

From: Roger Gough, Leader of the Council

Peter Oakford, Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services

Neil Baker, Cabinet Member for Highway and Transport

Rob Thomas, Cabinet Member for Environment and Waste

To: Environment and Transport Cabinet Committee on 14<sup>th</sup> January 2025

Subject: **Draft Revenue Budget 2025-26 and Medium Term Financial Plan (MTFP) 2025-28 Update, and Draft Capital Programme 2025-35**

Classification: **Unrestricted**

**Summary:** This report sets out for further consideration the material changes to the administration's draft revenue budget proposals for 2025-26 from those presented to committees in November for the Cabinet portfolios and directorates relevant to this committee. As with the November report this is a tailored report for each committee.

The update includes the following information relevant to the Cabinet Committee's portfolio(s):

- Full year effect of variances reported in quarter two 2024-25 budget monitoring report;
- Latest projections for price indices applied for contractual price uplifts;
- Latest activity/demand/cost trends;
- Spending and income arising from Autumn 2024 Budget statement, Provisional Local Government Finance Settlement (PLGFS) and departmental grant announcements;
- Updated savings and income forecasts, including further progress on £19.8m policy savings to replace one-offs in 2024-25

Appendices to the report set out the draft capital programme and significant changes to the revenue budget since the draft published in November.

The administration's final 2025-26 draft budget, 2025-28 Medium Term Financial Plan (MTFP) and Capital Programme 2025-35 will be published in full for Cabinet endorsement on 30<sup>th</sup> January. This will need to show a balanced revenue position for 2025-26 and fully funded capital programme.

**Recommendations:**

The Environment and Transport Cabinet Committee is asked to:

- a) NOTE the update to administration's draft revenue budget proposals
- b) NOTE and COMMENT on draft capital programme
- c) Propose, to the Executive, any changes which should be made to the administration's draft budget proposals related to the Cabinet Committee's portfolio area before the final draft is considered by Cabinet on 30<sup>th</sup> January 2025 and presented to Full County Council on 13<sup>th</sup> February 2025.

## **1. Background and Context**

- 1.1 The setting of the budget is a decision reserved for Full Council. The Council's Constitution requires that a draft Budget is issued for consideration to Cabinet Committees and the Scrutiny Committee to allow for their comments and any recommendations to be considered before the final budget proposals are made to Full Council.
- 1.2 The Council is under a legal duty to set a balanced and sustainable budget within the resources available from local taxation and central government grants and to maintain adequate reserves. This duty applies to the final draft budget presented for Full Council approval at the annual budget meeting. The overall purpose of the budget is to ensure that the Council continues to plan for revenue and capital spending which is 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.
- 1.3 A 3-year MTFP covering the entirety of the resources available to the Council is 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.
- 1.4 The administration's updated draft revenue budget 2025-26 proposals are now balanced, in principle, pending Cabinet endorsement. This includes resolution of the £11.4m unresolved balances in the November draft. The resolution comes from a mix of updated spending growth, updated savings and income plans, and increased/new grants in the PLGFS and other departmental grants. The timing of the £19.8m policy savings required to replace the use of one-offs to balance 2024-25 budget remains an issue for 2025-26, although this is now proposed to be resolved through a combination of funding qualifying revenue expenditure from capital receipts and extension of New Homes Bonus grant, with significantly less required from a loan from reserves.
- 1.5 The plans for 2026-27 and 2027-28 in the MTFP continue to be indicative based upon a set of assumptions for spending/savings & income, and funding. The plans for 2026-27 and 2027-28 are broadly balanced albeit at a high-level at this stage pending further detail of reforms to local authority funding and multi-year settlement. The illustrative plans set out the possible trajectory based upon current policy assumptions, although other scenarios are possible. There is a balance to be struck between planning for what is currently known (which are the factors cited above) and the likelihood of an improvement in the financial position via any additional Government support (including update and reform of current methodologies) or improved tax returns, with the risk being managed through reserves.
- 1.6 The draft Capital Programme has been prepared on the basis that only fully funded projects are included, with a separate schedule of potential projects which could be considered for inclusion in future programmes once funding has been secured. The programme is based on the presumption that there will be no new borrowing to fund new schemes. The plan includes the rephasing of projects as result of 2023-24 outturn as well as new fully funded schemes, invest to save projects, and resolution

of outstanding funding on essential commitments arising since the original programme was published.

- 1.7 This report focuses on the key policy considerations within the administration's draft budget proposals (updated revenue plans and capital programme) for each Cabinet portfolio. This focussed report allows Cabinet Committees to specifically consider the parts of the Budget that fall within their remit. The Scrutiny Committee will receive the budget proposals for the whole Council as the role of the Scrutiny Committee is to review and challenge the overall budget. This January round of meetings includes key decisions for consideration that will give effect to the 2025-2026 budget, pending Council approval of the budget in February.
- 1.8 An updated interactive dashboard is also available via the link at point 10 of background documents to Members, enabling the details of revenue proposals to be examined and scrutinised, including a new dashboard covering the £19.8m required savings to replace one-off used to balance 2024-25 budget.
- 1.9 Separate appendices are included which set out:
- High Level Summary of draft capital programme 2025-35 (Appendix A)
  - Detail of capital programme 2025-35 for Growth, Environment and Transport directorate (Appendix B)
  - Potential Capital Projects (Appendix C)
  - An updated high-level summary of the administration's draft revenue plans 2025-28 (Appendix D)
  - a summary of the updated revenue plan for Growth, Environment and Transport (GET) directorate for 2025-26 (Appendix E)
  - Budget risk register (Appendix F)
- 1.10 These, together with the previous reports in November, provide the same level of background information as presented to Cabinet Committees and the Scrutiny Committee in previous years.
- 1.11 Following consideration of updated revenue plans and draft capital programme, a revised draft of the administration's final budget proposals will be published for Cabinet endorsement at the meeting on 30 January 2025 (including consideration of issues raised and alternative proposals raised at Cabinet Committees and the Scrutiny Committee) prior to final approval at County Council in February 2025.

## **2. Key Policy Considerations for Environment and Transport Cabinet Committee**

### Updated Revenue Proposals

- 2.1.1 **Prices** - There were increases/decreases to the growth pressure for Waste prices (+£43k) and Highways prices (-£253k) following the latest inflation indices being published.
- 2.1.2 **Extended Producer Responsibility (EPR)** – EPR is one of the new pieces of legislation that comes into effect in 25/26 and aims to divert the cost of disposal of certain packaging away from local authorities and on to the manufacturer. As a result, it was recently announced that KCC would receive a guaranteed £13.3m of income as a contribution towards the current cost of disposal of packaging.

For 26/27 onwards, the £13.3m is not guaranteed and will be based on actual tonnes/costs, so will present some in-year risk in terms of forecasting.

As EPR is merely about reimbursing the cost of disposal (districts/boroughs have also received allocations for collection costs), there is no incentive mechanism to improve recycling rates and therefore reduce costs further so a further change is that £1.3m of the £13.3m is shown as a growth pressure with a view to driving behaviour change of Kent's residents (to recycle more, co-mingle less), enable more partnership working with Waste Collection Authorities (WCA) as well as reconfiguration of some of our sites to enable the different waste streams proposed as part of Simpler Recycling legislation to be accepted and processed.

The net £12m (£13.3m income, less £1.3m behaviour change growth pressure) is to be held in an earmarked reserve, until full clarity of any expectations for this money is known.

Whilst this money is positive news, the other new piece of legislation is the Emissions Trading Scheme (ETS) whereby a new levy will be placed on Energy for Waste (EfW) plants (the facility in Allington) and which presents a future cost pressure. This has been estimated at between £12-17m pa and is effective from January 2028 so an important part of driving behaviour change is not only to save money on the current budget by recycling more and/or diverting waste to lower cost disposal methods but also cost avoidance as fewer tonnes going to the EfW plant will mean that future unfunded ETS pressure will reduce.

**2.1.3 Highways operations & reactive maintenance** – in the past two quarters there have been exponential increases in the number of pothole, drainage and general customer enquiries within the highways service which has led to an increase in the level of reactive maintenance (+£1.8m).

This is as a result of sustained increase in rainfall, more traffic on Kent's roads and due to fixed capital funding over the past 5+ years when inflation was in double digits (RPIx 12.2%, BCIS 29%) meaning these fixed budgets buy less year-on-year, so the entire network is deteriorating and therefore more reactive pressures and defects are occurring.

KCC generally spends c£60-65m pa on Highways Asset Management (within Capital) and this is funded £25m pa from KCC borrowing and the balance from Department for Transport (DfT) core/block grant funding. This is in contrast to asset mngt principles indicating a spend in excess of £170m pa would be necessary to maintain/manage the network in a "steady state".

As the level of investment is both fixed (not inflated) and is significantly below this £170m pa figure, the backlog increases, more Category 1 defects occur, fewer capital schemes/interventions are commissioned and more reactive repairs/maintenance spend is required

**2.1.4 Bus Services Improvement Plan (BSIP+) funded routes** – it was expected that BSIP / BSIP+ grant would not continue into 25/26 and as a result, there were 51 routes that the BSIP+ grant (and Local Transport Fund – LTF – before it) used to fund that was shown as a new growth pressure e.g. instead of being grant funded,

the proposal was for this to be base funded from the Council's general funding streams (Council Tax, Business Rates and un-ringfenced general grants).

Following the November Cabinet Committees, KCC was provisionally awarded some £23m of BSIP grant (£10m revenue, £13m capital) and the draft budget now shows that these 51 routes (full year cost of £2.8m) are to be again funded by BSIP grant.

The grant is therefore replacing that growth pressure demand of general funding. This represents a pro rata reduction of -£1.9m in 25/26, with the full year effect benefit being shown in 26/27.

#### Changes between current capital programme and draft programme 2025-35

- 2.2.1 No new schemes have been added since the November Committees, barring some low level fully grant funded Highways schemes.
- 2.2.2 Some welcome news following the Chancellor's provisional announcement on 30<sup>th</sup> October, is that KCC received confirmation just before the Christmas break that Kent has been awarded an additional £14.3m (of £500m nationally) of Local Highways Maintenance funding for 25/26.

It must be noted that this is a similar figure to what the previous Network North announcement was trying to achieve, which was an additional £130m (for Kent) over the 10 years spending cycle (but with no confirmed indication of profile or conditions), although this recent announcement is for 25/26 only at this stage. Any future allocations are subject to the outcome of the Spending Review, which is due to be finalised in late Spring 2025.

How this additional funding is to be allocated is yet to be determined, but it will reflect the whole network approach, and 25% of the allocation is withheld/contingent on Local Highways Authorities demonstrating both additionality in spend as well as meeting certain criteria aimed at driving best practice, securing best value and driving innovation. A future update on this matter will be forthcoming at a future committee but it is welcome news of both this additional funding and that the block maintenance grant continues at 24/25 levels. It is with regret that such grant funding continues to not be uplifted for inflation annually (as we have seen double digit inflation in Highways over the past number of years) but it is positive news that the block maintenance grants are fixed/confirmed for 25/26.

#### Key decisions required

- 2.3 There are no new key decisions to be taken or are required as part of the new proposals over and above those that are brought to this committee anyway e.g. confirming Highways and Transportation prices for the forthcoming year or which are considered elsewhere in the committee agenda already (e.g. BSIP).

### **3. Contact details**

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**Background documents**

- 1 [KCC's Budget webpage](#)
- 2 [KCC's Corporate Risk Register](#) (Governance and Audit Committee 16<sup>th</sup> May 2024)
- 3 [KCC's Risk Management Strategy, Policy and Programme](#) (Governance and Audit Committee 19<sup>th</sup> March 2024)
- 4 [KCC's approved 2024-25 Budget](#)
- 5 Q2 Budget monitoring Report [Cabinet Paper](#)
- 6 [Securing Kent's Future – Budget Recovery Strategy](#)
- 7 [Securing Kent's Future – Budget Recovery Report](#)
- 8 Dashboard – [Dashboard](#)