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

To: Cabinet 27th January 2020

Decision No:

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

Classification: **Unrestricted**

Summary:
The draft budget proposals were published on 6th January 2020 to support the scrutiny and democratic process through Cabinet Committees, Cabinet and culminating in the annual County Council budget setting meeting on 13th February. The one-year settlement from government means it is not viable to produce a meaningful medium-term financial plan. The draft was produced before we had the provisional Local Government Finance settlement announcement or tax base and collection fund balances from districts, and the draft revenue budget was not balanced with a gap which needs to be resolved for County Council final approval.

This report provides Cabinet with a summary of the key issues in the draft budget, and update on subsequent changes (including the impact of provisional local government finance settlement, tax base and collection fund estimate, and other grant announcements), resolution of the gap in the draft revenue budget, and an opportunity to receive and consider comments and recommendations from Cabinet Committees. The timing of some committees means this may need to be a verbal update.

The draft budget includes a proposed 1.995% council tax increase for 2020-21 i.e. up to the maximum without exceeding the 2% referendum limit. The draft budget also includes a further 1.995% council tax increase proposed through the Social Care Levy i.e. the maximum permitted, taking the total social care levy to 8.78% of the County Council share of council tax. The final decision on these council tax increases will be taken at the County Council meeting.

The draft budget represents the Council's response to local budget consultation and estimated impact of the 2019 Spending Round and provisional Local Government Finance Settlement, as well as an update to include the latest spending/saving plans and forecasts.

The draft budget includes changes to the capital programme which includes additional bids of £121m, £85m of which support our highways asset maintenance and priority 1 and 2 of highways risks. The additional revenue debt cost of these new bids is in the region of £0.5m in 2020-21.

The provisional Local Government Finance Settlement was announced on 20th December 2019. This was too late to include in the draft budget publication although the differences to the estimates included in the published draft are largely marginal and inconsequential. Responses to the provisional settlement had to be submitted by 17th January 2020.

This report identifies the reasons for an increase in revenue funding of £5.6m since the original draft was prepared, how this is proposed to be used to support increased spending demands and resolve the budget gap. In view of the number and nature of the changes from the 6th January draft we are planning on republishing the draft (white-combed) for County Council approval.

Recommendations:
a) Cabinet is asked to consider any proposed amendments from Cabinet Committees.

b) Cabinet is asked to endorse the draft budget taking into account the changes outlined in this report (to be reflected in the republished white-combed draft for County Council approval).

c) Cabinet is asked note that final decision on council tax precept will be presented at the County Council meeting on 13th February 2020.

Cabinet Members are asked to bring to this meeting the 2020-21 draft Budget Book (black-combed) document published on 6th January 2020.

Cabinet Members are reminded that Section 106 of the Local Government Finance Act 1992 applies to any meeting where consideration is given to a matter relating to, or which might affect, the calculation of council tax.

Any Member of a Local Authority who is <u>liable</u> to pay council tax, and who has any <u>unpaid</u> council tax amount <u>overdue</u> for at least two months, even if there is an arrangement to pay off the arrears, must declare the fact that he/she is in arrears and must <u>not</u> cast their vote on anything related to KCC's Budget or council tax.

1. Introduction

1.1 The Local Government Finance Act 1992 requires the Council to consult on and ultimately set a legal budget and Council Tax precept for the forthcoming financial year, 2020-21. Setting the Council's revenue and capital budgets is still challenging despite the better settlement from central government. Whilst the revenue settlement has improved from the previous settlement (due to a combination of increases in government grant, retained business rates and council tax) it is still not sufficient to cover rising costs and increasing demand for council services, leading to the need to make savings/generate additional income. Similarly, the capital budget can only be delivered with substantial additional borrowing with financing implications which place added pressure on future years' revenue budgets for the next 25 years.

1.2 The draft Budget Book sets out the detailed draft capital programme 2020-23 and detailed draft revenue budget 2020-21. The one-year settlement for 2020-21 means that we cannot produce a meaningful medium-term financial plan. This is consistent with 2013-14 (the last time we had a one-year settlement). There is no legislative requirement to publish a medium-term financial plan although the Chartered Institute of Public Finance and Accountancy (CIPFA) advises that a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. CIPFA recognises that while formal publication of the medium-term-financial plan (MTFP) may only reflect government settlements, it is the responsibility of the leadership of the organisation to have a long-term financial view. This report includes an outline of KCC leadership's approach to medium term financial planning in view of the one-year settlement.

1.3 The Council launched a budget communication and consultation campaign on 16th October 2019. The consultation closed on 25th November 2019. A separate report on the results from this campaign was published on 6th January 2020 and is included as a background document to this report. The number of responses continues to be disappointing and there were fewer responses than last year. A majority of responses supported council tax increases up to or exceeding the referendum limit to sustain services, and another year of additional 2% adult social care precept. The consultation also sought views on spending priorities on people and place based services, which showed the highest priority should be given to older persons social care, public protection, education & youth services, and highways. These priorities are reflected in both revenue and capital budget proposals.

1.4 The draft Budget Book (black combed) was published on 6th January 2020. This publication had been prepared before we had received the provisional local government finance settlement (announced on 20th December) or the latest tax base/collection fund estimates from districts. Consequently, the draft budget was based on Finance estimates and showed an unresolved gap of £1.9m. The draft budget includes provision for £3.5m to invest in high impact priority areas yet to be agreed until the consultation on the new Five-Year plan has concluded. This report includes details of the provisional settlement, tax base and collection fund estimates and any other issues which have emerged since publication. The settlement and latest tax base/collection fund estimates are more than enough to resolve the gap, fund additional pressures related to National Living Wage and National Minimum Wage announcements and reduce the need to draw down from reserves as a temporary solution.

1.5 The draft Budget Book (black-combed) continues to only include the essential sections for the scrutiny and approval process. Consequently, additional sections are included in this report to help set the scene, and the revised draft (white-combed) will include additional appendices containing information necessary for the statutory approvals of the budget. Background documents provide other information previously included in narrative sections of the Budget Book. All of the information to support the Council's budget is published on the web at https://www.kent.gov.uk/about-the-council/finance-and-budget/our-budget.

1.6 There are some grants which have not yet been announced and we have not received the final tax base or estimated collection fund balances from districts. Consequently, there could be some further final adjustments to present to County Council on 13th February together with any other late changes.

1.7 The revenue budget in the draft Budget Book (black-combed) showed an increase in the net budget from £986.4m in 2029-20 to £1,056.2m in 2020-21 (albeit this left a £1.9m gap compared to the estimated funding of £1,054.3m). A high level summary of the main components of this equation is shown in table 1. Fuller details are set out in appendix A of the draft Budget Book. It should be noted that 2020-21 is the first time in ten years that we have seen a net increase in central government funding within the settlement.

Table 1 - Budget Equation

2019-20 £m	Revenue Budget Equation	2020-21 £m
72.8	Spending Demands (including replacing one-offs)	104.2
28.1	Government Revenue Support Grant Reductions	-
100.9	Total Challenge	104.2
18.9	Government Grant Increases	34.8
37.1	Council tax & Business Rates	33.2
44.9	Savings, Income and Reserves	34.3
100.9	Total Solution	102.3
	Gap (to be resolved)	1.9

1.8 The capital programme identifies £906m investment in infrastructure over the 3 years 2020-21 to 2022-23, this includes £121m of new schemes not included in previous programmes including a significant investment in highways asset management and priority remedial works. Capital investments are funded by a combination of government grants, developer contributions, external funding, capital receipts and borrowing.

1.9 The Council already has a relatively high level of debt to finance previous capital spending and we have sought to limit additional borrowing as this has long-term revenue consequences for interest costs and setting aside provision for repayment of debt over the lifetime of the asset. Avoiding over committing future revenue is important in view of the one-year settlement from government. Nonetheless, due to the urgent need for additional capital spending we have included plans for the associated borrowing to support the programme over the three years 2020-23. This additional borrowing over and above that required under the previous capital programme adds £0.5m revenue pressure in 2020-

21 rising to over £10m when the new programme has been fully delivered (although much of the additional capital spending can be reconsidered if this revenue consequence is unsustainable following the Spending Review anticipated later this year).

2. National 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.

Public Spending

2.2 The Chancellor announced on 4th September 2019 the government's spending plans for 2020-21 (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 be confirmed.

2.3 SR2019 was originally set within the previous fiscal targets:
- Maintain the structural deficit below 2 per cent of GDP in 2020-21
- Total accumulated debt falling as a percentage of GDP in 2020-21
- Structural deficit to be eliminated and converted to a surplus by the middle of the decade.

2.4 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 6th November 2019. 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.

The Chancellor's next Budget is scheduled for 11th March 2020.

2.5 SR2019 for local government was based on a "roll-forward" concept with the continuation of grants within the Ministry of Housing and Local Government (MHCLG) settlement received in 2019-20. The grants continuing are listed in table 2 below together with the national and KCC amounts included in the provisional Local Government Finance Settlement announced on 20th December 2020:

Table 2 – List of 2019-20 grants which are continuing in 2020-21

	2019-20		2020-21 Provisional	
Description of grant or fund	National Amount £'m	KCC Amount £'m	National Amount £'m	KCC Amount £'m
Revenue Support Grant[1]	2,284	9.5	2,321	9.6
Business Rate Top-up[1]	-	136.2	-	138.4
Business Rate Baseline[1]	12,276	48.7	12,476	49.5
New Homes Bonus Grant	918	6.4	907	6.4
Social Care Support	410	10.5	410	10.5
Business Rate Compensation for under indexation of the multiplier	424	6.1	500	7.5
Business Rate Compensation for other reliefs[2]	1,373	4.9		
Improved Better Care Fund	1,837	42.4	2,077	48.5
Winter Pressure Grant	240	6.2		
New Social Care Grant			1,000	23.8

2.6 SR2019 included an additional £1bn nationally to support Adult and Children's Social Care pressures. The provisional settlement confirmed that this is allocated according to the adult social care relative needs formula (RNF) with up to 15% adjusted to reflect ability to raise council tax through the social care levy. For KCC, this equates to £23.8m share of the £1bn total.

2.7 SR2019 and provisional settlement 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.

2.8 Finally, SR2019 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.

2.9 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 roll-forward for 2021-22 settlement is one of many possibilities.

2.10 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

[1] Uplifted by 1.63% uplift to business rate multiplier based on September CPI and adjusted to include notional RSG for business rate retention pilot authorities
[2] Notified after the final settlement

on future year's settlements and the Council's MTFP, this uncertainty makes forward financial planning very imprecise.

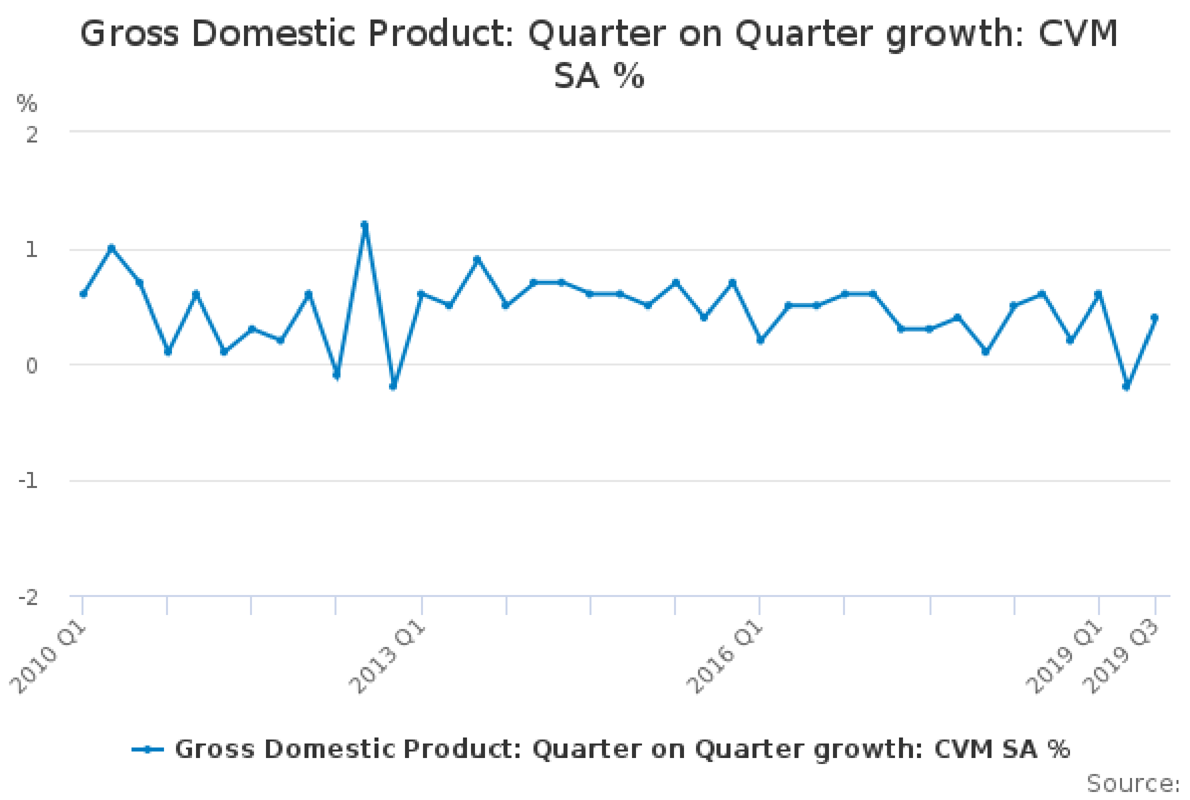
2.11 In view of the uncertainty, a one-year only plan has been published. Appendix A of the draft Budget Book (black-combed) provides detail of individual growth pressures and savings. Different scenarios of funding for future years will continue to be modelled so that the potential impact from each scenario is understood.

Economic Trends

2.12 We have previously provided information on key economic trends as these continue to have a significant bearing on both future government settlements and the general economic conditions in which the budget is being set. This includes the latest information from Office for National Statistics (ONS) on economic growth, inflation, employment and earnings, and the Bank of England (BoE) forecasts in their quarterly Monetary Policy Reports.

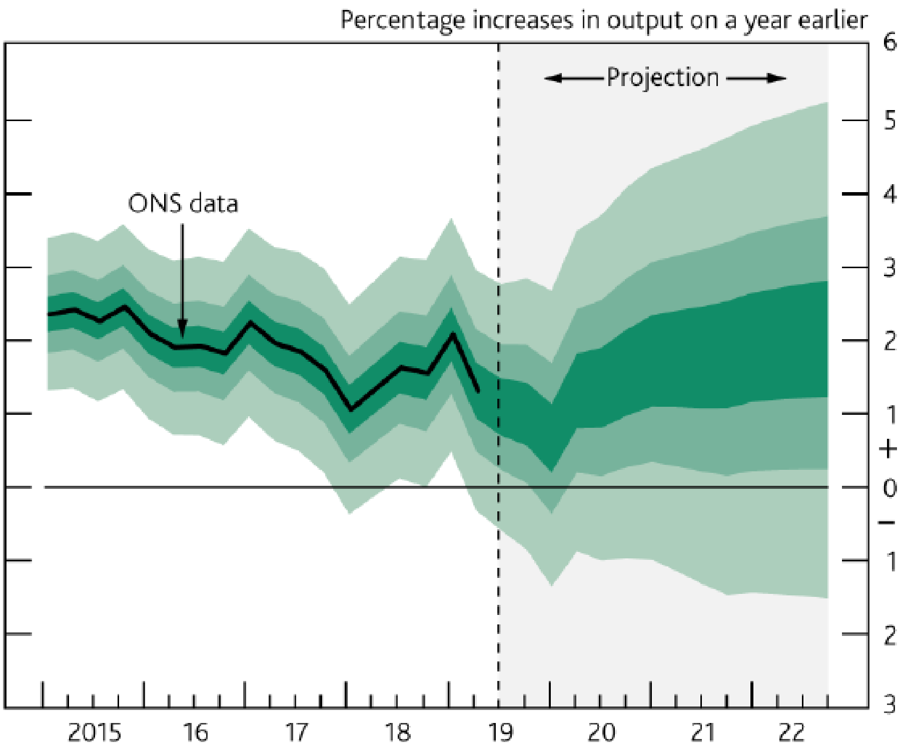
2.13 Chart 1 below shows the latest quarterly growth in Gross Domestic Product (GDP) over the last 10 years up to quarter 3 of 2019. This was released on 20th December 2019. Growth during 2019 has been low with quarter 2 showing negative growth due to ongoing economic uncertainties. Negative growth in consecutive quarters constitutes a recession.

Chart 1



2.14 Chart 2 shows the growth forecast in the BoE Monetary Policy Report November 2019. This is one month in arrears from the latest ONS release (chart 1). The fan chart depicts the probability of various outcomes for GDP growth in the future.

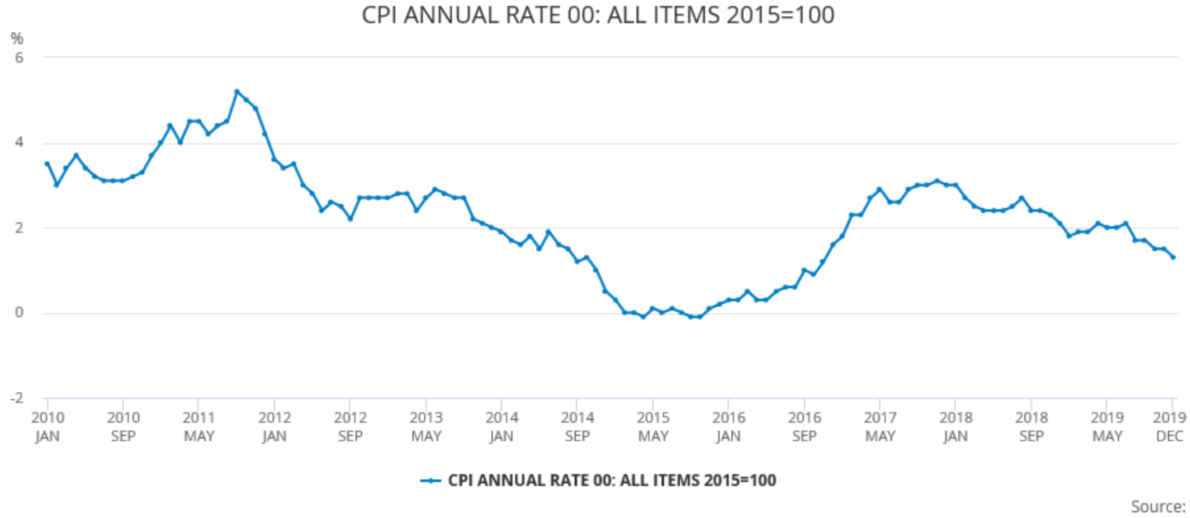
Chart 2 – GDP Growth Forecast

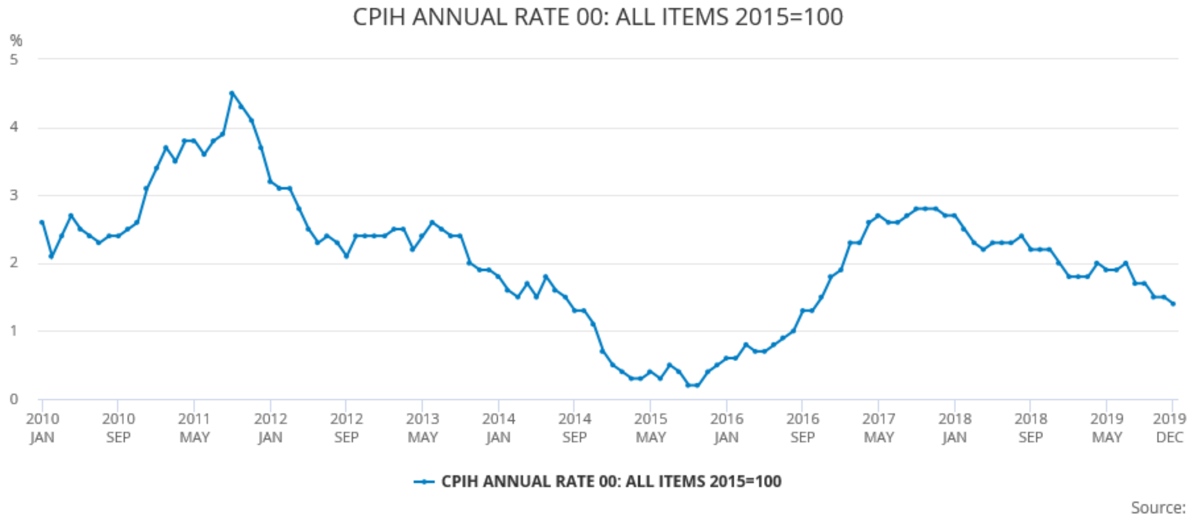


GDP growth has slowed materially reflecting weaker global growth, driven by trade protectionism, and Brexit uncertainty. The Monetary Policy Committee (MPC) projects that GDP growth will pick up during 2020 as Brexit uncertainty falls, supported by easier UK fiscal policy and a modest recovery in global growth.

2.14 Chart 3 shows the annual rate of inflation based on consumer price index (CPI) and CPIH (which includes owner occupier housing costs) up to December 2019. This was released on 15th January 2020. The trend in both CPI measures has been a reducing annual rate of inflation since a peak of 2.7%/2.8% in autumn 2017 (with the occasional small monthly increase). CPI has been below the 2% target since July 2019.

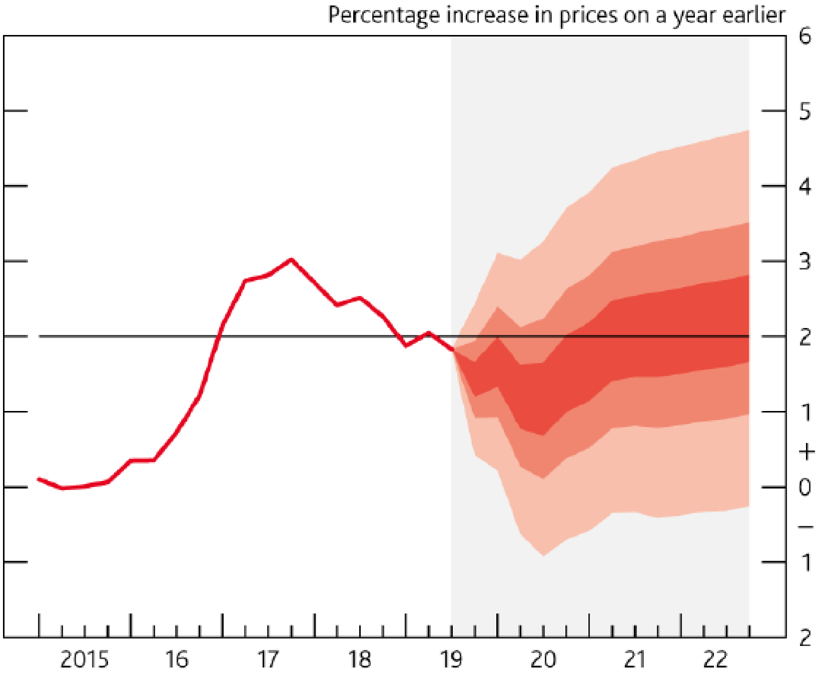
Chart 3





2.15 Chart 4 shows the inflation forecast in the BoE Monetary Policy Report November 2019. This is three months in arrears from the latest ONS release (chart 3). The fan chart depicts the probability of various outcomes for CPI inflation in the future.

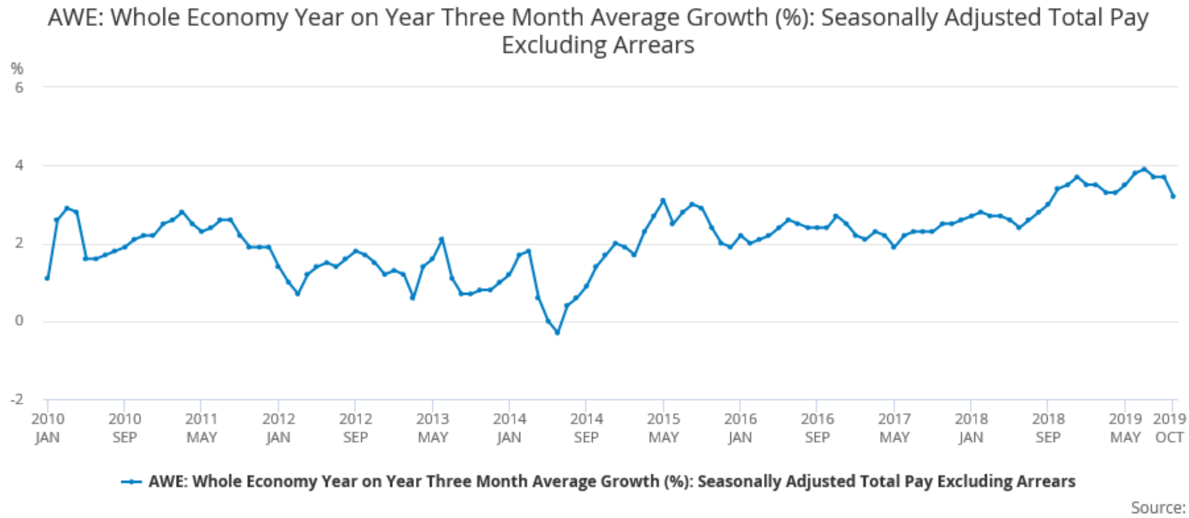
Chart 4 – CPI Inflation Forecast



CPI inflation remained at 1.7% in September and is expected to decline to around 1.25% by the spring, owing to the temporary effect of falls in regulated energy and water prices. The MPC forecasts a margin of excess demand in 2021 and 2022 taking CPI slightly above 2% by the end of the forecast period.

2.16 Chart 5 shows the annual rate of growth in total earnings (regular pay and bonuses but excluding arrears) in the whole economy over the last 10 years up to October 2019. This was released on 17th December 2019. The trend had been for increasing rates of earnings growth in the first half of 2019 although the rate of growth has reduced a little during recent months. Comparison of wage growth in chart 5 and CPI inflation in chart 3 shows that wages have been growing at a faster rate than prices since summer 2018.

Chart 5



3. KCC Response to Provisional Local Government Finance Settlement

3.1 The provisional settlement was largely as we had anticipated in the draft Budget Book (black-combed) with only minor variations in the uplift of Revenue Support Grant (RSG) and business rate baseline/top-up, and roll-out of new Homes Bonus. These differences are insignificant and reduce the available funding by £96k compared to the draft Budget Book. The provisional settlement also included an unexpected further year of protection from linking the inflationary uplift in business rates to Consumer Price Index (CPI) rather than Retail Price Index (RPI). The CPI link was originally announced for April 2020 and was subsequently brought forward to April 2018. We had assumed that we would only receive compensation for the lower uplift for April 2018 and April 2019, but we have also received compensation for April 2020 lower uplift in the provisional settlement. The compensation for other business rate mitigations has not been announced and is unlikely these will be confirmed before the budget is agreed, consequently the revised draft (white-combed) will include an estimate for these elements of the grant as well the announced protection for CPI uplift.

3.2 KCC submitted its response to the settlement on 17th January. The response was agreed with the Cabinet Member for Finance, Corporate and Traded Services. In the response we welcomed the improved settlement with the £2.9bn national increase in spending power (4% increase compared to GDP) and the earlier September announcement of the SR2019 which has added to budget certainty. However, we also reiterated concerns that this increased settlement is still not enough to fully fund rising spending demands and costs, and therefore is still a reduction in overall service terms and will require the council to find savings/additional income to balance the budget. We also requested greater acknowledgement that the majority of the increased settlement would come from council tax payers rather than central government.

3.3 We also expressed our very significant concerns about the impact of a one-year settlement on medium term financial planning and our inability to publish a meaningful plan. This is by far the biggest drawback with the 2020-21 settlement. We answered the specific questions to support all the allocations in the provisional settlement as being the most pragmatic approach for finalising the 2020-21 settlement bearing in mind the timing, but we also continued to raise some significant longer term concerns which we would like to be addressed in the forthcoming Spending Review and delayed Fair Funding review/business rate retention and reforms.

3.4 We reiterated our concerns regarding the council tax referendum principles which we consider to be undemocratic and no better than the previous capping regime. We repeated our concerns that previous funding regimes have benefited some areas and resulted in lower council tax charges (particularly in Inner London) and that if the Fair Funding review results in a more appropriate distribution of the business rate baseline that the council tax referendum principles should allow charges in these areas to catch up to compensate for losses.

3.5 The detail of the differences between the estimated settlement included in the draft Budget Book (black-combed) and the provisional settlement are shown in table 3. The revised figures from the provisional/final settlement will be included in the republished (white-combed) draft budget presented for approval to County Council.

Table 3 – Draft Budget Estimated Settlement and Provisional Settlement

	Draft Estimate	Provisional Settlement	Difference
Retained Business Rate Baseline	£49.503m	£49.468m	-£0.035m
Business Rate Top-up	£138.525m	£138.429m	-£0.096m
Revenue Support Grant	£9.649m	£9.642m	-£0.007m
Improved Better Care Fund	£48.554m	£48.554m	-
Social Care Support Grant	£34.367m	£34.367m	-
New Homes	£6.388m	£6.430m	+£0.042m
Sub total			-£0.096m
Est. Business Rate Compensation	£10.000m	£11.400m	+£1.400m

3.6 We anticipate the final settlement will be announced in early February, hopefully before the County Council meeting on 13th February.

4. Council Tax

4.1 The draft Budget Book (black-combed) was based on KCC's estimate for council tax base and collection fund balances as we had not received provisional estimates from all districts in time for the publication. The draft assumed a 1.2% increase in the tax base (from 546,394.81 Band D equivalent properties in 2019-20 tax base to 552,951.55 estimate for 2020-21). We have now received provisional estimates from all districts which shows a higher increase of 1.51% to 554,625.59. The individual district changes between 2019-20 final budget and 2020-21 provisional estimates are shown in table 4.

The additional tax base results in increased tax yield of £2.262m compared to the draft Budget Book (black-combed) which will contribute towards closing the gap and funding additional spending pressures.

Table 4 – Council Tax Base Changes

	2019-20 Final		2020-21 Provisional							
	Notified Band D Equivalent Taxbase	Precept @ £1,299.42	Band D Equivalent Taxbase	Precept @ £1,325.34 (up to 2% referendum limit)	Precept @ £1,351.26 (including Social Care Levy)	Change in Band D Equivalent Taxbase	Change in Precept	Change in Precept due to Taxbase	Change in Precept due to Tax Rate up to Referendum Limit	Change in Precept due to Social Care Levy
		£000s		£000s	£000s		£000s	£000s	£000s	£000s
Ashford	46,500.00	60,423.0	47,300.00	58,303.9	63,914.6	800.00	3,491.6	1,039.5	1,226.0	1,226.0
Canterbury	50,206.55	65,239.4	51,300.41	63,234.9	69,320.2	1,093.86	4,080.8	1,421.4	1,329.7	1,329.7
Dartford	37,747.03	49,049.2	38,756.93	47,773.3	52,370.7	1,009.90	3,321.4	1,312.3	1,004.6	1,004.6
Dover	38,526.26	50,061.8	39,029.75	48,109.6	52,739.3	503.49	2,677.5	654.2	1,011.7	1,011.7
Folkestone & Hythe	39,057.21	50,751.7	39,109.15	48,207.5	52,846.6	51.94	2,094.9	67.5	1,013.7	1,013.7
Gravesham	33,930.46	44,089.9	34,334.50	42,322.1	46,394.8	404.04	2,304.9	525.0	890.0	890.0
Maidstone	62,033.40	80,607.4	63,319.80	78,050.5	85,561.5	1,286.40	4,954.1	1,671.6	1,641.2	1,641.2
Sevenoaks	50,772.34	65,974.6	51,207.88	63,120.9	69,195.2	435.54	3,220.6	565.9	1,327.3	1,327.3
Swale	47,344.08	61,519.8	48,072.67	59,256.3	64,958.7	728.59	3,438.8	946.7	1,246.0	1,246.0
Thanet	43,763.27	56,866.9	44,546.40	54,909.7	60,193.8	783.13	3,326.9	1,017.6	1,154.6	1,154.6
Tonbridge & Malling	50,820.61	66,037.3	51,371.00	63,321.9	69,415.6	550.39	3,378.3	715.2	1,331.5	1,331.5
Tunbridge Wells	45,693.60	59,375.2	46,277.10	57,043.0	62,532.4	583.50	3,157.2	758.2	1,199.5	1,199.5
Total	546,394.81	709,996.3	554,625.59	683,653.7	749,443.4	8,230.78	39,447.0	10,695.2	14,375.9	14,375.9

4.2 We assumed a collection fund balance of £2.5m in the draft Budget Book (black-combed), £4.975m less than 2019-20 final budget. We have now been notified of the estimated balances from all districts totalling £4.530m, an increase of £2.030m compared to the draft Budget Book (black-combed). This too can be used towards closing the gap and funding additional spending pressures. The latest tax base and collection fund balances will be included in the redrafted Budget Book (white-combed) and districts have until 31st January to notify us of any final changes to the estimates.

4.3 The draft budget proposes a council tax increase up to the maximum allowed without exceeding the 2% referendum threshold and by a further 2% for the social care levy. The impact of the proposed increase to individual bands are shown in table 5. These will be presented for agreement to full Council on 13th February.

Table 5 – Proposed Council Tax Increases

	2019-20 Charge (incl. social care levy)	2020-21 Proposed (excl. social care levy)	2020-21 Proposed (incl. social care levy)
Band A	£866.28	£883.56	£900.84
Band B	£1,010.66	£1,030.82	£1,050.98
Band C	£1,155.04	£1,178.08	£1,201.12
Band D	£1,299.42	£1,325.34	£1,351.26
Band E	£1,588.18	£1,619.86	£1,651.54
Band F	£1,876.94	£1,914.38	£1,951.82
Band G	£2,165.70	£2,208.90	£2,252.10
Band H	£2,598.84	£2,650.68	£2,702.52

% increase		1.995%	1.995%

5. Revenue Budget Draft Proposals and Updates

5.1 The 2020-21 draft Budget Book (black-combed) includes £83.1m of additional spending pressures including realignment of budgets to reflect current spending, staff pay and reward increases, inflationary price increases, forecasts for future demand and demography, and service improvements. A growth allocation of £3.5m is included to invest in high impact priority areas based on the feedback from the consultation on the new Five-Year plan. This consultation will not be completed until after the budget has been agreed and the £3.5m growth will be allocated in line with the governance procedures identified in paragraph 9.2. The draft budget also must reflect the £21.1m needed to replace the use of one-offs in the 2019-20 base budget. The total additional spending of £104.2m is shown in more detail in appendix A of the draft Budget Book (black-combed).

5.2 The 2020-21 draft budget includes savings and income proposals of £34.3m. This is less than previously predicted as a result of the improved settlement and is on par with the savings expected under the previous 3% efficiency regime. The savings include the impact of changes to specific ring-fenced grants for Winter Pressures which is now part of Improved Better Care Fund (iBCF) which increases the net budget without increasing real spending power, and Public Health.

5.3 The Public Health proposals include £2.8m of efficiency savings and £0.7m draw down from reserves on the assumption that the additional support received from Department for Health and Social Care (DHSC) in 2019-20 towards the impact of the NHS Agenda for Change pay and pension increases on commissioned services is not repeated in 2020-21. We are still awaiting confirmation from the DHSC and have produced the draft budget proposals on a worst-case scenario.

5.4 The redrafted Budget Book (white-combed) will show £6.9m of the savings are from the full year effect of savings in the 2019-20 budget, £3.9m from the continuation of existing charging policies, and £9.7m from financing and minor savings under £200k. The remaining £13.0m are new proposals that have been highlighted in green font in the appendix A of the draft Budget Book. It is anticipated that no further savings/income proposals will be needed in making the final changes presented to full Council in the redrafted Budget Book (white-combed).

5.5 £12.9m of the savings are being found from reserves. £8.4m of this is from directorate reserves; Adult Social Care provision should the winter monies not be repeated (not now needed as winter monies have been built into iBCF), and Public Health (see 4.2 above). £4.5m are from corporate reserves including

£1.3m of one-off support for spending pressures until sustainable alternatives can be found (shown in purple font in appendix A of draft Budget Book), and £3.2m towards the cost of sleep night payments within retendered residential contracts which is anticipated to be offset by future savings from more efficient placements under the new contracts.

5.6 We will continue to monitor the delivery of savings using the following dashboard indicators with a focus on the new savings:
- Blue – ready to be delivered
- Green – plans are well developed, consultation is underway or completed, the quantum and timescale is realistic, and progress is pending final decision
- Amber – plans are still being developed, the saving is deliverable but the quantum uncertain, and consultation has not yet commenced
- Red – savings which have a risk of being undeliverable because something has changed recently which makes the saving highly doubtful

5.7 On 31st December the Government announced increases in the National Living Wage (NLW) and National Minimum Wage (NMW) which will apply from April 2020. NLW will increase from £8.21 per hour to £8.72 (6.2%), NMW for persons aged 21+ increased from £7.70 per hour to £8.20 (6.5%). These increases do not affect staff in the Kent scheme as it was agreed that the minimum in the Kent Scheme from April 2019 would match the Living Wage Foundation's real Living Wage (currently £9 per hour). However, the increases have a significant impact on inflation provision for Adult Social Care and Children's Services prices.

5.8 The prices inflation provision in the draft Budget Book (black-combed) for Adult Social Care and Children' Services were based on the OBR estimates for NLW and NMW in their most recent assessment for economic and fiscal outlook (March 2019). These assumed increases in NLW to £8.63 (5.1%) and NMW to £7.92 (2.86%). The prices inflation provision is calculated using a blended rate taking account of percentage increase to employees paid at NLW/NMW, employees paid above NLW/NMW, and non- employee costs within contract prices. The increases for non-employee costs are based on CPI and employees above NLW/NMW at an appropriate rate.

5.9 In view of the higher increases in NLW/NMW we are proposing that the element for employees above NLW/NMW should be linked to latest average earnings index (+3.2%). This would ensure that within the price calculation care providers have scope to pay the increased NLW/NMW to eligible employees and maintain some (albeit reduced) differential for staff above NLW/NMW. This is consistent with the government objective that NLW should reach 66% of average earnings by 2024 (its currently 60%). These proposals would require changes to the amounts in the draft Budget Book shown in table 6.

Table 6 - Changes in Social Care Prices due to NLW/NMW Announcement

	Original Draft	Latest Proposals	Change

Adult Social Care	£5.155m	£6.846m	+ £1.691m
Disabled Children's Services	£0.253m	£0.327m	+£0.074m
Specialist Children's Services	£1.895m	£2.022m	+£0.127m
Unallocated	£3.675m	£4.463m	+£0.788m
Total			+£2.680m

5.10 We have also included some other minor changes to spending pressures under £200k. In total the changes to pressures have increased by £2.880m compared to the black-combed draft. The additional funding within the settlement is £1.304m (table 3), council tax base is £2.262m, and collection fund is £2.030m. This increases the net funding from £1,054.3m in the draft Budget Book (black-combed) to £1,059.9m i.e. £5.6m. This increase is sufficient to fund the £2.880m increased spending, resolve the £1.933m gap in the published draft and reduce the savings by £0.781m as a reduced draw-down from reserves as a temporary solution to fund spending pressures until suitable alternatives can be found. These changes will be reflected in the republished draft (white-combed) presented to County Council for approval.

5.12 The updated budget equation from table 1 taking account of the funding and spending changes outlined in this report and resolving the budget gap is shown in table 7.

Table 7 Updated Budget Equation

Revenue Budget Equation	2020-21 Original £m	2020-21 Latest £m
Spending Demands (including replacing one-offs)	104.2	107.1
Government Grant Increases	34.8	36.1
Council tax & Business Rates	33.2	37.5
Savings, Income and Reserves	34.3	33.5
Total Solution	102.3	107.1
Gap (to be resolved)	1.9	-

6. Capital Programme

6.1 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.

6.2 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 spending each year over a very long period. We are reviewing the best approach to assessing affordability. This affordability would also apply to invest to save schemes which need to have a reasonable payback.

6.3 Section 1 of the draft Budget Book sets out the proposed 2020-21 programme and associated financing requirements. The summary provides a high-level overview for the whole council. The individual directorate pages in section 2 provides more detail of rolling programmes and individual projects. As part of simplifying the presentation we no longer include the funding for individual schemes in section 2.

7. Financial Resilience

7.1 An increasingly important aspect of the annual budget process is to assess the financial resilience of the Council's finances. Traditionally we have assessed this by comparing the levels of debt and reserves against other county councils, and an assessment of the council's reserves against risks. This analysis has been included as an appendix in the draft Budget Book.

7.2 We have previously accepted that although the Council's reserves to debt ratio is around the lower quartile this is not a cause for immediate action, but we should not be complacent and need to keep vigilant to ensure the position does not deteriorate. This vigilance relates to both current and future capital and revenue budget strategies and plans. This includes stretching planning horizons (we have already looked to stretch capital horizons to 10 years).

7.3 The assessment of reserves has previously concluded that although the Council's reserves are lower than average, we have sufficient to cover foreseeable risks (earmarked reserves) and a reasonable general reserve for unforeseeable risks.

7.4 Nationally there has been a much greater emphasis on financial resilience following the heightened risk of financial failure. CIPFA has produced a financial resilience tool which should be used in conjunction with it's Financial Management Code. CIPFA has concluded that around 10% of councils are showing "some signs of potential risk to their financial sustainability", KCC is not in this group. The tool is based on 9 financial measures (with 6 sub-measures) and 2 judgements. The tool derived from 2018-19 outturn information was made available on 10th December 2019, this was too late to allow time for evaluation for the usual appendix in the draft Budget Book, so we decided to defer publication of this appendix rather than publish an incomplete analysis. We can now publish this analysis as appendix 1 to this report, this will be included as an appendix to the republished (white-combed) draft budget.

7.5 Our overall assessment using the tool is that it has not revealed anything that we were not already aware of. Our analysis of reserves to debt ratio is as robust as the CIPFA tool and provides a better visual representation of the overall effect of revenue and capital decisions and resilience. Our position is still around the lower quartile and we need to remain vigilant, particularly with regard to accumulated debt and associated financing costs.

8. Medium Term Outlook

8.1 Although we cannot publish a meaningful medium-term financial plan because we have no settlement beyond 2020-21 (meaning there are a wide range of potential settlement scenarios) we have undertaken sensitivity analysis around spending trends and possible funding solutions.

8.2 Under most scenarios council tax base growth and increases in council tax in line with current referendum principles are not sufficient to keep pace with forecast rising costs from increased prices and increased demand/complexity. Without fundamental changes to council tax it is not enough to ensure the self sufficiency of budgets and we will need to find other sources of funding in order to secure medium term financial sustainability.

8.3 Under all scenarios additional business rate retention is unlikely to provide sufficient to supplement financial sustainability. The government has made it a condition that additional retention would have to be fiscally neutral, and therefore individual authorities would only benefit from any extra local growth (and face the risk of decline). Most of the local growth arises from the annual inflationary uplift which is already reflected in the local government funding arrangements through the baseline (and tariffs and top-ups). Whilst the local business rate tax base in Kent is reasonably buoyant (and sufficiently diverse to withstand shocks and business rate movements), the vast majority of local growth is retained by districts. Even if the tier splits are reviewed, we have not identified any scenario where the additional retained growth is sufficient to supplement council tax to an extent both fully cover forecast rising costs.

8.4 We remain optimistic that the Fair Funding Review could deliver additional funding to County Councils through a better recognition of cost drivers (including legacy capital financing), area costs (including impact of accessibility and remoteness), and relative resources based on notional council tax rather than actual. However, due to transitional damping under nearly all scenarios the Fair Funding reforms would not provide sufficient additional funding in conjunction with council tax to ensure financial sustainability within the next 3-5 years.

8.5 We have looked at a number of scenarios around reform of social care funding. The current approach with additional grant and council tax precept is only a sticking plaster and not sufficient to fully cover forecast costs. Social care would continue to require a significant contribution from general council tax base and increases to be anywhere near sustainable. Under most scenarios this leaves insufficient council tax to support the sustainability of non-social care services leaving us in the situation we have faced in recent years.

8.6 A combination of council tax reform, additional business rate retention/reform, and favourable outcomes from Fair Funding Review and reform to social care funding would go a long way to securing financial sustainability in around half the scenarios i.e. a combination has a reasonable chance of addressing financial sustainability but not guaranteed.

8.7 Under all scenarios financial sustainability is weakened if we continue to include one-off solutions to the current and forthcoming budgets. Approx. £21m (20%) of the pressures on the 2020-21 budget are to replace one-off solutions to the 2019-20 budget to support ongoing expenditure. Within the 2020-21 proposed budget we have between £11m to £18.7m of one-off solutions which would need to be replaced in 2021-22 depending upon the pace of identifying alternative sustainable solutions.

8.8 Under all scenarios financial sustainability is weakened if we continue to fund additional capital expenditure with borrowing i.e. the revenue impact is greater than the debt being repaid under current maturity profile. This means we would either need to significantly curtail capital spending, lobby for alternative funding sources or continue to accept the additional borrowing costs on the revenue budget and factor these into the sustainability calculation (requiring further alternative revenue solution either from increased funding or alternative savings). The restoration of legacy capital financing within the Fair Funding review only addresses funding for historical debt and not increasing debt to support new capital expenditure.

8.9 In conclusion it is most likely that we will need to continue to have to find savings from efficiencies, transformation and policy changes and/or additional income generation to reduce spending to levels to keep within forecast funding for the foreseeable future. Under most scenarios these savings are less than we have had to find in the past few years although a return to a flat cash settlement would come with the need to find substantial savings.

8.10 The financial sustainability of High Needs funding has been separately assessed. The current levels of additional funding from government within the Dedicated Schools Grant (DSG) and permitted transfer from the Schools block of DSG are not sufficient to keep pace with rising costs and demands in most scenarios. The current high needs funding is unsustainable and will require a combination of additional resource (both to repay accumulated deficits and address future cost trends), systematic reform of the current legislative arrangements, and local reform to provision and practice. High needs funding is unlikely to become sustainable without a realistic combination of all three aspects.

9. Finalising the Budget

9.1 It is possible that there will be some further changes before the budget and council tax is presented to County Council for approval on 13th February 2020. Any such changes would be reflected in the redrafted Budget Book (white-combed) for approval. This offers scope to deal with any late issues which may arise, including recommendations from Cabinet Committees.

9.2 There are an increased number of spending pressures and savings which need to be held unallocated at the time the budget is approved. This could be because the final distribution has not yet been resolved e.g. the pay and reward pot pending decisions on the 2019-20 assessment ratings and rewards at the different achievement ratings. It is also necessary to hold some forecast spending pressures unallocated until such time as the actual impact is known. There are some proposals e.g. provision for new Five-Year plan priorities, which cannot be determined until consultation has been completed and evaluated and the priorities agreed. The unallocated amounts have either been held centrally under financing items (page 40 line 120) or unallocated within directorates (page 23 line 2, page 28 line 43, page 33 line 77). The County Council report will need to set out clearly the governance procedures for the approval and reporting of in-year allocations of these amounts as they constitute material changes to the approved budget.

10. Recommendations

Recommendations:

a) Cabinet is asked to consider any proposed amendments from Cabinet Committees.

b) Cabinet is asked to endorse the draft budget taking into account the changes outlined in this report (to be reflected in the republished white-combed draft for County Council approval).

c) Cabinet is asked note that final decision on council tax precept will be presented at the County Council meeting on 13th February 2020.

11. Background Documents

11.1 KCC's Budget webpage
https://www.kent.gov.uk/about-the-council/finance-and-budget

11.2 KCC's approved 2019-20 Budget and Medium Term Financial Plan
https://www.kent.gov.uk/__data/assets/pdf_file/0006/93390/Budget-Book-2019-20.pdf

11.3 KCC Budget Consultation launched 16th October 2019
https://kccconsultations.inconsult.uk/gf2.ti/f/1073826/57416805.1/PDF/-/2020_21_Budget_Consultation__FINAL.pdf

11.4 KCC report on 2019 Budget Consultation
https://kccconsultations.inconsult.uk/gf2.ti/f/1073826/61281381.1/PDF/-/Budget_Campaign_Consultation_2020_21_final_report_v.final.pdf

11.5 Provisional Local Government Finance Settlement 20th December 2019
https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2020-to-2021

11.6 KCC Draft Budget Book 6th January 2020
https://www.kent.gov.uk/__data/assets/pdf_file/0006/103758/Budget-Book-2020-21.pdf

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