payment for previous years plus one-year's growth for new housing stock, empty homes brought into use and affordable homes premium. The additional growth is allocated as a one off and we are still assuming this grant will end in 2023-24 when the final legacy element is removed.

4.13 The announcement on 16th December 2021 does not include any of the additional funding for Supporting Families and Cyber Resilience, which will be distributed separately outside of the provisional settlement.

4.14 The settlement includes no information about the national total, or individual council allocations, of the public health grant for 2022-23.

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 2022-23 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 2021 the ESFA published provisional allocations for 2022-23 for the Schools Block, Central School Services Block and the High Needs Block. The allocations have been updated on 16th December with the October 2021 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 2022 pupil numbers, with the current indicative allocation based on January 2021 numbers. The hourly rate which is the basis of the allocation was confirmed on 25th November as £4.79 per hour for 3 and 4 year olds and £5.65 per hour for 2 year olds. The 2-year old rate has increased by 21p for all authorities, whilst the 3 and 4 year old rate has increased by 17p for most authorities except those which fall below the £4.61 minimum or those with higher protected rates in 2021-22.

5.6 The primary pupil funding rate in the Schools Block has increased by 3.1%. The secondary pupil funding rate has increased by 2.8%. 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 £49.7m (4.6%) to £1.129bn on the comparable figure for 2021-22.

5.7 The High Needs Block is funding to support costs of pupils with additional educational needs, across mainstream and special schools as well as the associated support costs. The allocation of the high needs block for 2022-23 has increased by £23.2m (9.3%) on the comparable figure for 2021-22. 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 2021-22 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) and the increasing proportion of children being educated in special and independent schools and a smaller proportion educated in mainstream schools. 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 recognised as a national problem but has been particularly acute in Kent.

5.9 The Government has provided additional high needs funding, but this has been insufficient in addressing the funding gap and the Government’s wider review of Special Educational Needs (SEN) including options for structural reforms, has been significantly delayed. In the meantime, the government has confirmed that DSG deficits do not have to be covered from the General Fund and has started a process to consider paying off historic debts where local authorities can demonstrate they can balance their future budget. Interim arrangements have also been introduced to avoid the impact on Council accounts whilst a solution is found, however this is currently due to come to an end in March 2023 and the level of debt remains unsustainable posing a considerable risk to the Council in the absence of funding and structural reforms.

5.10 Kent recognises it needs to take further actions to ensure we are able to support children with SEN sustainably within the funding provided, and 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 Specialist Resource Provision (SRP) 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 2021-22. This will be formally monitored and reported on as part of the Council’s budget monitoring reports to Cabinet.

5.11 The Schools’ Funding Forum were requested to consider a 1% transfer from Schools Block to the High Needs Block to help to support the system of SEN support in mainstream schools across the county including ensuring sufficient funding for the County Approaches to Inclusive Education. This was considered by the Forum in late November and the Forum agreed this transfer to support the delivery of the 4 key priorities of this approach:

1. Supporting a school led system to deliver the highest quality core inclusive education
2. Providing additional intervention and support with engagement
3. Inclusive Education is part of a broader, holistic, and joined-up offer of support
4. Ensuring smooth transition between education phases

5.12 This transfer has been approved by the Secretary of State. The Schools Block calculation outlined in paragraph 5.6 is the basis for this transfer before academy deductions and additional pay and pension grants.

5.13 The Central School 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 statutory 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.

5.14 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 £0.9m in relation to historic commitments for 2022-23. The element of the CSSB that funds ongoing services has increased by 7%. The overall CSSB has reduced by £0.3m (2.5%) on the comparable figure for 2021-22.

5.15 The table below sets out the latest DSG allocation over the funding blocks for 2022-23.

Table 2 - Dedicated Schools Grant 2022-23 and Final DSG 2021-22

Block	**2022-23 £m**	**2021-22 £m**	**Gross Change £m**
Schools Block	1,129.2	1,079.5	+49.7
CSSB	11.5	11.8	-0.3
High Needs Block	272.2	249.0	+23.2
Early Years Block	88.0	88.4	-0.4
Total	**1,500.9**	**1,428.7**	**72.2**

5.16 In addition, the Council receives, and passports fully to schools, funding for the pupil premium (£64.5m in 2021-22) and 6th form funding (£20.9m in 2021-22). Final allocations for the pupil premium are expected to be confirmed before July 2022 and 6th form funding in March 2022. A separate Schools Supplementary Grant for 2022-23 has also been announced by Government which is intended to provide support for the costs of the Health and Social Care Levy and wider costs which were not taken account of when the Dedicated Schools Grant settlement was announced in July. This funding will be distributed at standard rates based on pupil numbers and number of children eligible for free school meals.

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 £7.8m per annum in 2022-23, which equates to an extra 27 pence per week for a band D property.

6.4 SR21 confirmed the referendum level of 2% for general tax rate increases and permitted Councils to add an ASC precept of up to 1%. 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. The 2022-23 draft budget includes a proposed 1.99% increase in the general precept (up to but not exceeding the referendum level) and a further 1% increase in the adult social care precept.

6.5 The County Council's council tax level is currently 9th of the 24 counties and 4th of the 7 south east counties. Even after implementing the proposed increases for 2022-23, the Council's relative position will depend on the extent to which other councils agree increases up to the 2022-23 referendum level/social care precept and deferred increases in the social care precept from 2021-22. We will not know KCC's relative position on Council Tax until all county councils have agreed their precept and Council Tax charge for 2022-23.

6.6 The county has seen increases in the number of new homes over the last few years, however the Covid-19 pandemic had a material impact on the 2021-22 taxbase; 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. Throughout 2021-22 the level of LCTRS has reduced but the collection rate remains below the pre pandemic collection rate.

6.7 The final taxbase estimate provided by district councils is an overall increase of 2.63% providing an additional £20.4m of Council Tax income. This is a larger increase than has been seen in previous years partially due to economic recovery from the pandemic and reduction in LCTRS discounts. The higher tax base means the amount generated from a 1% increase in Council Tax rate rises to £8m in 2022-23. We will provide a fuller analysis of changes in the taxbase once we have the final notification from districts.

6.8 The Council Tax Collection Fund deficit in 2020-21 is accounted for over the three-year period 2021-24. A separate compensation grant has been provided by Government equivalent to 75% of irrecoverable losses due to the pandemic over the same three-year period. The Council has previously included estimated collection fund surpluses as part of the funding towards the budget. This is proposed to continue for 2022-23 final draft budget with the collection fund balance including the second year of the 2020-21 deficit and compensation, plus the 2021-22 collection fund surplus estimates notified by district councils.

6.9 The council tax charge for 2022-23 must be agreed by County Council. Council tax is raised through a precept through 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 to the County Council. Any surpluses or losses on collection must be taken into account in the following year's budget and council tax setting considerations. The individual district changes between 2021-22 and 2022-23 taxbase estimates, and the 2022-23 council tax precept are shown in table 3 for agreement of individual district precepts at full Council on 10th February.

Table 3 Council Tax Base Changes & 2022-23 Precept

District	2021-22 Band D Equivalent Taxbase	2022-23 Band D Equivalent Taxbase	2022-23 Precept @ £1,461.24 (incl. ASCL) £000s	% change
Ashford	45,173.00	48,664.00	71,109.8	7.7%
Canterbury	49,624.38	51,259.80	74,902.9	3.3%
Dartford	38,792.33	39,544.25	57,783.6	1.9%
Dover	38,993.94	39,763.21	58,103.6	2.0%
Folkestone & Hythe	38,484.69	39,172.25	57,240.1	1.8%
Gravesham	34,425.11	34,829.66	50,894.5	1.2%
Maidstone	63,550.10	65,896.22	96,290.2	3.7%
Sevenoaks	50,876.85	51,514.27	75,274.7	1.3%
Swale	48,040.12	48,939.46	71,512.3	1.9%
Thanet	44,155.70	44,975.20	65,719.6	1.9%
Tonbridge & Malling	51,374.86	52,246.97	76,345.4	1.7%
Tunbridge Wells	45,371.40	46,479.60	67,917.9	2.4%
Total	548,862.48	563,284.89	823,094.4	2.6%

Note: ASCL = Adult Social Care Levy

6.10 For 2022-23 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 2022-23 to £1,461.24 of which £173.25 would be for the Adult Social Care levy. The proposed increases are the equivalent of 82 pence per week for a band D household. The impact of the proposed increase to individual bands is shown in table 4 and these are presented for agreement to full Council on 10th February.

Table 4 Proposed Council Tax increases

Band	Proportion of Band D Tax Rate	2021-22 (incl. ASCL)	2022-23 (excl. increase in ASCL)	2022-23 (incl. increase in ASCL)
A	6/9	£945.84	£964.74	£974.16
B	7/9	£1,103.48	£1,125.53	£1,136.52
C	8/9	£1,261.12	£1,286.32	£1,298.88
D	9/9	£1,418.76	£1,447.11	£1,461.24
E	11/9	£1,734.04	£1,768.69	£1,785.96
F	13/9	£2,049.32	£2,090.27	£2,110.68
G	15/9	£2,364.60	£2,411.85	£2,435.40
H	18/9	£2,837.52	£2,894.22	£2,922.48

Note: ASCL = Adult Social Care Levy

7.1 The final draft budget for approval by County Council as set out in this report and appendices is published on 2nd February for Council approval. The full Council is responsible for agreeing the Budget at the County Council meeting on 10th February. As required by the Council's Constitution and Financial Regulations, the final draft budget for County Council approval will be proposed by the Leader and published in a format recommended by the Corporate Director of Finance and agreed by the Leader.

7.2 The final draft budget proposals in appendices A and B of this report set out the proposed ten-year capital spending plans for 2022-32. 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, forecast developer contributions, external funding, capital receipts and borrowing. In developing the capital programme we have sought to minimise additional borrowing, particularly in 2022-23 and only borrow where it is essential to meet statutory obligations. 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.

7.3 Appendix C in the draft budget report provides an indication of new potential capital projects which could come forward within the next 10 years. These have not been included in the draft capital programme and would only be added in later years subject to business cases being completed and reviewed and affordable funding solutions being identified. Indicative costings have been provided as a guide, however, no funding or budget will be set aside for these projects at this time.

7.4 The presentation of the 2022-23 final draft revenue budget and 2022-25 MTFP focuses on the key policy and strategic implications of the proposals. The revenue proposals are set out in appendices D to G of this report. These appendices show the spending, income and savings changes from the current year's approved budget (2021-22) and the financing requirements as well as proposed directorate budgets. Appendix D provides a high-level summary of the proposed three-year plan for the whole council. Appendix E provides a detailed 2022-23 final draft budget for each directorate by key service lines. Appendix F shows the directorate budget changes between 2021-22 and 2022-23. Appendix G provides a more detailed three-year plan for the whole council.

7.5 The key service analysis in appendix E is presented in the same format as the quarterly budget monitoring reports to Cabinet. The half year monitoring report for 2021-22 was reported to Cabinet on 9th December, this showed the current year variances from the working budget for both capital and revenue. Appendix 1 of the Cabinet report shows the revenue variances for key services in the current year.

7.6 Additional proposed spending growth 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. These are set out in fuller detail in the appendices to this report including an explanation of the reasons for the change.

7.7 The proposed spending growth includes the impact of the Personnel Committee recommendations on changes to the Kent Pay Scheme:

- Total Contribution Pay (TCP) rating of 'successful' to receive a 3% increase for 2022-23 (with the awards for "excellent" and "outstanding" to maintain proportionate differentials) and with the corresponding adjustment to our pay scales for all Kent Scheme staff scales in accordance with 0.5% and £1,200 principles between individual pay ranges and top of pay ranges.
- Increase in our lowest grade to £10.00 per hour from April 2022 which will maintain our position above the national minimum and marginally above the Living Wage Foundation's Living Wage Living Wage announcement in November 2021.
- Increase in the basic leave entitlement of staff in grades KR3-7 and KR8-12 of an additional day.

7.8 The presentation of proposed savings and income in the appendices to this report follows a similar pattern with proposed savings amounts identified separately for the full year effect of 2021-22 plans already agreed; savings/income from the application of existing policies; savings/income that do not require any changes in policy; and those that require policy changes.

7.9 The original medium-term outlook for 2022-24 (section 11 of the approved budget book) had previously identified savings and additional income totalling £27m for 2022-23. An update to this outlook was presented to Cabinet on 24th June to accompany the draft outturn for 2020-21. This showed a slightly revised and updated figure for previously identified existing savings and income of £26.5m, this can be viewed on the Council's website. These plans have been revised and updated in the final draft 2022-23 budget to £34.2m of savings and income (excluding specific grant), of which £25.6m are the full year effect of savings agreed for 2021-22 or the roll-out of existing policy, and £8.6m are new proposals.

7. 10 The high-level equation for changes in planned revenue spending for 2022-23 (growth and savings), income and net budget, together with the balancing changes in funding is shown in table 5 below. This summarises how the requirement to set a balanced budget has been met.

Table 5 – Net Change in Spending and Funding

Change in Net Spending		**Change in Net Funding**	
Proposed additional spending	+£83.6m	Removal of one-off grants in 2021-22	-£46.6m
Proposed savings from spending reductions	-£25.6m	Net Increase in government grants	+£39.6m
Proposed changes in income	-£8.7m	Change in council tax base	+£20.4m
Increases in specific government grants	-£3.6m	Proposed increase in council tax charge	+£23.9m
Proposed net change in reserves	+£4.5m	Change in retained business rates	+£3.0m
		Change in net collection fund balances/S31 compensation	+£9.9m
Total Change in Net Spending	**+£50.3m**	**Total Change in Net Funding**	**+£50.3m**

7.10 In using one-off Covid-19 grants in 2021-22 budget it was made explicit that this would have implications for the 2022-23 budget. These included two grants, the fifth tranche of the emergency grant, and a compensation for council tax losses. Effectively the recovery of the taxbase (from 1.04% reduction in 2021-22 to 2.63% growth for 2022-23) has compensated for the council tax loss grant. The removal of the Covid-19 grant has contributed to the savings/income requirement for 2022-23.

7.11 The increased and additional grants have been set out in more detail in the section on the Provisional Settlement. This includes the new one-off Services grant, the increases in Social Care Support Grant/Revenue Support Grant/Improved Better Care Fund, and the new grant for social care charging reforms, which is now known as "Market Sustainability and Fair Cost of Care Fund" although this grant does not reflect the totality of the funding for local authorities included in the October 2021 Spending Review. At this stage the costs associated with this latter grant are shown as a separate government and legislative growth item pending further clarification from Government on its use and the impact of the charging reforms and KCC's proposed plan.

7.12 The MTFP shows a small surplus over the three-year period. This is based on a reasonable estimate of the possible funding settlement from central government (albeit the Government has committed to updating the data used to inform allocations and reform the funding methodology) and assumed future council tax base and council tax charge increases. Spending growth has been forecast for years 2 and 3 together with detail of the full year effect of savings proposed for 2022-23 and the roll-out of savings/income in later years under existing policies. New savings for years 2 and 3 have been shown separately in appendix G. The funding estimates are speculative at this stage and spending, savings and income plans are likely to need to be updated in 2023-24 and 2024-25 in light of the settlement for these years, which may well eliminate any surplus currently being estimated.

7.13 Detailed consultation and Equality Impact Assessments (EQIA) will need to be undertaken on individual new savings and income proposals. The final planned amounts can only be confirmed following consultation and EQIA. Any variances between the approved budget and final planned amounts will be included in the budget monitoring report to Cabinet, together with progress on delivery.

7.14 Similarly new savings and income under consideration for future years will require further development before consultation and EQIA. Consequently, individual amounts have not been presented at this stage although a combined overall amount for these options has been presented to show the overall amount which is likely to be needed to achieve a balanced budget against the estimated financing over the medium term.

Income generation through fees and charges

7.15 The majority of discretionary fees and charges are raised annually by a minimum of inflation (CPI or RPI). Both of these inflation measures have increased recently due to a variety of circumstances. For example, CPI inflation is currently around 5.4% compared to 2.0% in July 2021. RPI inflation is around 7.5% compared to 3.8% in July 2021. It is proposed to develop a comprehensive Fees and Charges policy during 2022-23 including a review of all existing and planned Fees and Charges, in order that a consolidated summary of Fees and Charges is presented as an appendix to the 2023-24 budget report.

Proposed Final 2022-32 Capital Programme – key numbers

£1,702m	Total planned capital spending over the ten years 2022-23 to 2031-32.
£264m	New borrowing added to the 10-year programme. This includes a minimum level of spend on Essential Asset Management including modernisation of assets on the schools and corporate estate, schools' annual planned enhancement, highways asset management and public rights of way, which will be reviewed annually
£997m	Confirmed or indicative government grants to fund capital expenditure.
£424m	Total proposed borrowing to fund the programme.
£281m	Funding from other sources (capital receipts, developer contributions, external funding and revenue).

8.1 The three-year Capital Programme 2021-24 was approved by County Council in February 2021. 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 ten-year Capital Programme 2022-32 provides a longer term plan for capital investment, taking into consideration an updated assessment of the capital financing requirements and the consequent impact on the revenue budget and borrowing strategy.

8.3 Appendix A of this report sets out a summary of the proposed 2022-32 programme and associated financing requirements for each year. The summary provides a high-level overview for the whole council. The individual directorate pages in appendix B provide more detail of rolling programmes and individual projects.

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 Plan.

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 loan repayments are borne by the revenue budget each year based on the life of the asset.

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 years' 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 can be identified through note 1 in the capital programme (appendix B) and will only go ahead if the funding is secured.

8.5 Appendix C of this report provides an indication of Potential Capital Projects which may come forward within the next 10 years. These projects are currently very high level and commencement is subject to business case review and affordable funding solutions being identified. Indicative costings have been provided as a guide, however no funding or budget will be set aside for these projects at this time.

8.6 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 that cannot be met from the contingency element of the project's budget
- 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 the financial implications of any additional capital risks have not been factored into the revenue budget plan.

Proposed Final 2022-23 Revenue – key numbers

£1,182.7m Net revenue budget proposed for 2022-23. This represents a £50.3mincrease on the approved budget for 2021-21 of £1,132.4m.

£83.6m Additional proposed spending – see paragraph 9.1 for more detail.

£37.9m Proposed savings and income. Of this £25.6m relates to proposed savings, £8.7m additional income generation (mainly fees and charges), and £3.6m anticipated increases in specific grants (including Public Health grants yet to be confirmed).

£4.5m Net impact on the budget of changes in use of reserves. This comprises:

- +£8.4m additional contributions to the strategic priorities reserve and £3.0m economic development reserve from unstable/insecure funding sources which in previous years supported base budget spending. The strategic priorities reserve will be used to fund non-recurring/time limited projects and initiatives to support delivery of the Council's key priorities as set out in the Strategic Statement which will be considered by County Council in May.
- +£2.5m one-off contribution to general reserves to maintain these at 5% of the net revenue budget
- +£0.2m annual contribution to the smoothing reserve for facilities management contract
- -£8.7m drawdown from smoothing and public health reserves
- -£0.9m removal of one-off contributions to and drawdowns from reserves in 2021-22

£823.1m Proposed to be raised from Council Tax precept. An increase of £44.4m on 2020-21. £20.4m is due to a 2.63% increase in the tax base due to increased dwellings and recovery on low income discounts, £23.9m is raised from the proposed increase the in household charge up to but not exceeding 3% (including the additional adult social care levy).

£39.6m Confirmed or indicative government grants. This comprises:

- £13.0 new one-off Services grant for 2022-23
- £15.3m increase in Social Care Support Grant
- £1.5m increase in Improved Better Care Fund
- £0.3m increase in Revenue Support Grant
- £4.2m new ring-fenced grant for Social Care charging reforms
- £5.6m additional compensation for business rate freeze
- -£0.2m change in New Homes Bonus Grant

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 Department for Levelling-up, Housing and Communities (DLUHC) 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.

Numbers rounded for clarity including totals. As a result, small rounding differences sometimes occur, and tables may appear not to add up.

9.1 The additional spending growth of £83.6m is summarised in appendix D and set out in more detail in appendices F & G. It has been subdivided into the following categories:

Service Strategies and Improvements £9.3m	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 some areas where staffing needs to be enhanced to deal with increased activity/safeguard the Council from increased risks
TCP Pay & £10 per hour minimum pay point £7.3m	Net additional cost of proposed Total Contribution Pay (TCP) award for Kent scheme staff proposed by Personnel Committee and subject to finalising pay bargaining with trade unions (this provision would equate to 3% successful award for the majority of staff). Allow minimum pay point for Kent scheme to increase to £10 per hour (increasing the current differential between the lowest pay range (KR3) and Foundation Living Wage) Increase in the basic annual leave entitlement for staff in KR3-7 and KR8-12 by one additional day
NI Increase £1.6m	Cost of the additional 1.25% increase in employer's National Insurance Contributions (NICs).
Pension increase £0.2m	0.1% increase in employer pension contributions following the 2019 actuarial review of the Pension Fund.
Price inflation £28.6m	Contractual and negotiated price increases. Further information on the prices increase provision was provided to Members through a budget briefing.
Increased demand and cost drivers £20.7m	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 £3.5m	Changes in spending to ensure the Council complies with latest legislative updates and requirements, including the £4.2m social care charging reforms, and the removal of one-off costs associated with Covid-19 pandemic in 2021-22 budget.
Reduction in specific grants £1.2m	Loss of income due to previously announced reductions in specific grants. The consequential reductions in spending are shown as savings.
Base budget changes £11.2m	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.

9.2 The proposed savings and income of £37.9m is summarised in appendix D and set out in more detail in appendices F & G. It has been subdivided into the following categories:

Policy Savings £9.6m	These savings arise due to changes in KCC policies. The policy savings include a review of a number of service areas including in-house services in adult social care, subsidised bus services, discretionary disabled companion passes and contracts and grants with voluntary sector providers, expiry of the homeless support contract from September 2022, increases in the contributions towards Kent Travel Saver (KTS) and 16+ Travel Saver.
Transformation Savings £8.9m	These savings aim to achieve improved outcomes at less cost. The transformation savings include £8.4m from service redesign of the adult social care operating model focussing on social care practice, data led decision making, and innovation to better manage costs and future demand for adult social care including staff savings.
Efficiency Savings £5.0m	These savings aim to achieve the same outcomes at less cost. The efficiency savings include £3.3m on contracted services through reviews of existing contracts; £0.4m staffing savings through workforce management including review of business processes, automation, rationalisation and digitalisation; £1.3m of other service efficiencies
Financing Savings £2.1m	Reduction in prudential borrowing costs due to rephasing of capital projects from prior years and review of amounts set aside for debt repayment (MRP) based on asset life.
Income Generation £8.7m	Increases in fees and charges for council services from applying existing policies. Income generation includes uplifts in client contributions in line with estimated 2022-23 benefits and other personal income increases, inflationary uplifts in other fees and charges, increases in contributions to KTS linked to fare increases (this is existing arrangement and separate from the proposed policy change), increased contribution from external income, income from dividends from wholly owned companies (to be held in a Strategic Priorities Reserve which will be used to fund non-recurring/time limited projects and initiatives to support delivery of the Council's key priorities as set out in the Strategic Statement which will be considered by County Council in May.)
Specific Grant Income £3.6m	Estimated increases in grants for public health, new burdens and supporting families.

10.1 Reserves are an important part of the Council's financial strategy and are held to create long-term financial 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 Reserves Policy is included as Appendix I to this report. This includes the additional information on reserves requested during the scrutiny process.

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 initially 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 significant cost of ICT investments required, including 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 continuing with the policy previously agreed that insecure and variable funding sources should not be used to fund base budget core activities e.g. New Homes Bonus grant (company dividends have already been transferred to this reserve) and should instead be held in a new Strategic Priorities Reserve which will be used to fund non-recurring/time limited projects and initiatives to support delivery of the Council's key priorities as set out in the Strategic Statement which will be considered by County Council in May.

10.11 The final draft budget includes a proposed £2.5m increase in general reserves to maintain these at 5% of the net revenue budget.

10.12 Appendix J to this final budget report 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 K is a comprehensive budget risk register and is presented in order of the most significant risks.

Appendices

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 1
KCC's Corporate Risk Register and Risk Management Policy & Strategy 2
KCC's approved 2021-22 Budget 3
KCC's Budget Consultation, launched on 28th July 2021 4
KCC's report on 2021 Budget Consultation 5
Budget Monitoring Report September 2021 (item 7) 6
Report on 2022-23 Provisional Local Government Finance Settlement to Cabinet on 6th January (item 4) 7

Numbers rounded for clarity including totals. As a result, small rounding differences sometimes occur, and tables may appear not to add up.