

**From:** Peter Oakford, Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services  
Michael Payne, Cabinet Member for Environment and Transport  
Susan Carey, Cabinet Member for Environment

**To:** Environment and Transport Cabinet Committee – 23 January 2020

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

**Classification:** Unrestricted

**Summary:**

The Draft Budget proposals for 2020-21 were published on 6<sup>th</sup> January 2020 to support the scrutiny and democratic process through Cabinet Committees, Cabinet and culminating in the annual County Council budget setting meeting on 13<sup>th</sup> February 2020. The Draft Budget takes account of the response to the consultation and engagement campaign.

This report provides Environment and Transport Communities Cabinet Committee with an opportunity to comment on the Draft Budget proposals and make recommendations to Cabinet Members as part of this process.

Members are asked to bring to this meeting the draft (black combed) 2020-21 Budget Book document published on 6<sup>th</sup> January 2020 as information from this document is not repeated in this report.

**Recommendations:**

Members of the Environment and Transport Communities Cabinet Committee are asked to:

- a) NOTE the draft capital and revenue budgets and MTFP, including responses to consultation and the estimate of the government's funding settlement; and
- b) SUGGEST any changes which should be made before the draft is presented to Cabinet on 27<sup>th</sup> January 2020 and full County Council on 13<sup>th</sup> February 2020.

**1. Introduction**

- 1.1 The Local Government Finance Act 1992 and KCC Constitution requires the Council to consult on and ultimately set a legal budget and Council Tax precept for the forthcoming financial year, 2020-21.

The accompanying Draft Budget book sets out the detailed proposals. This document is designed as a reference document and includes a number of sections/appendices. This report is produced as a guide to help navigate the document.

- 1.2 The democratic process through Cabinet Committees, Cabinet, and ultimately full County Council is the culmination of the budget setting process, which takes almost a year to evolve beginning almost immediately after the budget is approved in February.

This starts with the forecasts for the subsequent year(s) in the MTFP at the same time as the approved budget for the forthcoming year, including the indicative central government settlement. These are based on estimates and subject to regular revision and refinement.

- 1.3 In previous years an interim update of the MTFP has been provided to County Council through the Autumn Budget Statement report. This year an Autumn Budget Statement report was not produced primarily due to the degree of uncertainty following the one-year Spending Review and lack of detail around the local government finance settlement. A multi-year plan for 2021-22 and beyond has not been produced given the settlement is for one year only.
- 1.4 On 16<sup>th</sup> October 2019 the formal budget consultation was launched as required under the Council's Constitution to set a legal budget and Council Tax. The Draft Budget published in January for the final democratic process is based on funding assumptions derived from the Spending Round and technical consultation on the provisional local government finance settlement. It is also based on provisional Council Tax and business rate tax bases from districts.

There is no indication when the local government finance settlement will be announced, and districts have until 31<sup>st</sup> January 2020 to finalise their tax base estimates. The Draft Budget also includes the proposed response to the consultation, estimates of spending demand and cost pressures and local spending priorities.

- 1.5 The Budget will be presented to County Council on 13<sup>th</sup> February for approval and the final Budget Book will be published in March.

## **2. Fiscal and Economic Context**

- 2.1 The national fiscal and economic context is an important consideration for the Council in setting the Budget. This context does not just determine the amount received through central government grants, but also sets out how local government spending fits in within the totality of public spending. This latter aspect essentially sets the government's expectations of how much local authorities would raise through local taxation.

- 2.2 The Chancellor announced on 4<sup>th</sup> September 2019 the government's spending plans for 2020-21 which are hereon referred to as the Spending Round (SR2019). SR2019 included additional spending compared to the previous plans.

The stated aim of SR2019 is to provide stability and certainty in funding in 2020-21 to enable government departments and devolved administrations to focus on delivering Brexit. The Chancellor has confirmed that a multi-year Spending Review will follow in 2020 although the exact timing of this has not been confirmed.

- 2.3 SR2019 was originally set within the current fiscal targets: keeping the structural deficit below 2 per cent of GDP in 2020-21 together with total debt falling as a percentage of GDP, and structural deficit to be eliminated and converted to a surplus by the middle of the decade.

The Chancellor would normally be expected to make his annual Budget statement during the autumn in response to forecasts from the Office for Budget Responsibility (OBR) of performance against the targets. The Budget would have included any tax changes necessary to finance spending plans within the targets. In October the Chancellor postponed the Budget statement scheduled for 6<sup>th</sup> November.

In November he announced the introduction of revised fiscal targets:

- Balance current spending (i.e. excluding capital spending) in three years' time
- Investment limited to 3% of GDP
- Borrowing plans to be reviewed if total debt interest exceeds 6% of tax revenues.

- 2.4 SR2019 was based on a "rollover" concept with the continuation of a number of grants received in 2019-20. The grants continuing are listed in table 1 below with estimates for both the national and KCC amounts in 2020-21:

Table 1 – List of 2019-20 grants which are continuing in 2020-21

Description of grant or fund	2019-20		2020-21 Estimate	
	National Amount £'m	KCC Amount £'m	National Amount £'m	KCC Amount £'m
Revenue Support Grant <sup>1</sup>	2,284	9.5	2,323	9.6
Business Rate Top-up <sup>1</sup>	-	136.2	-	138.5
Business Rate Baseline <sup>1</sup>	12,276	48.7	12,484	49.5
New Homes Bonus Grant	918	6.4	918	6.4
Social Care Support	410	10.5	410	10.5
Business Rate Compensation for under indexation of the	424	6.1	424	6.1

<sup>1</sup> Uplifted by 1.7% uplift to business rate multiplier based on September CPI and adjusted to include notional RSG for business rate retention pilot authorities

multiplier <sup>2</sup>				
Business Rate Compensation for other reliefs <sup>2</sup>	1,373	4.9	1,373	3.9
Improved Better Care Fund <sup>3</sup>	1,837	42.4	2,077	48.5
Winter Pressure Grant	240	6.2		
New Social Care grants			1,000	23.8

- 2.5 SR2019 included an additional £1bn nationally to support Adult and Children's Social Care pressures. The technical consultation proposed that this would be allocated according to the adult social care relative needs formula (RNF) with up to 15% adjusted to reflect ability to raise council tax. For KCC, this equates to £23.8m share of the £1bn total.
- 2.6 SR2019 also confirmed that the Government intends to set the Council Tax referendum threshold for 2020-21 at 2% (this level is subject to final decision by Parliament). In addition, councils with responsibility for adult social care can choose to levy up to a further 2% increase on council tax under the social care precept.
- 2.7 Finally, the SR confirmed that the £2 billion funding provided to government departments for Brexit will be continued in 2020-21, although at this stage it is not known how much KCC will receive.
- 2.8 There are no indicative spending plans/local government settlement, or Council Tax referendum limits for 2021-22 and beyond, meaning the future funding envelope remains incredibly uncertain. These will not be known until after the outcome of the full Spending Review, which was originally anticipated sometime during 2020 but might be delayed. A further rollover for 2021-22 settlement is one of many possibilities.
- 2.9 Further details are still awaited on whether the new government will proceed with the proposed 75% business rate retention arrangements, and the reforms following the Fair Funding review. These are likely to have a significant impact on future year's settlements and the Council's MTFP, this uncertainty makes forward financial planning very imprecise.
- 2.10 In light of the uncertainty, a one-year only plan has been published.

Appendix A in the draft Budget Book provides detail of individual growth pressures and savings. Different scenarios of funding for future years will continue to be modelled so that the potential impact from each scenario is understood.

### **3. Revenue Budget Strategy and Proposals**

- 3.1 The Council's revenue expenditure is what is spent on the provision of day to day services e.g. care for the elderly/vulnerable adults, supporting

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<sup>2</sup> Notified after final settlement

<sup>3</sup> Includes winter monies in 2020-21

children in care, maintaining and managing the road network, library services, etc.

It includes the cost of salaries for staff employed by the Council, contracts for services commissioned by the Council, the costs of servicing debt incurred to support the capital programmes, and other goods and services consumed by the Council.

Revenue spending priorities are determined according to the Council's statutory responsibilities and local priorities as set out in the MTFP, which is the financial expression of the vision set out in the Strategic Statement.

3.2 The Draft Budget book includes the following sections in relation to the revenue budget proposals:

- Section 3 – Revenue Budget - Summary
- Section 4 – Revenue Budget - Key Service Analysis
- Appendix A – Detailed Revenue Plan by Directorate
- Appendix B – Budget Risk Register

The revenue budget sections set out the planned spending on services, the revenue plans in the appendices show the main reasons for year on year changes.

3.3 In order to meet the legal requirement to set a balanced budget, the Corporate Director of Finance must be satisfied that it is based on robust estimates and includes adequate provision for reserves to cover risks and uncertainties. The Draft Budget is increasing by £68m, from £986.4m in 2019-20 to £1,054.3m in 2020-21, although this requires the remaining gap of £1.9m to be resolved.

3.4 The Draft Budget includes provision for £83.1m of additional spending demands (changes to existing budgets plus forecasts for future demand and cost increases) and £21.1m to replace the use of one-off funding/savings in the 2019-20 approved budget.

3.5 These spending demands include the decision to change budgets based on current activity/costs, future known unavoidable cost increases (including contractual price increases, legislative changes and financing capital programme), forecasts for future eventualities (including estimated demand, non-specific price increases and contract retender), and local policy choices (including investment in services, and Kent pay scheme).

The Draft Budget also includes £6.0m of growth for spending priorities that support the new Strategic Statement.

3.6 The 2020-21 Draft Budget includes savings and income proposals of £34.3m. The vast majority of these arise from the full year effect of existing savings plans, or the roll out of existing charging policies.

3.7 The revenue budget can be summarised in the following equation. This equation assumes the Council agrees the proposed Council Tax precept

increases up to but not exceeding the assumed 2% referendum limit and the 2% social care levy.

<b>Spending and Savings</b>			
			£000s
Realignment			10,453.4
Reduction in Grant Income			1,400.0
Pay			7,693.0
Prices/Inflation			20,284.4
Demand/Demography & Legislative			21,238.5
Service Improvements			22,001.4
<b>Sub Total - Pressures</b>			<b>83,070.7</b>
Replace use of one-off solutions used in 2019-20			21,115.2
Savings and Income			-34,283.6
			<b>69,902.3</b>
<b>Funding</b>			
	Spending Round £000s	Other £000s	Total £000s
Council Tax	37,185.0	-4,975.0	32,210.0
Business Rates	827.5	154.9	982.4
Government Grants			
- Business Rate Top Up and RSG	2,476.9		2,476.9
- Other grants	23,836.0	8,463.6	32,299.6
	64,325.4	3,643.5	<b>67,968.9</b>
<b>Current Budget Gap</b>			<b>1,933.4</b>

The remit of the Growth, Environment and Transport (GET) directorate spans two Cabinet Committees and, consistent with prior years, the MTFP is shown at directorate level only.

However, Section 6 of this report sets out the main revenue spending demands and savings/income proposals of both the GET directorate, as a whole, as well as highlighting key entries pertinent solely to this committee.

- 3.8 The 2020-21 MTFP plan is presented in appendix A. This represents the most realistic estimate of future funding following SR2019 (including estimated distribution through the local government finance settlement) and provisional tax base estimates/assumed council tax increases. The plans also include forecasts for future spending pressures and replacing the one-off funding/savings used to balance the previous year's budget.

#### **4. Budget Consultation**

- 4.1 As described in paragraph 1.4, the consultation on the Council's revenue budget and Council Tax proposals was launched on 16<sup>th</sup> October and

closed on 25<sup>th</sup> November. This consultation sought views on a general Council Tax increase, the social care levy and KCC's spending priorities.

The consultation was web based supported by a social media campaign. This approach was in line with last year, which helped to achieve increased engagement at lower cost, and a total of 1,360 responses were received (compared to 1,717 responses last year). Furthermore, there were fewer numbers who started a response but did not complete the survey (552 compared to 698 last year).

- 4.2 The campaign also aimed to increase public understanding of the Council's budget and the financial challenge arising from rising demand for/cost of providing council services, the need to find cost savings whilst at the same time protecting valued services, and impact on Council Tax. Further evaluation of the extent to which these aims were achieved will be undertaken.
- 4.3 The finance team have worked in collaboration with colleagues responsible for updating the Strategic Statement. A number of engagement events took place between September and November 2019 with residents, businesses, voluntary sector organisations, parish councils, young people and staff.

At these events, information on KCC's current spending plans were provided, and the financial challenges faced next year. Their views on what is important to them and their views on spending priorities have been captured and fed into the budget consultation process.

- 4.4 Overall there was an increased proportion of respondents supporting council tax increases than in last year's consultation, but still lower than historical levels of support in previous years.

In relation to spending priorities, respondents highlighted Adult Social Care for Older People, Education & Youth Services and Public Protection as their three highest priorities. The three lowest spending priority areas were Community Services, Libraries Registration and Archives and Social Support within Adult Social Care.

- 4.5 A detailed report on the information and insight gained from the consultation and engagement strategy is available in the background documents section of this report and on the Council's website.

## **5. Capital Programme**

- 5.1 Capital expenditure is spent on the purchase or enhancement of physical assets, where the benefit will last longer than the year in which it is incurred e.g. school buildings, roads, economic development schemes, IT systems, etc. It includes the cost of purchasing land, construction costs, professional fees, plant and equipment and grants to third parties.

As with revenue, capital spending plans are determined according to the Council's statutory responsibilities and local priorities as set out in the

MTFP, with the ultimate aim of delivering the vision set out in the Strategic Statement.

- 5.2 Capital spending has to be affordable, as the cost of interest on borrowing and setting aside sufficient provision to cover the initial investment funded by loans over the lifetime of the asset, are borne as revenue costs each year over a very long period. This affordability would also apply to invest to save schemes which need to have a reasonable payback period.
- 5.3 Sections 1 and 2 of the Draft Budget Book set out the proposed 2020-23 programme and associated financing requirements. The summary (section 1) provides a high-level overview for the whole Council, and the individual directorate pages (section 2) provides more detail of rolling programmes and individual projects.

As with the Revenue MTFP, Section 6 of this report highlights any key additions, or changes to, the Capital MTFP programme in relation to the GET directorate.

- 5.4 The capital strategy has been revised for the 2020-23 budget and one of the principles is to have a longer-term capital programme over a ten-year period, within which statutory responsibilities and strategic priorities are paramount. It is particularly important to provide some stability for services in a year with a one-year funding settlement from Government. The timing of capital projects and programmes has also been reviewed to ensure capital plans and delivery are as realistic as possible.
- 5.5 Some additional capital spending has been deemed appropriate to meet statutory responsibilities, for invest to save projects or to enable continuation of other key capital ambitions. A total of £120m additional borrowing (across KCC) will be used to fund this spend over the three-year period 2020-23. The revenue consequences of this capital spending have been included in the budget.

## **6. Headline Directorate Proposals**

- 6.1 The proposed net revenue budget for the Growth, Environment and Transport (GET) directorate for 2020-21 is £177.9m. This represents a net increase of £5.5m, with the 2019-20 budget currently set at £172.4m.
- 6.2 New spending demands (pressures) of £8.1m are proposed and these can be further analysed between:
- Price: £2.892m,
  - Demography: £0.672m
  - Legislative: -£0.038m
  - Realignment: £1.107m
  - Service Strategies and Improvements: £3.469m



6.3 The vast majority of these pressures fall under the remit this committee and the significant pressures include:

- Prices – contractual price inflation of £2.892m includes £761k in relation to public transport schemes (Kent Travel Saver and Supported Bus services) and £180k for energy price inflation for the authority's c124k of streetlights.

There is also provision for index-linked inflation of £1.436m for Waste contracts and £450k for Highways.

- Demography – forecast growth/changes to activity forecasts of £672k include provision for £627k of waste tonnage as well as other minor changes for adoption of streetlights and Public Rights of Way (PROW) routes.
- Realignment – this element of the MTFP (£1.107m) relates to existing changes to activity/growth that have changed in the current year and needs to be adjusted for to ensure that current policy is maintained.

There is £857k in relation to the waste service, with operational costs of the Household Waste Recycling Centres (HWRC's) increasing as well as a drop in the commodity price of textiles meaning reduced income. This has been offset by actual/forecast tonnes being lower than budgeted tonnes and £575k is to be removed.

A permanent budget has been established (£400k) for non-recoverable works on our highways e.g. whereby damage has been caused and monies have not been recovered. This figure has been managed down over a number of years and is a relatively minor sum compared to the overall damages that are recovered, but a dedicated budget has been created rather than this being managed in-year.

A negative -£400k reduction in pressure is included here in relation to energy whereby the LED conversion programme continues to out-perform the initial modelling, as well as resisting the budgeted price pressures. The LED programme has now delivered in excess of £6m in permanent savings and has significantly reduced the annual inflation e.g. future unfunded pressures.

- Service Strategies and Improvements – whilst the provision of statutory services is paramount, there has still been investment in a number of services and the GET-wide pressure of £3.5m demonstrates this investment.

Almost £2.2m has been built into the budget for the forecast market uplift of core highway services that were delivered through the term maintenance contract. The service delivery model is being refined and provision has been built into the budget for the estimated uplift in cost from the contract expiry of September 2020 (part year effect). This includes one-off mobilisation costs.

Provision of £250k has also been set aside to contribute to the ongoing issue of fly-tipping and whilst this is not a county council responsibility, we are working with partners to combat this issue. This funding is in place for the next two years.

There is £350k in place to add project management capacity for a number of key waste projects (delivering savings and/or improvements, additional resource to support bid writing e.g. leveraging in external funds and additional project management resource across the whole directorate for a wide-ranging number of KCC priorities.

A provision of £330k is in place for the additional lease costs of a new HWRC in Tonbridge and Malling, as well as temporary transfer station facilities in East Kent until new infrastructure is available (see 6.6 Folkestone & Hythe).

6.4 New savings and income proposals of £3.056m are proposed and these can be further analysed between:

- Efficiency: £1.636m
- Income: £588k
- Transformation: £88k
- Policy: £0.75m

6.5 As with the spending demands, a significant proportion of these savings and income fall within the remit of this cabinet committee. The notable entries for this committee include:

- Efficiency – of the £1.636m of efficiency savings included in the plan, £1.1m of which relates to a review of the performance payments depending on the latest recycling rates across South West and East Kent. Districts are therefore incentivised to improve recycling rates and the savings made on the cost of disposal is shared between parties.

There are further savings of £351k from waste services in relation to reduced tipping away costs (out of district boundaries), reduced contributions to the partnership as well as the part-year effect of an innovative way to dispose of the county's food waste. The food waste will be

processed through an anaerobic digester, which not only disposes of the waste in a more cost-effective and environmental manner but is effectively recycled to create pellets that can be used for agricultural purposes.

- Income – the main element of the £582k increase in fee and charges is the proposed inflationary increase to the Kent Travel Saver scheme. In line with previous years, the cost of the full annual pass is increased by the level of inflation (see 6.3 prices) levied by the bus operators e.g. this annual charge keeps KCC's level of subsidy consistent at approximately £8m per annum.
- Transformation – almost half of the £88k transformation savings relate to the final phasing of the LED conversion energy and maintenance savings. As referred to above (6.3 realignment) a further £400k of energy budget has been reduced taking the overall base saving for the LED project to in excess of £6m.
- Policy – the majority of the £750k policy saving falls within the remit of another committee, which is the full year effect (£100k) of a review of spend on lit signs and bollards, many of which now use energy efficient bulbs.

6.6 The GET directorate has a significant and ambitious capital programme in excess of £1bn including "later years" e.g. beyond the 3-year 2020-23 timeframe. The 3-year programme (including spend to date) amounts to £713m and the majority of which falls under the remit of this cabinet committee, primarily for highways-related schemes.

The significant changes pertinent to this committee, include:

- Highways rolling programme – this budget line has seen by far the most uplift in recent years, with KCC contributing an additional £15m per annum in terms of asset management as part of the 19-20 budget round.

The 20-23 capital programme has seen a further £15m invested in asset management, meaning KCC is now contributing a further £30m per annum, in excess of the annual Department for Transport (DfT) grants.

In addition, by following an asset management approach, there are a number of significant and strategic routes that have not been funded from the DfT grant due to the disproportionate impact it would have on the available funds for asset management. So, for the past two years, KCC has funded the highest category/priority routes and the 20-23 capital programme includes a further £25m (over the 3 years) to spend on these strategic routes.

The estimates for the DfT funded block maintenance grant, the integrated transport grant and the incentive fund allocation have been forecast at existing levels.

- Folkestone & Hythe Transfer Station – Transfer station capacity in East Kent is near full capacity and currently waste is taken across border into Ashford. This cannot continue into the foreseeable future due to projected housing growth and therefore new infrastructure is needed.

Provision has been made in the capital programme for a new transfer station in the Folkestone and Hythe area. The scheme, and projected costs, are at an early and high-level phase and hence will be refined in future years.

- Thanet Parkway – whilst this was a scheme in the existing programme, KCC has made provision for up to a further £15m to be invested in the scheme. This is primarily due to a significant increase in cost estimate arising from the level crossing works required and for which these high-level costs including a significant contingency. Prior to the scheme progressing further, a survey will be commissioned to ascertain whether there is still local support for the scheme.

KCC's proposed investment is now c£17m, with £14m allocated by SELEP as part of the Local Growth Fund.

- Public Transport – schemes totalling £30m have been included in relation to the Fastrack Bean Tunnel as well as the Dover Fastrack Scheme, using grant and other external funding to improve access and public transport infrastructure. Both schemes are at planning and design phases.
- Various Highways schemes – the above refers to the new/amended schemes and projects for the 2020-23 capital programme but this must be set in the context of other highways schemes totalling £605m (including prior spend and projects in “later years” e.g. beyond the 2023) that are funded by Local Growth Fund, NPIF, Housing Infrastructure Fund, other external sources, with KCC's match funding from developer contributions. A number of these schemes are subject to future funding bids, including but not exclusively Major Road Network (MRN) and Large
- Local Major Road (LLMR) funds.

## 7. Recommendations

### Recommendations:

Members of the Environment and Transport Communities Cabinet Committee are asked to:

- a) NOTE the draft capital and revenue budgets and MTFP, including responses to consultation and the estimate of the government's funding settlement; and
- b) SUGGEST any changes which should be made before the draft is presented to Cabinet on 27<sup>th</sup> January 2020 and full County Council on 13<sup>th</sup> February 2020.

## 8. Background Documents

### 8.1 KCC's Budget webpage

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

### 8.2 KCC's approved 2019-20 Budget and 2019-21 Medium Term Financial Plan

[https://www.kent.gov.uk/\\_data/assets/pdf\\_file/0006/93390/Budget-Book-2019-20.pdf](https://www.kent.gov.uk/_data/assets/pdf_file/0006/93390/Budget-Book-2019-20.pdf)

### 8.3 KCC Budget Consultation launched 16<sup>th</sup> October 2019

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

### 8.4 HM Treasury Spending Round 2019 document

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/829177/Spending\\_Round\\_2019\\_web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/829177/Spending_Round_2019_web.pdf)

### 8.5 KCC report on 2019 Budget Consultation

[https://www.kent.gov.uk/\\_data/assets/pdf\\_file/0012/103530/Summary-and-analysis-of-budget-consultation-responses.pdf](https://www.kent.gov.uk/_data/assets/pdf_file/0012/103530/Summary-and-analysis-of-budget-consultation-responses.pdf)

### 8.6 KCC Draft Budget book 2<sup>nd</sup> January 2020

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

## 9. Contact details

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