

Revised Draft Revenue Budget 2024-25 and 2024-27 MTFP, Draft Capital Programme 2024-34 and Treasury Management Strategy

| | Sctn | Page |
|--|------|------|
| Executive Summary | 1 | 2 |
| Background and Context | 2 | 5 |
| Provisional 2024-25 Local Government Finance Settlement | 3 | 6 |
| Council Tax | 4 | 10 |
| The Administration's Revised Draft Budget Proposals | 5 | 13 |
| Revenue Strategy and Revised Draft Budget | 6 | 19 |
| Capital Strategy and Draft Budget | 7 | 22 |
| Treasury Management Strategy | 8 | 24 |
| Reserves | 9 | 25 |
| Appendices | | |
| Draft Capital Investment Strategy 2024-25 to 2033-34 | A | |
| Draft Capital Investment Strategy by Directorate | B | |
| Potential New Capital Projects | C | |
| High Level 2024-27 Revenue Plan and Financing | D | |
| High Level 2024-25 Revenue Plan by Directorate | E | |
| Budget Dashboard (screenshots) | F | |
| List of individual spending, savings & reserve items | G | |
| Reserves Policy | H | |
| Budget Risks and Adequacy of Reserves | I | |
| Budget Risk Register | J | |
| Core Grants in Provisional Local Government Finance Settlement | K | |
| Economic & Fiscal Context | L | |
| Treasury Management Strategy | M | |

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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 | CED - Chief Executive's Department |
| DCED – Deputy Chief Executive's Department | NAC - Non-Attributable Costs |

1.1 This report updates the initial draft revenue budget 2024-25 and three-year medium term financial plan (MTFP) 2024-27 following its publication on 1st November 2023 and subsequent scrutiny during November, setting out the administration's strategy and proposals to close the budget gap and balance the budget. It sets out the draft 10-year capital programme 2024-25 to 2033-34 and the draft Treasury Management Strategy. The report and appendices provide the key information for the scrutiny process in advance of full Council approval on 19th February 2024.

1.2 The budget gaps of £48.8m for 2024-25 and £13.9m for later years in the initial draft budget report have been balanced through a mix of recurring and one-off measures, including the use of reserves. The measures that have a recurring impact include increased funding assumptions (higher inflation flowing into retained business rates and grant settlement), reductions in spending growth from the initial draft, and further areas for savings and increased income (including bringing forward savings and income from later years). The savings and income arise largely from a review of policy-based service changes and reductions, and the scope of the Council's ambitions and further transformation of the Council's operating model as set out in Securing Kent's Future (SKF). The one-off measures that are replaced in the subsequent years of the MTFP include the use of the final year of New Homes Bonus grant to fund revenue pressures, flexible use of capital receipts to fund revenue spending, and use of reserves.

1.3 The amount of one-off actions and use of reserves, particularly in the first year, is significant and will reduce the Council's financial resilience to absorb any future financial shocks, with the need to make recurring savings and cost reductions in the following two years as these one-off measures are not a sustainable solution to increased recurring costs. The late and unexpected reduction of the Services Grant and other changes in the Provisional Local Government Finance Settlement for 2024-25 published on the 18th December 2023 have increased the gap by £5.4m. Given the lateness in the budget setting process of this funding reduction, it has been addressed by increasing the level of one-off measures in 2024-25.

1.4 The one-off measures used to balance the budget for 2024-25 will need to be replaced by an equivalent level of savings in 2025-26 and 2026-27. As highlighted above, these will be from further proposals under the SKF objectives on policy choices and transformation of the Council's operating model. At this stage all that is required is an agreement that all one-off actions to balance 2024-25 will be replaced by matched savings in 2025-26 and 2026-27 and that the detail of these savings proposals will be developed, consulted on as required and agreed during the first half of 2024-25 for implementation in 2025-26 wherever possible, although the full financial effect may not impact until 2026-27 where there is a part-year effect in 2025-26.

1.5 The spending growth pressures impacting the Council are being experienced by most other councils and the financial sustainability of councils in general is a concern. Whilst the Council will seek to take all the necessary steps to manage future spending within resources available through savings, income and future cost avoidance this will not necessarily fully secure the Council's financial resilience and sustainability if future spending growth continues at unsustainable levels. If the structural deficits in key spending areas in adults and children's services are not addressed there will come a point within the medium-term plan period where the Council is unable to balance the budget on a sustainable basis from savings in other spending areas.

1.6 The draft capital programme for 2024-25 to 2033-34 is based on the principle of rolling forward the previous programme, avoiding the need for any additional borrowing over and above that already identified in the existing programme and reducing wherever possible the need to borrow in the existing programme. Any new schemes must be funded from sources other than borrowing, including government departmental grants, other external funding, developer contributions and capital receipts. The draft capital programme includes the recently announced additional highways capital grants from the Department for Transport for 2023-24 and 2024-25 following the cancellation of the HS2 project, estimated grants from the Department for Education for schools' modernisation and basic need, and the proposed use of capital receipts to cover some current overspends and the modernisation of assets programme for two years. The capital programme also includes the use of £8m capital receipts (under the Government direction that allows revenue costs of projects that will reduce costs, increase revenue or support a more efficient provision of services to be funded from asset sale proceeds) as a one-off measure to balance the 2024-25 revenue budget. This reduces the level of receipts available to fund capital expenditure.

1.7 The Treasury Management Strategy for 2024-25 is included as an appendix to this report and requires approval by full Council in accordance with the CIPFA Treasury Management Code of Practice. The strategy sets out the Council's approach to borrowing to finance capital expenditure and investment of cash balances, including the associated monitoring arrangements. The Council's prime objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The prime objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and low investment returns, and ensuring sufficient liquidity to manage cashflows.

1.8 The administration's draft budget includes a 4.992% assumed increase in Council Tax. This would increase the County Council share of the bill for a typical band D household by £1.47 per week (£76.59 per year). Council Tax is the Council's most significant source of income to fund essential services, and whilst the administration seeks to keep increases to a minimum, the assumed amount is in line with the government's Council Tax referendum principles for 2024-25 (confirmed in the 2024-25 Provisional Local Government Finance Settlement) of a 3% referendum limit and 2% adult social care precept. The tax base (the number of dwellings liable for council tax after discounts, exemptions and assumed collection rates) is assumed to increase by 1.7%, which is around the normal level the Council would expect from growth in the number of households and anticipated changes to discounts. The council tax precept is based on a combination of the council tax band D charge and the estimate of the net number of band D equivalent properties in the tax base for 2024-25. The tax base estimate is ultimately determined by collection authorities (district and borough councils) for the final draft budget and council tax precept for full Council approval on 19th February.

1.9 The usable revenue reserves at the start of 2023-24 were £355.1m, comprising of £37.6m general reserve, £300.6m earmarked reserves and £16.9m public health reserve, this represents a reduction of £53m (13%) on the previous year. A further net drawdown from usable reserves is forecast in 2023-24 (including the transfer to the Dedicated Schools Grant (DSG) reserve for the 2023-24 local authority contribution to the Safety Valve programme). The use of usable reserves to support revenue spending significantly reduces the council's ability to withstand unexpected circumstances and costs and reduces the scope to smooth timing differences between spending and savings plans. The levels of reserves now pose a more significant risk to the council's financial resilience than levels of debt. Reserves will need to be replenished at the earliest opportunity and will need to be factored into future revenue budget plans.

2.1 The background and context set out in the initial draft budget report published at the end of October are largely unchanged. The following paragraphs set out the main updates to the draft budget since the publication date.

2.2 This revised draft revenue budget and MTFP are based on the latest estimates from the actions in Securing Kent's Future, which recognises that changing the spending patterns on adult social care, children in care and home to school transport in a sustainable way will take time. The draft budget includes some reductions in future cost increases in adult social care and home to school transport. For transparency and on-going monitoring, the spending growth is shown as a gross amount in the cost forecasts before any corrective action, and the reductions in planned spending from these actions are shown as savings. Even with these actions the net spending in these three key service areas is still forecast to grow faster than the funding available in the 2024-25 settlement and future government spending plans, and further work will be needed over the coming months to set out the detail how spending on these services will be reduced.

2.3 As well as the impacts of current year overspends and future forecast costs and demand, inflation is still forecast to remain at historically high levels during 2023-24 and into 2024-25. Inflation impacts on the costs of goods and services in revenue budgets and costs of labour, fees and materials on capital projects. The impact of inflation built into the draft budget is based on the November 2023 forecasts from the Office of Budget responsibility (OBR). The November 2023 OBR forecasts were for Consumer Price Index (CPI) inflation to peak at 10.7% in quarter 4 2022, thereafter reducing to:

- 10.2% in quarter 1 2023
- 8.4% in quarter 2 2023
- 6.7% in quarter 3 2023
- 4.8% in quarter 4 2023
- 4.6% in quarter 1 2024
- 3.7% in quarter 2 2024
- 3.3% in quarter 3 2024
- 2.8% in quarter 4 2024
- 2.3% in quarter 1 2025

2.4 Inflationary uplifts are applied according to the terms of individual contracts including timing. This means that in many cases mid-year uplifts have a part year impact in 2023-24 and full year impact in 2024-25. The rate of inflation in 2023 has not reduced as quickly as the March 2023 OBR forecast, with reported CPI from Office for National Statistics (ONS) of 10.2% quarter 1, 8.4% quarter 2 and 6.7% quarter 3 2023. The rate of inflation for the year to November 2023 fell unexpectedly to 3.9% from 4.6% in October. Revenue spending subject to inflation is around £1.4bn, so each 1% adds £14m to council costs.

3.1 The Provisional Local Government Finance Settlement for 2024-25 was published on 18th December 2023. A policy statement on the settlement was published on 5th December 2023 which was intended to give an early indication of what was to be included in the settlement. The settlement largely confirms amounts announced in principle in the 2023-24 settlement last year for 2024-25. This included confirmation of council tax referendum limits for 2024-25 and further increases in the additional social care grants. As in previous years the settlement is based on a core spending power from council tax and the main departmental grants for local government from the Department for Levelling Up Housing and Communities (DLHUC) within the government's overall spending plans. The settlement does not include specific grants from other government departments, retained growth from business rates or collection fund balances.

3.2 The headline from the settlement is an overall £3.9bn (6.5%) increase in spending power between 2023-24 and 2024-25. The increase for the Council is £86.3m (6.7%). The majority of the increase £2.1bn (3.5%) nationally and £54.3m (4.2%) for the Council comes from council tax. The council tax referendum principles allow for up to but not exceeding 3% increase in the general precept with a further 2% for adult social care levy for upper tier and single tier authorities. Lower tier authorities can increase council tax by the greater of up to but not exceeding 3% or £5 for band D. Police and crime commissioners can increase band D by up to £13. There are additional flexibilities allowing larger increases for specific named authorities - Slough Council, Thurrock Council and Woking Borough Council. The core spending power assumes every authority increases council tax up to maximum allowed and is based on DLHUC's autumn tax base information. The Council's budget and council tax precept is based on the council tax increase proposed to be agreed by full council, and council tax base estimates for 2024-25 provided by district and borough councils as required for the precept notification.

3.3 The previously announced additional grants for social care include:

- Social Care Grant an extra £612m nationally for adults and children's social care. The grant also includes a further additional £80m recycled from Services Grant. The total grant nationally for 2024-25 is £4,544m. £3,852m is rolled forward as the same amounts as for 2023-24, £532m is allocated according to adult social care relative needs formula (ASC RNF) and £160m (including the £80m recycled from Services Grant)_equalising the amount that can be raised through the 2% ASC council tax levy. The Council's allocation is £104.2m comprising £88.8m rolled forward from 2023-24, £13.7m from the ASC RNF and £1.8m from council tax equalisation, an overall expected increase of £15.4m on 2023-24.
- Market Sustainability and Improvement Fund an extra £283m nationally as previously announced in Autumn Budget 2022 plus further £205m nationally from the announcement of a further tranche for workforce fund in July 2023. These increase the total from £562m to £1,050m. The entire grant is allocated according to ASC RNF, the Council's share for 2024-25 is £27.0m, an expected increase of £12.5m.
- Discharge Fund an extra £200m nationally in the local authority 50% (increasing the total grant from £300m to £500m). The grant is allocated on the same basis as Improved Better Care Fund and managed in accordance with the requirements of the Better Care fund. The Council's share for 2024-25 is £11.7m, an expected increase of £4.7m

3.4 The increased social care grants in the provisional settlement have been included in the revised draft budget. The additional social care grants and increase in the adult social care council tax precept must be passported into social care budgets (with an allowable share of the social care grant for children's). This effectively sets a minimum increase in net spending on social care services between 2023-24 and 2024-25 and therefore caps the amount that can be delivered from efficiency, service reductions and transformation programmes in social care services to offset increasing costs.

3.5 The Services Grant has been unexpectedly reduced by approx. 84%. This reduces the national amount by £406.4m from £483.3m to £76.9m. This grant was introduced in the 2022-23 settlement as an un-ringfenced grant in recognition of additional spending pressures across the whole range of local services in advance of the significantly delayed Fair Funding reforms for local government that were intended to address the current outdated local government finance system. The grant was initially £822m in 2022-23. This was reduced to £483.3m in 2023-24 largely to reflect the cancellation of the employer's national insurance increase to fund social care reforms. The unexpected reduction in 2024-25 has been recycled elsewhere within the settlement including the increases in social care grant, revenue support grant, and minimum 3% funding guarantee. At this stage this still leaves a balance of £140m available, but it is not clear what this balance is for. The grant is allocated on the same basis as the Settlement Funding Assessment (SFA). The Council's provisional allocation for 2024-25 is £1.2m, which represents a 84% reduction of £6.4m on 2023-24, not including any share of the unallocated £140m. The reduced grant is reflected in the revised draft budget and due to the lateness of the announcement, has increased the amount required to be found from one-off measures in 2024-25 which will need to be replaced by additional savings in 2025-26 and 2026-27.

3.6 One final year of the New Homes Bonus (NHB) grant will be paid to authorities based upon the previous year's taxbase growth. As in recent year's this will no longer generate legacy payments in future years. 80% of NHB is paid to lower tier councils and 20% to upper tier. The Council's allocation for 2024-25 is £2.1m. This is assumed to be a one-off for 2024-25 and is included as part of the one-off solutions to balancing 2024-25 which will need to be replaced by additional recurring savings in 2025-26 and 2026-27.

3.7 The Non-Domestic Rating Act has received Royal Assent and will be implemented from April 2024. The Act confirms that the annual indexation of business rates (BR) will be based on Consumer Price Index (CPI) rather than Retail Price Index (RPI) and the increase in the small business and standard multipliers are decoupled. This makes the arrangement for the retained business rate baseline in the Settlement Funding Assessment (SFA) more complex. The SFA comprises revenue support grant (RSG) and business rates baseline. RSG will continue to be uplifted each year in line with CPI uplift to the business rate multiplier (6.6% for 2024-25). The business rate baseline will be uplifted by separate amounts for small business rate multiplier uplift and the uplift to the standard multiplier. This results in a separate and unique weighted % uplift for each council based on the mix of standard rated and small businesses in the local area.

3.8 For 2024-25 the uplift in standard BR multiplier is the same September CPI as RSG, raising the multiplier from 51.2p to 54.6p. The small business rate multiplier has been frozen at 49.9p. This results in a weighted uplift of approx. 4.6% for the Council. The highest weighted uplift is Westminster (6.09%) and the lowest Cornwall (4.01%). Councils are to be fully compensated for the freezing of the business rate multiplier through Business Rate Compensation Grant. This should mean in theory every Council has the same uplift when SFA and the compensation grant are taken into account. At this stage there is not sufficient detail within the BR compensation grant included in the core spending power to confirm this and the allocation in the spending power is assumed to be indicative at this stage (as it has been in previous years).

3.9 The SFA for the Council has increased by £9.8m (4.7%) to £215.8m, a common 6.6% uplift would have resulted in an SFA of £219.6m, an estimated reduction of £3.9m due to freezing the small business rate multiplier. The BR compensation grant for 2023-24 was £44.2m for previous freezes in BR multipliers and additional discounts. We would normally expect these previous freezes and discounts to increase by annual uplift i.e. £2.9m based on 6.6%. The BR compensation grant in the provisional settlement has increased by £5.6m i.e. an estimated £2.7m in additional grant for the small business freeze for 2024-25, a shortfall of £1.2m when compared the assumed standard uplift through in SFA. In the draft budget we have assumed this shortfall will eventually come through in the BR compensation grant along with other changes when the grant is updated for the full impact of previous freezes and discounts. This is line with the principle that the combination of SFA and compensation for small business rate freeze result in the same % uplift for all councils. Should the final calculation not result in a combined 6.6% for every council then the draft budget will need to be updated either for County Council or Cabinet (as has been the case in recent years where the final business rate retention impact has not been available in time for the budget County Council publication date).

3.10 The Provisional Local Government Finance Settlement includes a number of other announcements including an extension to March 2030 on the flexibility for revenue costs to be funded from capital receipts (under the direction that allows revenue costs of projects that will reduce costs, increase revenue or support a more efficient provision of services to be funded from capital receipts). The settlement also includes a consultation that would introduce “financial levers” to disincentivise councils from operating part-time working week arrangements for full time pay. The Exceptional Financial Support framework has also been announced and provides support where a council has specific and evidenced concerns about its ability to set or maintain a balanced budget.

3.11 The overall increase in the core spending power (and therefore assumed funding for the 2024-25 draft budget) is significantly less than the forecast spending demands. This leaves a substantial gap which needs to be closed from savings, income and one-off measures such as reserves. There is no indicative settlement for 2025-26 or later years. At this stage the MTFP assumes existing grants will roll forward along with inflationary uplifts to the SFA and further permitted council tax increases.

3.12 A summary of the change in core spending power between the restated 2023-24 position and the provisional 2024-25 position is set out in table 1 below:

Table 1 – Core Spending Power

| | KCC | | | England | | |
|----------------------------------|----------------|----------------|---------------|----------------|----------------|---------------|
| | 2024-25 £'m | 2023-24 £'m | Change £'m | 2024-25 £'m | 2023-24 £'m | Change £'m |
| Council Tax | 931.0 | 876.8 | 54.3 | 36,062.2 | 33,984.3 | 2,077.9 |
| Settlement Funding Assessment | 215.8 | 206.0 | 9.8 | 16,562.7 | 15,671.1 | 891.5 |
| Business Rate Compensation | 38.8 | 33.2 | 5.6 | 2,581.3 | 2,204.6 | 376.7 |
| Social Care Grant | 104.2 | 88.8 | 15.4 | 4,544.0 | 3,852.0 | 692.0 |
| MSIF/Hospital Discharge | 38.7 | 21.4 | 17.2 | 1,550.0 | 862.0 | 688.0 |
| iBCF | 50.0 | 50.0 | 0.0 | 2,139.8 | 2,139.8 | 0.0 |
| Services Grant | 1.2 | 7.6 | -6.4 | 76.9 | 483.3 | -406.4 |
| New Homes Bonus | 2.1 | 2.3 | -0.2 | 291.4 | 291.3 | 0.1 |
| Rural Services | 0.0 | 0.0 | 0.0 | 95.0 | 95.0 | 0.0 |
| Funding Guarantee | 0.0 | 0.0 | 0.0 | 196.5 | 133.3 | 63.2 |
| Rolled in Grants | 0.0 | 9.4 | -9.4 | 0.0 | 480.0 | -480.0 |
| Totals | 1,381.8 | 1,295.5 | 86.3 | 64,099.8 | 60,196.7 | 3,903.0 |
| | | | 6.7% | | | 6.5% |

4.1 Council Tax income is a key source of funding for council services. The amount generated through Council Tax is based on a precept on collection authorities derived from the estimated band D equivalent Council Tax Base (the number of weighted properties in each band adjusted for exemptions, discounts and assumed collection rates) and the County Council share of the band D household charge.

4.2 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.

4.3 The Council currently can, subject to legislative constraints, increase its Council Tax rate through two mechanisms, the Adult Social Care (ASC) precept and general tax rate increases. Each 1% increase in the Council Tax rate generates circa £8.9m per annum in 2024-25, which equates to an extra 29.5 pence per week for a band D property.

4.4 The council tax referendum principles for 2024-25 allow for up to but not exceeding 3% general tax rate increases without a referendum plus an additional Adult Social Care levy of up to 2%. These increases are based on the total county council share of the household charge for 2023-24 (£1,534.23 for band D household). The administration’s draft budget 2024-25 includes a proposed 2.998% increase for the general precept (up to but not exceeding the referendum level) and a further 1.994% increase for the adult social care levy (ASCL). The proposed council tax increases and overall charge by individual bands are shown in tables 2 and 3.

Table 2 – Proposed Council Tax Increases by Band

| Band | Proportion of Band D Tax Rate | 2023-24 (incl. ASCL) £p | 2024-25 (incl. increase in ASCL) £p | Increase £p |
|------|-------------------------------|-------------------------------|---|----------------|
| A | 6/9 | 1,022.82 | 1,073.88 | 51.06 |
| B | 7/9 | 1,193.29 | 1,252.86 | 59.57 |
| C | 8/9 | 1,363.76 | 1,431.84 | 68.08 |
| D | 9/9 | 1,534.23 | 1,610.82 | 76.59 |
| E | 11/9 | 1,875.17 | 1,968.78 | 93.61 |
| F | 13/9 | 2,216.11 | 2,326.74 | 110.63 |
| G | 15/9 | 2,557.05 | 2,684.70 | 127.65 |
| H | 18/9 | 3,068.46 | 3,221.64 | 153.18 |

Table 3 – Proposed Council Tax Charges by Band

| Band | Proportion of Band D Tax Rate | 2023-24 (incl. ASCL) £p | 2024-25 (excl. increase in ASCL) £p | 2024-25 (incl. increase in ASCL) £p |
|------|-------------------------------|-------------------------------|---|---|
| A | 6/9 | 1,022.82 | 1,053.48 | 1,073.88 |
| B | 7/9 | 1,193.29 | 1,229.06 | 1,252.86 |
| C | 8/9 | 1,363.76 | 1,404.64 | 1,431.84 |
| D | 9/9 | 1,534.23 | 1,580.22 | 1,610.82 |
| E | 11/9 | 1,875.17 | 1,931.38 | 1,968.78 |
| F | 13/9 | 2,216.11 | 2,282.54 | 2,326.74 |
| G | 15/9 | 2,557.05 | 2,633.70 | 2,684.70 |
| H | 18/9 | 3,068.46 | 3,160.44 | 3,221.64 |

4.5 The County Council's 2023-24 council tax charge (including Fire and Rescue Authority to ensure valid like for like comparison) is currently mid-range at 10th highest of the 21 counties in England and 4th of the 7 south east counties. We will not know the Council's relative position on Council Tax for 2024-25 until all county councils have agreed their precept and Council Tax charge for 2024-25.

4.6 The initial draft budget assumed a tax base increase of 1.7%, based on previous patterns of housing growth and changes in discounts, exemptions and collection rates including assumption for the removal of remaining empty property discounts. The provisional estimated tax base from the 12 district and borough councils (collection authorities) is 580,886.03 band D equivalent properties compared to the final estimated tax base for 2023-24 of 571,478.39 band D equivalents, an increase of 1.65%. The change in the tax base includes increases in the number of dwellings, changes in discounts, exemptions and assumed collection rates. Most districts have removed the remaining discounts on empty dwellings contributing to the increase in tax base.

4.7 The final council tax precept and council tax funding levels will have to be based on tax base estimates notified by the 12 district and borough councils. We have received provisional estimates of tax base increases from all 12 and these are shown in table 3 below. The total estimated tax base increase of 1.65% is very close to our initial estimate of 1.7%. We are due to receive final tax base estimate figures from the 12 district and borough councils on 15th January and we have therefore left the tax base increase at 1.7% for this revised draft, and we will reflect any changes in the final draft budget papers for County Council on 19th February.

Table 4 – Provisional estimates of tax base increases from the 12 collection authorities

| Collection Authority | Final 2023-24 taxbase £p | Estimated 2024-25 taxbase £p | Change £p | Change % |
|----------------------|-----------------------------------|---------------------------------------|-----------------|--------------|
| Ashford | 48,906.00 | 49,832.00 | 926.00 | 1.89% |
| Canterbury | 52,372.76 | 53,370.27 | 997.51 | 1.90% |
| Dartford | 40,288.37 | 41,029.46 | 741.09 | 1.84% |
| Dover | 39,974.37 | 40,874.50 | 900.13 | 2.25% |
| Folkestone & Hythe | 39,977.09 | 40,466.09 | 489.00 | 1.22% |
| Gravesham | 35,266.50 | 35,994.62 | 728.12 | 2.06% |
| Maidstone | 67,161.69 | 68,263.60 | 1,101.91 | 1.64% |
| Sevenoaks | 51,990.30 | 52,394.75 | 404.45 | 0.78% |
| Swale | 49,673.46 | 50,367.85 | 694.39 | 1.40% |
| Thanet | 45,759.46 | 46,454.06 | 694.60 | 1.52% |
| Tonbridge & Malling | 52,706.29 | 53,477.93 | 771.64 | 1.46% |
| Tunbridge Wells | 47,402.10 | 48,360.90 | 958.80 | 2.02% |
| Total | 571,478.39 | 580,886.03 | 9,407.64 | 1.65% |

4.8 The district and borough councils also have to notify us of their estimated collection fund balance for over/under collection by 24th January 2024. This must also be reflected in the final draft budget as over/under collection has to be taken into account as part of the final decision on the council tax charge for 2024-25. The revised draft budget includes an assumed £7m collection fund balance. Any variation in the assumed balance will be reflected through the local taxation equalisation reserve, which avoids any impact on the revenue budget.

5.1 The administration's initial draft revenue budget report published on 1st November was subject to the budget scrutiny process during November. This revised draft budget sets out the proposals to close the budget gap in 2024-25 and over the MTFP and the proposals to minimise the level of borrowing on the capital programme and is therefore subject to further scrutiny during January. The administration's final draft budget will take account of any feedback from the scrutiny process and will be recommended by Cabinet to County Council. The final draft budget will be published by 9th February 2024 for consideration and approval by County Council at its meeting on 19th February 2024. 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, Finance and agreed by the Leader.

5.2 The presentation of the administration's revised draft revenue budget 2024-25 and 2024-27 MTFP focuses on the key policy and strategic implications of the proposals. The revenue proposals are summarised in appendices D to G of this report. These appendices show the spending, income and savings changes from the current year's approved budget (2023-24) and the financing requirements. Appendix D provides a high-level summary of the proposed three-year plan for the whole council, showing separately the spending growth, savings & income, changes in reserves for core Council funded activity (funding from the local government settlement and local taxation) from changes in externally funded activities (largely specific grant funded).

5.3 As set out in section 3 above, the provisional local government settlement included an unexpected net reduction in grants of £5.4m for 2024-25 through the changes in Social Care Grant and Services Grant increasing the £48.8m budget gap published on the 1st November to £54.2m. The 2024-25 gap has been closed by £13.9m from increased funding through the increased indexation of SFA and business rate compensation grant and revised spending forecasts and savings plans, and further recurring savings of £16.3m from removing the risk contingency included in the initial draft and further progress on the SKF objective 2 for further savings to set a sustainable 2024-25 budget and MTFP. The remaining £23.9m has been balanced through one-off measures. These one-off measures will be replaced in 2025-26 and 2026-27 through further policy savings under SKF objective 3 (scope of Council's ambitions) and objective 4 (operating model of the Council). The revised draft budget includes as a minimum requirement the principle of replacing one-off measures with sustainable recurring savings and cost reductions, although the detail of the proposals will need to be developed and agreed over the coming months to ensure they are implemented to impact the 2025-26 budget.

5.4 Table 5 summarises the change to achieve a balanced budget for 2024-25 and MTFP.

Table 5 – Summary of Changes from Initial Draft Budget 1st November 2023

| | 2024-25 | 2025-26 & 2026-27 |
|--|---------|----------------------|
| | £'m | £'m |
| Initial draft budget gap as at 1 st November 2023 | 48.8 | 13.9 |
| Funding increase from higher inflation forecast | -3.5 | -11.2 |
| Revised spending and income forecasts | -9.2 | +14.8 |
| Further policy savings including staffing considerations | -1.2 | -5.9 |
| Provisional Local Government Finance Settlement | +5.4 | |
| One-off solutions 2024-25 | -23.9 | +23.9 |
| Remove Risk Contingency | -14.0 | -1.0 |
| Recurring savings from Securing Kent's Future | -2.3 | -10.6 |
| Policy savings to replace one-off solutions used in 2024-25 | | -23.9 |
| Revised draft budget gap | 0.0 | 0.0 |

5.5 Appendix E provides a directorate high level summary of the proposed plan for 2024-25, separately showing spending growth, savings & income, changes in reserves and funding for core council funded activity (funding from the local government settlement and local taxation) from changes in externally funded activities (largely specific grant funded). Throughout this report the focus is on core funded spending, savings, income and reserves as changes on externally funded spend are financially neutral.

5.6 Appendix F illustrates examples of the more detailed information available through dashboards that have been created to support the scrutiny process and for future in-year monitoring and reporting. Appendix G provides a full list of individual spending, savings & income, and reserves items including full details of the changes from the initial draft published on 1st November 2023. This appendix shows the spending forecasts, savings and income proposals, and changes in reserves for all the three years 2024-27. New savings and income for later years are included to highlight the areas that will need to deliver the required level of recurring savings in 2025-26 and 2026-27 although inevitably these savings proposals will need to be developed in more detail and subject to consultation and scrutiny in the coming months as the full detail for the subsequent years is not essential for the approval of 2024-25 budget and the MTFP at this stage. The changes between the initial draft and revised draft budget for 2024-25 are summarised in table 6.

Table 6 – Main Changes between Initial and Revised Draft Budget 2024-25

| | Core Funded £'m | Externally Funded £'m | Total £'m |
|--|-----------------------|-----------------------------|--------------|
| Planned Spending Changes | -17.0 | +1.0 | -16.0 |
| Remove risk contingency (base budget) * | -14.0 | | -14.0 |
| Review of provision for debt charges (base budget) | -7.0 | | -7.0 |
| Energy price revisions (base budget) | -2.3 | | -2.3 |
| Highway investment | -2.2 | | -2.2 |
| Adult Social Care (demand & cost drivers) | +3.4 | | +3.4 |
| Home to School Transport (demand & cost drivers) | +1.0 | | +1.0 |
| Higher inflation forecasts (prices) | +3.3 | | +3.3 |
| Other changes | +0.8 | +1.0 | +1.8 |
| | | | |
| Savings & Income | -18.3 | | -18.3 |
| One-off use of Capital Receipts | -8.0 | | -8.0 |
| Policy | -4.0 | | -4.0 |
| Company Dividends (income) | -3.0 | | -3.0 |
| Other Income | -2.3 | | -2.3 |
| Transformation & Efficiency | -0.9 | | -0.9 |
| | | | |
| Change in Reserves | -13.4 | -1.0 | -14.4 |
| | | | |
| Net Change in Funding | -0.2 | | -0.2 |
| | | | |
| Total (Gap Resolved) | -48.8 | | -48.8 |

* The £14m risk contingency represents 1% of the net revenue budget. The removal of the risk contingency weakens the Council's resilience and ability to manage financial risk and it is therefore important that the recurring savings identified for 2025-26 and 2026-27 provide the ability to restore as much of the risk contingency as possible.

5.7 The final draft budget presented to County Council will include the key service analysis for 2024-25 which sets out the spending in the main service areas by directorate (at director level) as used for budget monitoring reports. The original planned spending on key services is set out in appendix E of the final approved Budget Book for 2023-24 (published in March) and is available on KCC website at [2023-24 Budget Book](#). It is not feasible or appropriate to produce a key service presentation in the revised draft budget for scrutiny as the scrutiny process needs to focus on the proposed changes to the approved budgets for 2023-24 before more detailed delivery plans are completed and these plans will inform the key service budgets for 2024-25.

5.8 The final draft budget presented to County Council on 19th February will include the impact of the Personnel Committee recommendations on Kent Scheme pay for 2024-25. The County Council agreed the Members' Allowances Scheme for 2021-2025 on 4th November 2021. This included agreement to an annual indexation formula. The annual increase under this formula is the average of two figures. The first is the average of the increases arising in sectors covered by 8 national public sector pay review bodies. The second is the percentage awarded to staff awarded 'Successful' in the Total Contribution Pay scheme based on the proposals from Personnel Committee for 2024-25. The revised draft budget includes provisional figures for both Kent Scheme pay and member allowances.

5.9 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 dashboards including an explanation of the reasons for the change, key impacts and risks, dependencies and sensitivities. The dashboards have been introduced this year so will inevitably need further development.

5.10 The savings and income options in the dashboards follow a similar pattern with proposed savings amounts derived from the full year effect of 2023-24 plans already agreed; savings and income for 2024-25 in the original 2023-26 MTFP (albeit updated); savings/income from the application of existing policies; savings/income that do not require any changes in policy; and those that require policy changes presented as policy savings, efficiency/transformation savings, income or financing savings. Given the scale of the savings, detailed delivery plans will need to be prepared and monitoring arrangements will be put in place in addition to the arrangements already embedded through the monthly monitoring with budget managers and regular budget monitoring reports to Cabinet.

5.11 The high-level equation for changes in planned revenue spending for 2024-25 (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 will be met once the outstanding actions for 2024-25 outlined in Securing Kent's Future have been finalised and confirmed. To improve transparency the spending, savings and reserves from core Council funds are shown separately from externally funded changes (consistent with the revised presentation of appendices D and E).

5.12 The Council continues to operate its policy of full cost recovery through fees and charges that can be determined locally other than where Cabinet/County Council has agreed to provide services at a subsidy or concession e.g. Kent Travel Saver. Under this policy fees and charges are subject to an annual uplift with periodic review to ensure that uplifts ensure full cost recovery continues to apply. The uplifts and full cost reviews are reflected in the 2024-25 budget proposals and form part of the budget recovery plan within Securing Kent's Future.

Table 7 – Net Change in Spending and Funding

| Change in Net Spending | Core Funded £'m | External Funded £'m | Change in Net Funding | Core Funded £'m |
|---|------------------------|----------------------------|---|------------------------|
| Estimated additional spending | 184.5 | -23.1 | Increase in Social Care grants | 32.6 |
| Proposed savings from spending reductions and future cost avoidance | -72.2* | | Net Increase in other government grants | 7.5 |
| Proposed changes in income | -15.4* | -0.3 | Change in council tax base | 14.9 |
| Assumed changes in specific government grants | | 20.9 | Assumed increase in council tax charge | 44.5 |
| Proposed net change in reserves | 3.1 | 2.5 | Change in retained business rates | 2.6 |
| | | | Change in net collection fund balances/S31 compensation | -2.1 |
| Total Change in Net Spending | 100.0 | 0.0 | Total Change in Net Funding | 100.0 |

*Net figures from original 2023-26 plan updated and new proposals

5.13 In addition to the spending pressures in core Council services, pressures arising from Special Education Needs & Disabilities (SEND) impact upon both the ring-fenced Dedicated Schools Grant (DSG) and the General Fund revenue budget. Pressures on DSG are being addressed primarily through the Safety Valve mechanism, whereby the Department for Education provides a substantial contribution (up to £140m), in return for improvements to the SEND system and a contribution (£82.3m) from the Council. SEND pressures on the General Fund are reflected primarily through the number of requests to assess, produce and then annually review Education & Health Care Plans (EHCP) and the associated increased SEND home to school transport costs.

5.14 There is already substantial work being undertaken to manage down this financial pressure and additional work will focus on identifying and reviewing changes to existing policy and practice so that we are meeting statutory minimum requirements, but ceasing discretionary services where they are not cost effective and only issuing EHCPs where they are necessary, and needs cannot be reasonably met by other means.

5.15 Consultation and Equality Impact Assessments (EQIA) will need to be undertaken on individual new savings and income proposals where required. The final planned amounts can only be confirmed following consideration of consultation responses and EQIAs. Any variances between the approved budget and final planned amounts will be included in the budget monitoring reports to Cabinet, together with progress on delivery and any additional measures that may be required.

5.16 The administration's draft ten-year capital programme is set out in appendices A and B of this report. 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. Inflationary and other cost pressures have significantly impacted the capital programme on both rolling programmes and individual schemes. In recognition of the financial challenge facing the Council the additional unfunded cost estimates have been absorbed within the existing programme. No new schemes with prudential borrowing have been added to the programme to avoid increasing the revenue burden of borrowing to fund capital expenditure. As a result, planned maintenance will only be carried out on the highest priority sites (those dealing with safeguarding issues and highways/waste operations) and the modernisation of assets work will need to be prioritised which is likely to result in the closure of non-priority sites. There will be consequential impact on risks and maintenance backlogs, but these will continue to be managed to mitigate risks as far as possible. This is a necessary short-term measure while the Council reviews and reduces its estate over the medium term to an affordable level which in turn should reduce future maintenance and modernisation requirements. The additional funding provided by Department for Transport for highway maintenance programmes has been included in spending plans for 2024-25. Some additional spending for 2024-25 and 2025-26 has been funded from capital receipts to maintain the policy of keeping council buildings safe, warm and dry.

5.17 Appendix C of this report provides an indication of new potential capital projects which could come forward within the next 10 years. These are identified as future proposals but have not been formally included in the administration's draft capital programme and will 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 is being set aside for these projects at this time.

5.18 The capital strategy recognises that the capital programme must align with the Council's strategic priorities and support the priorities and principles in other key strategies such as Kent and Medway Growth and Infrastructure Framework, Local Transport Plan, Commissioning Plan for Education Provision, Asset Management Strategy etc. It is equally important that these key strategies are regularly reviewed and updated to take into account legislative requirements and the financial operating environment including both capital and revenue funding settlements. The review and updating of these strategies also needs to reflect the objectives set out in Securing Kent's Future and contribute to the delivery of the budget recovery plan.

Proposed Revised Draft 2024-25 Revenue Budget – key numbers

| | |
|-----------|---|
| £1,415.7m | Assumed net revenue budget for 2024-25. This represents a £100.0m increase on the final approved budget for 2023-24 of £1,315.6m. |
| £184.5m | Additional estimated core funded spending growth – see paragraph 7.1 for more detail. |
| -£87.6m | Assumed savings, income and future cost increase avoidance. Of this £41.9m relates to proposed savings, £15.4m additional income generation (mainly fees and charges), and £30.3m reductions in the amount assumed for future demand and cost increases in adult social care and home to school transport – see paragraph 6.2 for more detail. |
| £3.1m | Estimated net impact on the budget of changes in the use of reserves including new contributions and removing previous years drawdown and contributions – see section 8 for more detail. |
| £936.2m | Estimated to be raised from Council Tax precept. An increase of £59.4m on 2023-24. £14.9m is due to a 1.7% estimated increase in the tax base due to additional dwellings, changes in discounts and exemptions and assumed collection rates. £44.5m is from the estimated increase in the household charge up to but not exceeding 5% (including £17.8m from the adult social care levy). |
| £40.6m | Net increases as announced in the Provisional Local Government Finance Settlement. This comprises of the following changes: <ul style="list-style-type: none"> • £15.4m expected increase in Social Care Grant announced in the 2023-24 settlement from repurposed funding from social care charging reforms • £12.5m expected increase in Market Sustainability and Improvement Fund to support capacity and discharge (including £7.3m announced in 2023-24 settlement and £5.2m further announcement in summer 2023) • £4.7m expected increase in the Adult Social Care Discharge Fund • -£6.4m unexpected reduction in the Services Grant • £14.1m indexed linked uplifts in business rate top-up, business rate compensation (including estimated amount not yet announced) and Revenue Support Grant • -£0.2m continuation of New Homes Bonus Grant but at a lower value than 2023-24 • £0.5m expected net increase in local share of retained business rates and removal of S31 compensation for local taxation losses during Covid |

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.

6.1 The additional estimated core funded spending growth (i.e. excluding changes arising from external funding changes) of £184.5m for 2024-25 is summarised in appendices D and E and set out in more detail in appendix G together with more detail in the dashboard. It has been subdivided into the following categories:

| | |
|---|---|
| Net base budget changes £22.1m | Changes to reflect full year effect of variations in the current year's monitoring forecast compared to approved budget. These adjustments are necessary to ensure the draft budget is based on a robust and sustainable basis. |
| Demand and future cost increase drivers £85.3m | Forecast estimates for future non-inflationary cost and demand increases such as additional care hours, increased journey lengths, etc. across a range of services including adult social care, integrated children's services, home to school transport and waste tonnage. |
| Price uplifts £49.6m | Contractual and negotiated price increases on contracted services, including full year effect of planned mid-year uplifts in current year and forecast future price uplifts. |
| Pay £14.3m | Additional net cost of estimated pay award and progression after savings from appointing new staff lower in pay ranges. |
| Service Strategies & Improvements £11.9m | Other estimated spending increases to deliver strategic priorities and/or service improvements and outcomes including financing the capital programme. |
| Government & Legislative £1.3m | Additional spending to meet compliance with legislative and regulatory changes. |

6.2 The proposed savings, income and future cost increase avoidance of £87.6m for 2024-25 are summarised in appendices D and E and set out in more detail in appendix G together with more detail in the dashboards. They have been subdivided into the following categories:

| | |
|---|---|
| Policy Savings £10.6m | Savings arising from proposed changes in Council policies including full year effect of 2023-24 savings and new proposals for 2024-25 (full year effect in later years shown in summary and will be shown in more detail in the final draft). Savings in this category are changes to charging policies and changes in the service offer. |
| Transformation & Efficiency Savings £50.3m | Savings aimed at achieving improved or the same outcomes at less cost including full year effect of 2023-24 savings and new proposals for 2024-25 (full year effect in later years shown in summary and will be shown in more detail in the final draft) shown in summary and will be shown in more detail in the final draft). Savings in this category include future cost increase avoidance as well as reductions to existing recurring spend. Transformation and efficiency savings include contracted spending as well as in-house spending on staffing and premises. |
| Financing Savings £11.3m | Review of amounts set aside for debt repayment (MRP) based on asset life and increased investment income returns. |
| Income Generation £15.4m | Increases in fees and charges for council services from applying existing policies on fee uplifts (including contributions from other bodies) and new income generation proposals. Existing policies include increases in client contributions in line with estimated 2024-25 benefits and other personal income increases and increases in contributions to Kent Travel Saver and 16+ pass linked to fare increases. |

Proposed Draft 2024-34 Capital Programme – key numbers

| | |
|---------|--|
| £1,646m | Total planned capital spending over the ten years 2024-25 to 2033-34 |
| £992m | Confirmed or indicative government grants to fund capital expenditure |
| £376m | Total proposed borrowing to fund the programme |
| £278m | Funding from other sources (capital receipts, developer contributions, external funding and revenue) |

7.1 The ten-year Capital Programme 2023-34 was approved by County Council in February 2023. 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. The ten-year horizon allows for 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.

7.2 The capital programme is under pressure from inflation in the same way as revenue spending, if anything these consequences are more significant due to the longer-term nature of capital plans. Inflationary pressures and overspends on existing schemes have been absorbed within the existing programme. The capital programme is also under significant pressure due to the backlog of maintenance on highways and buildings. These backlogs cannot be addressed within the current financial constraints and the need to avoid additional borrowing that would add pressure on the revenue budget through increased financing costs. This approach does not come without increased risks.

7.3 The increased risks which include danger to life and limb if repair works are not completed, an increase in maintenance backlogs which in turn could lead to additional revenue costs for reactive works, increased future costs of works due to inflation, and costs relating to climate change resilience/adaptation will be mitigated as far as possible. For example prioritising emergency works that would avoid risk of death or serious harm, prioritising maintenance on essential assets (although this means non-essential assets would not be maintained leading to possible closures on safety grounds) and doing the minimum to meet statutory requirements at lowest cost. This is only a short term necessity while the Council reviews and reduces its estate over the medium term which in turn will reduce future maintenance and modernisation requirements. The programme will continue to be regularly reviewed and re-prioritised within the funding available.

7.4 Appendix A of this report sets out a summary of the administration's proposed 2024-34 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.

8.1 The proposed treasury management strategy for next year is largely unchanged from the current strategy for 2023-24. This is not necessarily unexpected: the Council's strategy is designed to provide ongoing effective risk control and not to be overfitted to a particular stage of the economic cycle. That being said, the current economic outlook is an important building block of the Council's treasury strategy (as well as the overall budget strategy) and, in particular, officers have taken account of the medium term interest rate forecasts from Link Group, the Council's appointed treasury advisors. Link estimate that Bank Rate (currently at 5.25%) has likely peaked and expect both short term and long term rates to decline over the medium term.

8.2 The most pertinent internal factor, and the key driver of the treasury strategy, is the Council's capital expenditure and financing plans, which determines the Council's borrowing requirement. As set out in paragraph 22 of the strategy, the capital financing requirement, is forecast to rise marginally over 2024-25 before declining gradually in the following two years. Most of this borrowing requirement has already been met through external borrowing, and debt balances themselves are expected to decline over the medium term as existing loans mature and are not replaced. Notwithstanding this the Council is expected to have ample capacity to continue supporting internal borrowing over the medium term to meet the residual borrowing requirement not fulfilled by external debt. This is demonstrated most clearly in the liability benchmark graphic, at paragraph 32. Therefore, given that interest rates are forecast to decline and that the Council does not necessarily require new external debt at this stage, officers are not recommending that new external borrowing is undertaken in 2024/25. The proposed strategy retains the flexibility to depart from this central expectation should circumstances change during the next financial year.

8.3

The investment strategy has been reviewed and is judged to remain fit for purpose. The Council will keep the current split between internally managed, highly liquid and high-quality cash instruments (approximately two thirds of overall cash under management) and the strategic pooled funds portfolio (circa one third). One technical change proposed in the new strategy is to reduce the minimum average credit quality for the portfolio to AA- (one notch down from the current limit of AA). This has not been proposed in order to increase credit risk, but simply for consistency with the UK sovereign rating (which itself is AA-). Officers do not expect the overall credit quality of the actual investment portfolio to be reduced. All other limits and indicators have been reviewed to ensure their continued appropriateness.

9.1 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.

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

9.3 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.

9.4 The Council maintains reserves both for its General Fund activities and it accounts for the reserves of its maintained schools. Schools are funded by a 100% government grant, Dedicated Schools Grant (DSG). Local authorities cannot fund DSG activities from the general fund without express approval from the Secretary of State. Under the Safety Valve agreement with the DfE KCC is required to make a contribution totalling £82.3m between 2022-23 to 2027-28. The contributions for 2022-23 and 2023-24 are reflected through transfers from the Council's reserves into the DSG reserve. The contributions into the DSG reserve from 2024-25 onwards are reflected in the changes to reserves in the 2024-25 revised draft revenue budget and 2024-27 MTFP. The Safety Valve agreement does not fully eliminate the risk of DSG overspends until the plan has been fully delivered and high needs spending is contained within the block of funding available within DSG.

9.5 There remains a significant risk to reserves if the forecast overspend for 2023-24 is not balanced through the further management action that is being put in place for the remainder of the current financial year. The level 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 H to this report. An analysis of budget risks and adequacy of reserves is included as Appendix I, and a budget risk register at Appendix J.

9.6 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.

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

9.8 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.

9.9 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 the context of forecast declining future external resources.

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

9.11 The administration's revised draft budget 2024-25 includes an assumed net £3.1m increase in reserves in 2024-25 and a net reduction of £3.9m over the medium term 2024-25 to 2026-27 on the core funded budget. The externally funded element includes a net contribution of £2.5m in 2024-27 and net contribution of £3.8m over the medium term. The movement in reserves includes new contributions and removing previous years drawdown and contributions. These changes include the following main changes:

Increased/new contributions (core budget) £36.7m

- £16.2m general reserves including £11.1m repayment of 50% of the amount drawn down to balance the 2022-23 budget and £5.1m for the additional annual contribution to reflect the increase in net revenue budget to maintain general reserves at 5%. The phased repayment of 2022-23 drawdown means general reserves are not planned to be returned to the agreed 5% of the net revenue budget until 2025-26
- £15.1m DSG reserve for the planned 2024-25 Council contribution to the safety valve programme
- £4.3m repayment to smoothing reserves for planned drawdowns to support the 2023-24 budget
- £1.0m annual contribution to establish new Emergency Capital Events Reserve for emergency capital works and revenue costs related to capital spend such as temporary accommodation, and condition surveys which don't result in capital works

Drawdowns and Removal of Prior Year Drawdown and Contributions -£33.6m

- -£12.9m drawdown from reserves/reduced contributions to reserves to balance the budget as part of the package of £23.9m one-off solutions for 2024-25. These one-off solutions will need to be replaced through further savings in 2025-26 and 2026-27
- -£1.3m for funding of specific projects within the 2024-25 revenue budget proposals
- -£5.8m removal of 2023-24 contribution to general reserve for increase in net budget
- -£12m removal of the contribution to the risk reserve (now treated as contingent spend rather than reserve)
- -£5.6m removal of 2023-24 contribution to Local Taxation Equalisation reserve
- -£1.2m removal of the annual contribution for the phased repayment of long term reserves borrowed to fund grant reductions in 2011-12 as these are now fully repaid
- +£4.3m to replace the drawdown from reserves to support the 2023-24 budget
- +£1.0m to replace the drawdown from reserves for specific projects in the 2023-24 budget

Net changes in externally funded reserves £2.5m

- -£1.3m from Public Health reserves including the planned drawdown of £0.3m for one-off investments in the future of Public Health and £1.0m one-off support to safe-guard services under the Live Well Kent Mental Health contract
- +£3.8m removal of drawdowns for Public Health in the 2023-24 budget

Appendices and background documents

List of Appendices

| | |
|--|---|
| Draft Capital Investment Strategy 2024-25 to 2033-34 | A |
| Draft Capital Investment Strategy by Directorate | B |
| Potential New Capital Projects | C |
| High Level 2024-27 Revenue Plan and Financing | D |
| High Level 2024-25 Revenue Plan by Directorate | E |
| Budget Dashboard (screenshots) | F |
| List of individual spending, savings & reserve items | G |
| Reserves Policy | H |
| Budget Risks and Adequacy of Reserves | I |
| Budget Risk Register | J |
| Core Grants in Provisional Local Government Finance Settlement | K |
| Economic & Fiscal Context | L |
| Treasury Management Strategy | M |

Background documents

Below are click-throughs to reports, more information, etc.
Click on the item title to be taken to the relevant webpage.

| | |
|---|---|
| KCC's Budget webpage | 1 |
| KCC's Corporate Risk Register (item 8) | 2 |
| KCC's Risk Management Strategy, Policy and Programme (item 11) | 3 |
| KCC's approved 2023-24 Budget | 4 |
| 2024-25 Budget Consultation (Let's Talk Kent) inc. the Budget Consultation report | 5 |
| Revenue and Capital 2023-24 Budget Monitoring Report for October 2023 (item 5) | 6 |
| Securing Kent's Future – Budget Recovery Strategy | 7 |
| Securing Kent's Future – Budget Recovery Report | 8 |
| Initial Draft 2024-25 Budget Report (published on 1 November 2023) | 9 |