

# Kent County Council submission to 2021 Spending Review

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This submission to the 2021 Spending Review is on behalf of Kent County Council. Kent County Council welcomes the opportunity to provide evidence for the forthcoming Spending Review (SR2021).

In this submission we will be providing evidence of how the last multi-year Spending Review (covering 2016-17 to 2019-20) and the one-year settlements for 2020-21 and 2021-22 have impacted on the council and its services. We will also provide evidence of potential spending demands in the coming years.

We welcome the Government's recently announced plans to reform the social care system although we have concerns that the quantum of funding will be insufficient to meet the stated ambitions impacting on the Council's ability to maintain social care and other vital council services to the current level.

We welcomed and embraced the previous Fair Funding Review via the review of cost drivers for relative needs funding formula, to recognise the additional costs of delivering services across areas with sparsely populated geographies and to better reflect the ability to raise resources locally. Whilst we fully understand the reasons why this review has been delayed, we urge the Government not to abandoned it and to reintroduce it in due course. It is imperative that these proposals deliver the change they promised to address the current risk to the ability to deliver statutory services.

The past few years have seen local government deal with huge levels of uncertainty – single year settlements, late announcements, deferral of funding reforms and of course the pandemic. We therefore welcome the announcement of a multi-year Spending Review for 2022-23 to 2024-25 and hope that this will translate into an adequately resourced three-year local government finance settlement, delivered rapidly after the Spending Review announcement on 27<sup>th</sup> October. An adequately funded local government finance settlement is key if the Government's ambitions for economic recovery and the levelling up agenda are to be realised.

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Available resources have not kept pace with spending demands over the previous multi-year spending review 2016-19 and subsequent one-off settlements in 2020-21 and 2021-22

The previous revenue settlements have provided £183.6m additional funding. This has comprised £221.1m additional council tax income (from a combination of annual above inflationary increases in the household charge and increases in the net tax base). Business rate retention has added £2m. These increases have been offset by a net reduction in general un-ringfenced grants from central government of £40.5m (excluding Covid-19 grants). Over this period spending demands on business as usual activities have increased by £507.7m. In order to balance the budget the Council has made £324.1m of savings and increased income from other sources.

Capital spending over the same period amounts to £1,592.4m. Of this £940m has been funded by departmental capital grants, £324m has come from additional borrowing and £328.4m from other sources (e.g capital receipts, developer contributions, etc.)

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KCC has received one-off grants amounting to £359.2m between 2019-20 and 2021-22 to date in response to the Covid-19 pandemic

The one-off grants have included un-ringfenced emergency grant of £127.3m; compensation for tax and income losses of £57m; grants to support infection control, rapid testing and hospital transfers into social care of £73.3m, grants to support public health activities of £76.2m (in addition to the annual public health grant), and £25.4m in other grants to support local residents and suppliers of council services.

Our latest forecasts show that to date these grants in total have been sufficient to cover the additional spending and income losses associated with responding to and recovering from the pandemic. There are however significant on-going costs arising from the pandemic that need to be reflected in the Spending Review.

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Capital requirements merely to cover statutory obligations likely to exceed existing grant allocations

Forecasts for capital investment over the next 10 years require significant additional borrowing based on current levels of departmental capital grant. This would add to existing legacy debt of over £1bn requiring a large revenue commitment to finance additional debt.

Existing external debt of £0.9bn is already a long term commitment with 85% not scheduled to mature over the next 10 years. A significant proportion of this debt was taken out under the previous supported borrowing regime where revenue costs were fully funded. This funding has steadily been withdrawn through reforms to the grant mechanisms and reductions in Revenue Support Grant. The cost of interest and setting aside sufficient provision to repay debt over the lifetime of the assets requires the Council to plan for £100m of annual revenue costs. The penalties for repaying debt early are greater than the savings available from restructuring debt.

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The deficit on the schools high needs budget is forecast to be around £100m by the end of the current year

Between 2018-19 and 2021-22 the number of children in receipt of specialist education placements for high needs has increased by 43%. The highest growth has been in independent schools (62%) and mainstream settings including special units (65%). The increased numbers have been mirrored by increased spend which has risen by £84m (40%) over the four years.

The Council has consistently contended that a solution has to be found through a combination of appropriate funding through the high needs block of DSG in the short and medium-term, systematic reform to the current legislative obligations for special needs, as well as local reform to special needs provision and practice.

Revenue spending forecast to continue to grow due to a combination of demographic population demands, inflation, market sustainability issues and introduction of social care reforms

The demand and cost for a wide range of council services are subject to increases in demand from population changes due to both a rising and aging population. This includes adult social care, children’s services, public transport, waste recycling and disposal.

Over two thirds of the Council’s revenue spending is for services commissioned from the private sector under procured contracts. These contracts include either index linked inflationary clauses or are subject to negotiation to reflect supplier costs pressures.

Local councils have a statutory responsibility to ensure a sustainable social care market. Social care authorities have received additional funding and given the ability to raise finance from council tax to address social care costs and demands in previous spending reviews. However, this funding has been inadequate and piecemeal and needs to be put on a sustainable long term footing if councils are to be able to discharge their responsibilities to ensure an adequate social care market and support providers to avoid financial collapse. This is particularly crucial at this time, given the critical role councils and the care market play to support the NHS.

Additional £5.4bn over next 3 years for Social Care reforms

The recently announced plans for reforms to social care will have a significant impact on social care spending. This includes supporting clients whose contributions to their own care exceed the cap, self-funders accessing care through local authority contracts (which through levelling fees is likely to increase the fees for councils), and resources for the assessment of needs and financial circumstances for self-funding clients. We are concerned that no costings have been published to support the £5.4bn. Whilst there will be consultation on the distribution, we are concerned that the overall total may not sufficiently cover the shortfall in funding for councils for ASC that already existed prior to the pandemic and these latest reforms which will further add to our revenue budget pressures.

The overall quantum for local government spending (both revenue and capital) needs to reflect forecast demands and costs

Previous settlements have left a significant real terms reduction in funding for council services. This has left a legacy of year on year savings to be found in order to comply with the requirement to set balanced budgets. Whilst councils have received additional support through the Covid-19 pandemic the long term scarring effects are still yet to be fully assessed, especial in adult social care and children’s services.

<p>Council tax increases are not sustainable to resolve budget deficits.</p>	<p>The vast majority of growth in previous settlements (excluding Covid-19 one-off funding) has relied on council tax increases. This has led to an increasing proportion of total council funding being delivered through council tax since at least 2015-16. Historically council tax charges have grown at different rates in different areas, we have suggested this is due to deficiencies in the redistribution of previous formula grants. This has led to unjustifiable differences in the individual household charges between different areas and the recent reliance on increasing the share of council tax funding for local government as whole within the referendum arrangements have effectively acted as floor on increases and allows no scope to address these differentials in the charge in different areas. The burden on local taxpayers is inequitable and unsustainable.</p>
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<p>Reform of business rates and council tax</p>	<p>The Council believes that there is a strong case for reforms to both business rates retention and council tax. There are aspects of both these principal forms of taxation to fund local authority services which are out of date and lead to unfair burdens on local taxpayers and local businesses.</p>
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<p>Reforms to local authority funding</p>	<p>We have fully supported the proposed reforms to business rate retention and the redistribution of resources through Fair Funding review. We understand and support why the reforms have been put on temporary hold. However, the original rationale prompting these reforms still remains and they need to be implemented as originally planned.</p>
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<p>Financial Resilience</p>	<p>We have been supportive of the need to better understand the financial resilience of local authorities. We remain concerned that the weaknesses of a relatively small number of authorities reflect badly on the sector as a whole and divert attention from the much larger number of authorities that have taken a more measured approach. In particular those authorities that have take significant risks through commercial investments should not be regarded as representative for the sector as a whole</p>
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The Council plays a key strategic role in promoting economic development and recovery across the local area

The County Council is well placed to be able to take a holistic strategic overview of the performance of the local economy, providing support guidance and assistance to promote the economic wellbeing of the local area. This function can only be performed at the county level in shire areas. We have a number of examples of highly successful initiatives which have regenerated local areas bringing in new businesses and re-invigorating run down communities and facilities. It is essential that we have adequate resources to continue these initiatives across the wider local area to support the recovery following the recession caused by Covid-19 lockdown.

If the overall quantum in the Spending Review is not sufficient to cover the pressures on demand led services such as social care our ability to help deliver the economic recovery and devote further resources to economic development and the Government’s levelling up agenda will be severely constrained.

The Council needs to continue to promote a vibrant sense of place across the county and maintain services that benefit all residents and businesses

The council’s services play a vital positive role in the lives and well-being of all residents and is not just a provider or commissioner of services for vulnerable residents. This includes the need to promote safe, clean and vibrant local communities. As with economic development this area of activity could be critically constrained if the overall quantum of resources in the Spending Review is not sufficient.

In order to ensure the issues we have highlighted in our submission are fully understood, we have provided what we consider to be relevant context about the county. These considerations are not adequately reflected in the current funding arrangements.

<p>Kent is the largest county area serving a population of nearly 1.6m residents with around 64,000 businesses located in the county</p>	<p>The population of the county has grown at a faster rate over the last 20 years (20%) than the national average for England (14.9%) and the South East average (15.4%).</p> <p>Population growth creates additional demand for Council services. The changes to local government funding over the last 11 years mean that many of the government grants that previously supported population growth are either no longer available or are distributed via mechanisms that do not adequately take into account different rates of population growth in different areas. This means that the only funding sources available to support population growth are the council tax and business rate tax base.</p>
<p>Largest population growth has been within elderly cohorts</p>	<p>Kent, in common with many other authorities, has seen the largest increase in its elderly population over this same period with 41.1% growth in elderly population (aged 65 to 84) and 49.6% growth in very elderly (aged 85). This growth in the elderly population is also higher than the national average growth 32.5% (aged 65 to 84) and 48.1% (aged 85). The growth in the elderly population puts significant additional demands on social care, transport and community services budgets. Whilst the additional grants for social care in recent years have been welcome we remain concerned that this funding has been allocated according to an outdated and flawed mechanism using the relative needs formula (RNF) which does not adequately reflect spending needs and we have no certainty of funding in subsequent years.</p>
<p>Additional costs of delivering services in a peninsular geography</p>	<p>Around <math>\frac{3}{4}</math> of the county's border is coastline. We have previously given evidence about the additional challenge this presents in providing services to local residents and limited scope to share services across borders with neighbouring authorities. These comments are still valid and should be a consideration in any funding settlement.</p>
<p>Gateway to Europe</p>	<p>We have also previously made representations about the issues the county faces associated with being the gateway to Europe. The challenges of this geographical position have recently been highlighted by the asylum situation.</p>
<p>Being on the borders to London adds to the Council's costs and demand for services</p>	<p>In common with other counties in the south east being on the border of London presents particular challenges. Not only do we have to compete with the higher salaries available in the capital (this affects both staff recruitment and contract procurement) but we also have to deal with an influx of residents, particularly those requiring social care services, into the county which is often not adequately reflected in funding arrangements. We have repeatedly raised the consequences for both adult and children's social care without appropriate resolution.</p>

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Diverse socio/economic composition which is not apparent when comparing the average	The socio/economic mix of the county is very diverse, including some of the wealthiest areas in the country as well as some of the most deprived. Put together the county's demographic make-up is much closer to the national average than the south east average although any average disguises the areas within the county in greater need. Generally (although not exclusively) the western half of the county is more affluent and London is easily commutable. The eastern half is less affluent and has suffered from a decline in traditional coastal resorts and loss of industry. An illustration of the east/west divide can be seen in life expectancy levels which in Thanet in the east are in the lower quartile nationally, whilst in Tunbridge Wells in the west life expectancy is in the upper decile
The Kent economy is a net contributor to national economic wealth through Gross Value added (GVA)	The vast majority of economic activity in the county is through small to medium sized enterprises with only a small number of large companies. This has the advantage that the business rate tax base is not at risk from the closure of individual businesses to the same extent as other areas and is more resilient to shocks. However, the message from businesses is that they see less direct benefit to them than the amount they contribute through local business taxes. We have previously raised concerns about the disconnect between local business taxes and spending needs of local authorities which often move in inverse proportion e.g. the areas with the greatest business rate growth often have the lowest pressure on local authority spending demands and vice versa. This has been clearly demonstrated during the Covid-19 pandemic where business rates yields have fallen but spending pressures on local authorities have increased necessitating significant government support. The model of local business taxes to fund local services is fundamentally flawed.

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The Council has been developing a 10 year capital programme strategy. Longer term capital planning enables the Council to better plan the phasing for projects and to have a better understanding of the long-term implications of borrowing costs. The aim is to ensure that the Council has a realistic and affordable programme.

The existing programme and debt includes:

Latest forecast planned spending of £1,112.5m over 3 years 2021-22 to 2023-24	Planned spending includes £416.0m in 2021-22, £357.9m in 2022-23 and £338.6m in 2023-24. The programme is largely funding additional school places and improvements, highways asset management, and maintenance of the council's estate.
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The existing programme is funded from:

- Notified and estimated departmental grants of £529.1m
- Developer contributions and external funding £175.7m
- Borrowing £262.8m
- Other internal resources (receipts, renewal, etc) £144.9m

Legacy capital debt is in excess of £1bn	Legacy debt includes £853.7m of external debt at the start of the current year from a combination of Public Works Loans Board (PWLB), commercial loans from banks, and Lender Option Borrower Option (LOBO) loans. The legacy debt also includes £211.4m of internal borrowing as it has been Council policy to borrow from long term reserves where possible to reduce interest costs.
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Legacy debt includes loans taken out to fund school buildings that have subsequently been transferred to academy trusts.

The vast majority of the external debt is maturity debt at fixed interest rates. The penalties for repaying debts early are significant and would more than offset any interest savings.

The revenue cost for financing debt (Minimum Revenue Provision to cover estimated lifetime of assets and interest) is over £100m. This equates to 13% of the council tax precept (£182 for typical band D household)

A significant proportion of legacy debt was taken out under previous supported borrowing regime	The Council has a relatively high level of legacy debt to finance previous public infrastructure projects. 85% of this debt is long term and not scheduled to mature over the next 10 years.
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A substantial proportion was taken out under the previous supported borrowing regime where revenue costs were fully funded. This funding has steadily been withdrawn through reforms to the grant mechanisms and reductions in Revenue Support Grant.

The penalties for repaying debt early are greater than the savings available from restructuring debt

The 10 year strategy identifies the need the following challenges:

Between £1.2bn to £2.3bn potential additional investment	<p>The minimum range assumes no progress to address current backlogs. The maximum range assumes backlogs are reduced to zero over the next 10 years. Backlogs include highways asset management and sufficiency of school places. Addressing backlogs on the maintenance of council buildings has not been included pending the refresh of the Council's property portfolio.</p> <p>Assuming departmental grant allocations remain at current levels this investment would require additional borrowing of between £865m to £1,900m over the 10 year period. This would add between £58m to £128m to existing costs for financing capital debt (excluding reductions from 15% maturity of existing debt). This equates to 8.4% to 18.6% increase in a household's council tax charge</p>
Highways asset management requires spending of between £65m to £163m per annum	<p>The lower figure is consistent with current spending but would see the backlog increasing. Current spending includes £34m funded from borrowing and includes the £9m cut in DfT capital grant for 2021-22.</p> <p>Just to maintain the backlog at the current level would require an additional £35m spending per annum (which with no additional DfT grant would have to be funded from borrowing).</p> <p>Eliminating the backlog over 10 years would require an increase in annual spending to £163m compared to £65m spending in the current year.</p>
Schools Basic Need funding is estimated to be £90m less than the amount needed to ensure sufficient places over the next 3 years	<p>The shortfall in Basic Need is the Council's greatest capital challenge. In particular the Council has a significant shortfall in places for secondary and special schools. The demand for secondary school places is due to known bulges in pupil numbers working through the system. 79 of the county's 101 secondary schools are academies. This presents a particular challenge for the council to fund expansion of places in academies through borrowing which adds to council debt without a matching asset.</p>
Significant other capital programme risks	<p>There are a number of other significant risks to the affordability of our capital programme due to our size and scale. These include:</p> <ul style="list-style-type: none"> <li>• Delays to receipts from developer contributions leading to the need for additional short term borrowing</li> <li>• Exceptionally high building inflation due to materials and labour shortages</li> <li>• Delays to building projects due to materials and labour shortages</li> </ul>

**Conclusion**

The Council remains extremely concerned that the departmental capital spending totals are inadequate to provide sufficient resources for highways and schools. If this is not addressed the Council is at risk of assets continuing to deteriorate and/or the Council being unable to meet its statutory obligations. The only viable alternative is to commit to further borrowing increasing the Council's already high levels of legacy debt and would require funding from council tax increases each year over the next 10 years (assuming general increases are limited to 2% funding increased debt could take up half to nearly all of permitted increases over this period leaving very little for other service pressures including social care).

It is also essential that departmental capital spending includes sufficient funding for infrastructure improvements to deliver the Government's levelling up agenda as the council will not be in a position to incur additional borrowing (with the associated additional revenue financing costs) to contribute to this critical agenda.

The Council's view is that the revenue grant to fund the costs of supported borrowing must be reinstated at the earliest opportunity and failing that councils with outstanding supported borrowing are given more cost effective options to refinance this legacy debt.

In this section we will mainly focus on the inadequacy of funding in the High Needs block of the Dedicated Schools Grant (DSG). Whilst we accept that addressing deficits in individual grants (or in this case an individual block within a grant) is not one of the objectives of the Spending Review we feel this issue is so significant and high risk, and has not been adequately addressed for far too long, meaning it requires an urgent long-term solution.

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Overall balance on DSG of £4.4m at the start of 2021-22	The overall level of schools' individual reserves at the beginning of 2021-22 was £55.5m surplus. However, the central reserve on the schools block showed a deficit of £51.1m. Within this deficit there was a surplus on unallocated Dedicated Schools Grant of £11m (this unallocated DSG is used to fund pupil growth and other issues related schools delegated budgets) and a £62m deficit on high needs.
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Latest forecast is for an in-year deficit of £37.3m on high needs block	The High Needs Block (HNB) is intended to support the educational attainment of children and young people with special educational needs and disabilities (SEND) and pupils attending alternative education provision. The HNB primarily funds payments to maintained schools and academies (both mainstream and special), independent schools, further education colleges, specialist independent providers and pupil referral units.
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The net deficit on the high needs block was £62m as at 31<sup>st</sup> March 2021 and is estimated to increase to circa £100m by 31<sup>st</sup> March 2022. The overspend on the high needs block has been growing significantly over the recent years and is the most significant financial risk to the council. The in-year deficit is due to a combination of both higher demand for additional SEN support and higher cost per child resulting from greater requests for more specialist provision, which has resulted in the council now placing greater numbers of children in both special and independent schools.

To provide some context the average cost of an independent setting in 2021-22 is £43,478. The average cost in maintained special schools is £21,531 and the average in mainstream schools is £10,265

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Transfers from Schools block to High Needs block	In the last few years the Council has sought agreement to a transfer of up to 1% from the Schools block to the High Needs block through the Schools Funding Forum and Secretary of State. This transfer has enabled the Council to work with schools to improve inclusion in mainstream settings but on its own is not enough to meet the significant increase in demand for special needs placements.
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This transfer has amounted to £41.8m over the last 5 years which has been at the expense of schools budgets and without this the deficit would have been higher.

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**Conclusion**

A statutory override has been implemented by the Ministry of Housing, Communities & Local Government (MHCLG) during 2020-21, and in line with the Department for Education (DfE) advice that local authorities are not expected to repay deficits on the DSG from the General Fund (and can only do so with Secretary of State approval, the central DSG). The forecast deficit of £101m will be held in a separate unusable reserve from the main council reserves. This statutory override is expected to be in place until April 2023 whilst Councils implement recovery plans. However, given there is no indication of when the outcome of the long awaited SEND review and subsequent Green Paper will be forthcoming, we are very concerned that the financial situation for councils on High Needs will be even worse by the time the statutory override ends.

Whilst the Council continues to work with the Schools Funding Forum to set out the challenge and agree a plan to address the deficit, it is vital that the DfE provide appropriate support in reaching a suitable conclusion. In the Council's opinion a solution has to be found through a combination of appropriate funding through the high needs block of DSG in both the short and medium-term, systematic reform to the current legislative requirements for special needs, and local reform to special needs provision and practice. This combination offers the only viable solution.

In this section we will identify the challenges on the revenue budget and in particular the challenge of rising demands and costs for key council services, and the need for these to be adequately recognised in spending plans.

Set out below is the impact on the Council's revenue budget for additional spending requirements, funding, and savings & income to resolve budget gaps over the last six years. This covers the period of the last multi-year spending review 2016-17 to 2019-20, and the one-year settlements for 2020-21 and 2021-22.

Additional spending £507.7m 2016-17 to 2021-22	This includes all the additional spending for business as usual activities (i.e. excluding the one-off spending from Covid-19 emergency grant and Covid-19 specific grants). These spending pressures include the impact of inflation and National Living Wage increases on contractual prices for commissioned services, increased demand for services due to population demographics (mainly but not exclusively for social care services), and the revenue impact of financing borrowing to support the capital programme.
Additional funding £183.6m 2016-17 to 2021-22	This includes £222.1m additional funding raised through council tax from increases in the tax base due to changes in number of households, discounts and exemptions, and collection rates as well as annual increases in the council tax charge through referendum limits and the adult social care precept. It also includes £2m from retained business rates growth and net £40.5m reduction in central government un-ringfenced grants (excluding Covid-19 grants) over the period. The impact on council tax over the period is explored in more depth in a later section of this submission.
Savings and income £324.1m 2016-17 to 2021-22	Savings have largely been delivered through efficiency (£99.6m) and transformation programmes (£60.9m). The Council has also delivered £99.5m through financing savings, largely from short term use of reserves to provide time in advance of delivering other savings. Use of reserves in place of baseline budget savings is not a sustainable medium or long-term solution and not an approach the council uses.

The evidence over the last six years is clear that the settlement for local government has fallen well short of the amount needed to maintain services in real terms. Over this period there has been an overwhelming reliance on council tax increases to fund spending demands both through the general precept and adult social care precept. Council tax increases to fund such a deficit model are unsustainable, and it will become increasingly difficult to justify council tax increases that do not lead to service improvements.

The recently launched health and social care plan identified that demographic and unit cost pressures in social care will need to be met from council tax (including social care precept) and long-term efficiencies within core spending identified in the Spending Review. It is therefore essential that the Spending Review adequately reflects the cost drivers affecting adult social care spending. The Council is concerned that any assumptions made in the Spending Review about further efficiencies in social care will be completely unrealistic.

The Council has delivered transformation programmes in social care over a number of years and is continually looking to improve services in order to deliver better value for money. The Council is currently consulting on the latest developments under the banner of “Making a Difference Everyday”. In the current year we are already experiencing higher demand and costs for adult social care services particularly for:

### Older People

We are facing demographic pressures on services for both older people and working age adults in the current year. Whilst we are still analysing all the underlying causes on older persons we are starting to see an increase in the numbers being admitted into long term residential and nursing care albeit not yet back to the levels pre Covid-19 pandemic. In addition, the cost of placements is increasing significantly, and new admissions are costing far more than both existing clients still in care and for those who unfortunately passed away. We are still assessing all of the factors that are leading to this higher cost of care packages, but these can be summarised as follows:

- Market Forces - such as home closures and the need to find alternative placements within short timescales, the market increasing their fees due to lower occupancy levels, lack of availability of placements
- Complexity of Needs – people coming into care with higher levels of needs possibly due to a reluctance for family members to approach social care and potentially the NHS during the pandemic, meaning it is too late for some of the preventative measures that would have ordinarily been considered. Also, there is some evidence of people with long covid now requiring residential care, who may also have other long-term conditions.
- Hospital Discharge Process – because many people who were discharged from hospital during Covid were transferred to either NHS funded beds or in some cases social care short term beds, and remained there for far longer than would have ordinarily been the case, in some instances they have had to remain in the same homes for continuity purposes for their wellbeing which are at higher costs.

Although during the pandemic we saw the numbers of people having homecare packages increase as we saw residential and nursing numbers fall, we are not seeing the compensating reduction in homecare now that numbers going into residential settings have started to increase.

### Working Age Adults

Most of the pressure for adults with physical disabilities is due to increased referrals for Supporting Independence Services. We are undertaking further analysis to understand the reasons why post pandemic we are seeing a shift to these services.

Some of the most significant demographic and cost pressures are on those services supporting adults with learning disabilities. The cost of residential services accounts for nearly half of the overall increase on spending on learning disabilities. Although the overall numbers in this sector are fairly stable, those new clients being admitted are costing significantly more than those leaving. Those clients placed with Supported Living/Supporting Independence are also showing a significant pressure.

There has been a small increase in client numbers but most of the pressures are due to increases in high-cost packages, where the hours of support being provided are increasing, particularly for younger age adults. We are also analysing the long term impact on those clients where day care services were suspended during the pandemic.

### Mental Health

This service has seen a growth in client numbers during the pandemic. In September 2020 there were 433 clients receiving the Supporting Independence service, the number is now 579. As well as an increase in numbers the levels of support are also increasing.

We are extremely concerned that these trends for higher demand and cost of care packages cannot be adequately funded from council tax and efficiencies.

As well as additional costs arising from demand, we are also likely to be facing above inflationary costs pressures as well. We negotiate care prices with providers on an annual cycle. At this stage it is too early to identify the impact of the Covid-19 pandemic on the sustainability of the social care market but we are concerned that the pandemic will only increase underlying issues which indicated that the market was already under severe financial pressure following many years of austerity. Recent discussions with representatives from the sector have identified cost concerns due to rising inflation, energy price rises, staffing issues and shortages, and increased insurance costs and exclusions. These are additional to cost increases due to the impact of rolling out increases for the National Living Wage and increased employer National Insurance contributions.

We are estimating that these cost pressures together with the long-term impact of Covid-19 pandemic could lead to providers seeking significantly above inflationary increases in fees which would not be sustainable to be funded from council tax increases. It is essential that the Spending Review takes account of above general inflationary increases in core social care costs as well the cost of increases due to the social care reforms.

There are a number of factors in the social care reforms which are likely to add to the existing demand and cost pressures in social care. The plan to allow self-funders to access care at the same personal cost as local authority supported clients is likely to lead to increased costs for existing and new local authority clients and needs to be funded as part of the £5.4bn package for social care over 2022-23 to 2024-25.

As well as increased care costs for local authority clients, the proposals will require a significant injection of additional resources to help manage the high workload of supporting self funders. Even if technology was exploited to the maximum, we will need to prepare for, and to undertake needs assessment and financial assessments of thousands of extra people. It is also likely that there may be an increase in the number of deferred payment requests the Council receives.

In time the cap on personal contributions will lead to an increase in the number of clients where the council has to meet personal care costs.

We are relieved to see confirmation that the Government intends to compensate public sector employers for the increased cost of the employer's national insurance contributions. However, it is unclear whether this will extend to compensating external social care providers (and other providers of local authority commissioned services) for their increased costs through increased charges, or whether these employers will be expected to absorb the additional costs.

The plan also outlines further improvements to be made – including supporting unpaid carers and investing in housing to help people to live independently at home. Again, there are no accompanying cost assumptions shared and no breakdown of the funding being set aside for these additional activities.

The Government have already said that further information will be provided on the allocations of the funding for social care; however, creating a funding formula which captures the interaction of the care cap, equalisation of fees between local authority funded clients and self funders, the new capital limits, impact of inflationary uplifts in Minimum Income Guarantee (MIG) and Personal Expenses Allowance (PEA) on means tested income contributions, and care provider markets is going to be highly complex. We consider the risk of creating allocations which do not adequately reflect need is extremely high.

### Children's Services

Whilst we have focussed on the particular issues around High Needs there are a number of other pressures in Children's Services which need to be recognised in the Spending Review

Over the course of the pandemic children's education has been significantly disrupted, not only through the initial school closures but the ongoing disruption caused by bubble management and self-isolation requirements since schools have returned. KCC has already committed to a Reconnect Programme over the next two years to connect children to people and activities they missed or lost in lockdown. This programme has identified that a deterioration in children's mental health, learning and resilience have been the major consequences of lockdowns. Recovery is not just about lost learning, some children have lost important parts of their childhood. Whilst the additional investment the government has made to date in education recovery is welcome, we are concerned that this is nowhere near enough and that education recovery can only one element of a broader recovery plan for children.

Since the Covid-19 lockdowns we have witnessed an increase in the more complex children's safeguarding work. We are concerned we are becoming aware of risks to children later and when they have become more serious. This is sometimes because universal services were temporarily suspended during the pandemic (or in some cases have still not been reinstated). Examples include more cases of serious neglect and harm to very young children under 2, and an increase in more serious cases of youth crime and adolescent knife crime.

We have already seen a real terms reduction of 35% in funding for council's preventative early help services over the last 10 years, and these are the very services which in the past would have prevented the more serious cases escalating into more expensive services to tackle the problems. Around £25m of the council's £38m spend on preventative services is funded from various government departmental grants and thus are dependent on adequate departmental settlement in the Spending Review. Without these grants the entire infrastructure of preventative services would collapse as this magnitude of spending could not be replaced through council tax.

Frontline social workers also play a key role in children's services and staff resources have come under increasing strain over the last 18 months. Levels of stress within the workforce are reaching critical point and need to be addressed. As with preventative services social work needs to be funded via a combination of government grants and council tax. Whilst we have received additional social care support grant in recent settlements (to support both adult and children's social care) these need to be embedded withing the funding settlement and continue to recognise the demands being experienced in children's services.

Kent's unique geographical location means the council continues to be under pressure to support unaccompanied asylum seeking both whilst in care and as care leavers. This is a national issue and needs to continue to be adequately funded so as not to put additional burden on council tax payers in Kent.

In addition to adult social care and children's services there are a number of other local authority services that will be facing additional cost pressures due to unit costs and demographic demand. The most significant examples include impact of increased demand for high needs placements on special needs transport budget, increases in waste volumes following the economic recovery, etc. The recovery of council tax base is unlikely to generate sufficient income to fully fund these cost pressures which would therefore also require council tax increases or further savings if the overall quantum for local government in the spending review is not sufficient.

Legislative changes also place additional burdens on local authority spending which have not always been adequately funded. A typical example is the apprenticeship levy which has added costs to council payroll but has proven difficult to access to support apprenticeships and is not fit for purpose and has been a financial burden without delivering the anticipated benefit.

We are exceedingly concerned that the planned spending totals for 2022-23 to 2024-25 as published in the launch to the spending review will leave very little if any growth for local government within the departmental resource totals after allowing for existing commitments for health, social care reform and schools leaving councils exposed to either raising council tax or finding significant balancing savings.

**Conclusion**

The Council is exceedingly concerned that the departmental resource spending totals will prove inadequate to recognise the cost and demand pressures on council services (particularly but not solely social care services) and the issue (as set out above in the Submission) of adequate funding for the social care reforms. Increasing council tax and requiring savings appear to be the only options to close the gap between additional spending and funding.

It is imperative that the overall quantum of resources to fund revenue services is adequate to fund forecast cost and demand pressures including the lasting impacts of the Covid-19 pandemic and social care reforms. If this is not addressed as part of the Spending Review the Council will need to consider significant service reductions which will go a lot further than previous efficiency savings and could impact on the Council's ability to meet statutory responsibilities and severely limit our ability to deliver the economic recovery as well as playing a key role in achieving the Government's levelling-up agenda.

Over the last 6 years the local government finance settlement has included an expectation that council tax is the main source of funding to support additional spending pressures. This has resulted in the council having to make annual increases in the household charge of between 4% to 5%. There are many issues with council tax and further increases to fund deficits between spending demands and core settlement are unsustainable and an unfair burden on local council taxpayers.

Details of the council's share of council tax increases over the last 6 years are as follows:

General precept for a band D household has increased from £1,089.99 to £1,259.64 between 2015-16 and 2021-22	In each year the council has agreed to increased council tax up to but not exceeding the 2%/3% referendum limit in line with the Government's expectations. This has resulted in a 15.6% increase in the general precept over the period. This is higher than the increase in inflation (CPIH) over a comparable period (March 2015 to March 2021) of 10.1%. In total increases to the general level of council tax have resulted in £91.5m additional income over the 6 year period
Adult social precept has been levied each year and is £159.12 in 2021-22	The adult social care precept was introduced in 2016. Each year KCC has agreed to raise the maximum 2%/3% amount in line with the Government's expectations. This together with the increase in the general precept has increased the KCC total share of band D council tax by a total of 30.2% over the 6 years. In total increases in adult social care precept have resulted in £87.3m additional income over the 6 year period
Net band D equivalent tax base has increased by 9% over the 6 years between 2015-16 to 2021-22	The net tax base is the number of properties (expressed as the number of weighted band D equivalent properties) and adjusted for exemptions, discounts and premiums, other minor adjustments (e.g. estimated new builds) and estimate collection rate. The most significant discounts are the 25% single persons discount and the Council Tax Reduction Scheme for low income households. Changes to the tax base have delivered £43.2m additional income over the 6 year period
	However, for the first time in 2021-22 we witnessed a 1% reduction in the tax base due to higher number of claims for council tax reduction discounts and lower collection rates. At this stage we do not yet know the scale or pace of recovery for these losses.

Over the past six years increases in the council tax household charge has delivered over 80% of the overall additional income from council tax. Changes in the net taxbase have delivered less than 20% of the increase in council tax income. This suggests that increases in the tax base are very unlikely on their own to be sufficient to fund increases in demand on council services due to population demographics.

During the Covid-19 pandemic Kent collection authorities (district and borough councils) reported some of the largest reductions in council tax base in county areas (overall 1.04% reduction for Kent) due to increased Local Council Tax Reduction Scheme (LCTRS) discounts following reductions in household income and reduction in collection rates. The reductions for LCTRS have been compensated both for the impact on in year collection losses and reduced tax base for 2021-22. The reduction due lower collection rates have not been compensated. We are working closely with Kent districts to monitor the scale and pace of reductions in LCTRS discounts and improvements in collection rates as this recovery will be a key aspect of the council's budget strategy over the forthcoming spending review period. To date both LCTRS discounts and collection losses are still higher than pre-pandemic levels.

We have previously provided evidence that since council tax was introduced in 1993 the increases in the household charge have been greater in shire areas, and charges in Inner London authorities have been significantly lower than elsewhere across the country. Much of this divergence in charges happened many years ago before the more recent policies of council tax freezes and referendum limits were introduced. The scale of these differentials cannot be explained by different policy choices and delivery in efficiency savings and indicate a more fundamental flaw with the distribution of grant funding that has led to some councils being more reliant on council tax than others. As with the high needs grant distribution we acknowledge this is not necessarily a Spending Review issue but it remains sufficiently material to warrant repeating and is part of the case that prompted the Fair Funding review.

During the County Council debate on the 2021-22 budget the Council passed a motion that the Leader of the Council should write to the Secretary of State seeking more fundamental reforms to council tax. In this letter the Council set out the case that the regressive nature of council tax means the burden of payment falls disproportionately on those households with limited incomes. Consequently, increases in council tax, together with the Social Care precept, present a significant financial challenge for those least able to pay even after mitigations from Local Council Tax Reduction Schemes (LCTRS). The Council has put in place additional measures in 2021-22 to help those in receipt of LCTRS discounts to offset the increase in the household charge for 2021-22 with an additional £50 discount as well as supplementing the district and borough councils' hardship relief schemes for those low income households that do not qualify for LCTRS discounts.

In the letter we repeated the case that council tax differentials between individual councils are unjustifiable and require reform, and that council tax is a regressive tax with an outdated tax base which also requires reform. We have also consistently challenged the council tax referendum principles which while well intentioned as a curb on excessive council tax increases, are undemocratic and have tended to be applied as a minimum permitted increase rather than as originally intended as a limit beyond which councils would require a specific mandate.

We believe this case for reforms to council tax remain relevant, particularly as it seems that increases in the household council tax charge (whilst unsustainable) continue to be viewed by Government as the main mechanism to fund the increased costs of providing local authority services.

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## Conclusion

The Council is concerned that council tax will continue to be viewed by the Government as the main mechanism to increase local authority funding in response to increased cost and demand pressures. We consider this approach to be unsustainable and unfair. There is also ample evidence that more fundamental reforms to council tax arrangements are urgently required to address long standing inequities and inefficiencies inherent in the current system.

The Council has consistently questioned the appropriateness of funding local services through retained business rates (primarily due to its complexity and the absence of any link between funding and need). These concerns remain, however, increasing retention does offer a way in which the quantum of local government funding can be increased quickly during the current spending review period ahead of fundamental reforms.

We have also consistently questioned the split of retained business rates in two tier areas between upper tier and lower tier authorities and whether this adequately reflects each tier's contribution to promoting growth or the impact of business growth on respective spending associated with business growth.

One methodology to increase the quantum of local government funding would be to increase 50% Business Rates Retention (BRR) to 75% BRR, but without imposing commensurate cuts to grant funding or devolving additional responsibilities to local authorities. If this approach is pursued it would be vital that such increased local revenue be suitably redistributed according to evidenced need. We remain disappointed that the additional retention pilot which was trailed in Kent in 2018-19 has not been repeated.

We have previously welcomed the review of business rates retention arrangements to achieve the right balance between risks and rewards. Whilst we fully understand why this review has had to be delayed we would hope that any additional retention would include the outcomes from this review to accompany any additional retention.