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

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Directorates – abbreviations in this report	
ASCH - Adult Social Care and Health	CYPE - Children, Young People and Education
GET - Growth, Environment & Transport	CED - Chief Executive's Department
DCED – Deputy Chief Executive's Department	NAC - Non-Attributable Costs
	CHB – Corporately Held Budgets

1.1 This report sets out the administration's final draft revenue budget 2024-25, three-year medium term financial plan (MTFP) 2024-27 and ten-year capital programme 2024-34. The report focuses on the changes since from the updated draft published on 3rd January 2024 (which itself was an update on the initial draft published on 1st November 2023). The revenue changes include the additional Social Care Grant in the final Local Government Finance Settlement (LGFS) for 2024-25, the final Council Tax base and collection fund estimates from districts, Personnel Committee recommendations on Kent pay scheme for 2024-25, and any other material policy issues arising since the January draft as well minor technical changes that need to be reflected in the final budget. Capital changes relate to rephasing (including removing completed scheme) and revised funding of schemes. The changes to revenue and capital have been kept to a minimum. The report and appendices provide the essential information for County Council approval on 19th February 2024.

1.2 The administration's final draft revenue budget and MTFP set out planned spending on day-to-day services based on variations in spending from the approved budget for 2023-24. The variations include known and forecast impacts for both spending growth and reductions from savings, future cost increase avoidance and income. The variations show the impact on net spending. A separate appendix (appendix F) shows gross spending, income and net spend on individual key service lines. This appendix can only be produced for the final draft for approval, although a dashboard was available with previous drafts to provide more information on individual spending growth and savings/income proposals. An updated version of the dashboard is circulated as background document to this report. Further developments will be made to the dashboard as part of preparing for the 2025-26 budget cycle.

1.3 The administration's final draft 2024-25 revenue budget includes £194.4m of core funded spending growth. This is £9.9m more than the updated draft published in January. The increase is largely due to full year effect of latest forecasts costs/activity from current year and new transformation/sustainability actions, funded from the additional Social Care Grant included in the final LGFS. The revised spending also includes the amount necessary to fund the Personnel Committee recommendations on Kent Pay scheme after taking account of cost reductions from staff turnover.

1.4 Funding from Council Tax and grants in the final LGFS is £1,423.6m, £7.9m more than the updated draft in January. This is mainly due to the additional £12.8m in Social Care Grant and £5.0m reduction final taxbase & collection fund balances. The final retained business rates have not been received from all authorities in time for the final draft and will need to be incorporated into final budget through Cabinet approval under delegated powers. The additional Social Care Grant is reflected in increased spending and reduction in Council Tax funding is reflected in changes in reserves. The funding gap of £86.5m[1] is resolved through savings, income and future cost increase avoidance (which have increased to £88.9m from the updated draft) and net £2.4m changes in contributions to and drawdowns from reserves.

[1] Spending Growth of £194.4m less increase in core funding of £108.0m

1.5 A reconciliation of the main movements in revenue spending plans is set out in section 7 of this report. As with earlier drafts the revenue spending growth largely derives from forecasts for increased costs/demands in adult social care, home to school transport and children's services for a variety of reasons including inflationary contract price uplifts, cost/demand increases unrelated to inflation (including changes in age demographics, increased client needs/complexity, market factors and placement patterns), and full year effect of current year variances.

1.6 The final draft revenue budget and MTFP continue to be based on the latest estimates from the actions in Securing Kent's Future, which recognises that changing the spending patterns on adult social care, children in care and home to school transport in a sustainable way will take time. The final draft is unchanged for these estimates as it has been produced within weeks of the updated January draft and inevitably focuses on necessary changes for full Council approval. The final draft budget continues to include reductions in future cost increases in adult social care and home to school transport. For transparency and on-going monitoring, the spending growth is shown as a gross amount in the cost forecasts before any mitigating action, and the reductions in planned spending from these actions are shown as savings. Even with these actions, the net spending in these three key service areas is still forecast to grow faster than the funding available in the 2024-25 settlement and future government spending plans, and further work will be needed over the coming months to set out the detail how spending on these services will be reduced over the medium term.

1.7 The administration's final draft revenue budget includes £19.8m of one-off solutions from use of capital receipts to fund qualifying expenditure, use of reserves and the final year of New Homes Bonus Grant. The final draft includes an appendix (appendix Q) setting out the flexible use of capital receipts strategy including the spending proposed to be funded from capital receipts. This expenditure must result in ongoing savings or income (anticipated amounts set out in the strategy) and should only relate to initial set-up and implementation costs of new processes and arrangements and not the ongoing cost of these processes and arrangements. The package of one-off solutions in 2024-25 will need to be replaced with equivalent, ongoing savings in 2025-26 and 2026-27. The details of these savings are still under development and will need to be consulted on as required. Wherever possible, they will need to be agreed during the first half of 2024-25 for implementation in 2025-26. The full financial effect of some actions may not impact until 2026-27, where there is a part-year effect in 2025-26. What is required for Council approval of the 2024-25 budget is confirmation of the principle that any recurring costs funded from one-off sources in 2024-25 will be replaced through ongoing savings and income in subsequent years.

1.8 The amount of one-off actions and use of reserves, particularly in the first year, is significant and will reduce the Council's financial resilience to absorb any future financial shocks, with the need to make recurring savings and cost reductions in the following two years as these one-off measures are not a sustainable solution to increased recurring costs.

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

1.10 The final draft capital programme for 2024-25 to 2033-34 has increased to £1,665m (from £1,646m in the January draft). The change is largely due to grant funded projects and grant funding has increased from £992m to £1,011m. Borrowing is unchanged at £376m, and there are minor changes in funding from receipt and revenue contributions. The core principles of rolling forward the previous programme, avoiding any additional borrowing over and above that already identified in the existing programme and reducing wherever possible the need to borrow in the existing programme still apply. The flexible use of capital receipts to fund from asset sale proceeds to fund revenue costs in 2024-25 reduces the level of receipts available to fund future capital expenditure. The final budget for full Council approval includes appendices on investment strategy, capital strategy and annual Minimum Revenue Provision (MRP) statement.

1.11 The January draft included the updated Treasury Management Strategy for 2024-25. This is unchanged in the final draft and is included for full Council approval.

1.12 As well as the impacts of current year overspends and future forecast costs and demand, inflation is still forecast to remain at historically high levels during 2023-24 and into 2024-25. Inflation impacts on the costs of goods and services in revenue budgets and costs of labour, fees and materials on capital projects. The impact of inflation built into the draft budget is based on the November 2023 forecasts from the Office of Budget Responsibility (OBR). The November 2023 OBR commentary was that Consumer Price Index (CPI) inflation peaked at 10.7% in quarter 4 2022 but was not forecast to fall below 2% target until quarter 2 2025. The rate of inflation in November 2023 was 3.9% (a reduction from 4.6% in October and 6.7% in September), December 2023 saw a slight rise to 4.0%.

1.13 The administration's final draft budget includes a 4.992% proposed increase in Council Tax. This would increase the County Council share of the bill for a typical band D household by £1.47 per week (£76.59 per year). Council Tax is the Council's most significant source of income to fund essential services, and whilst the administration seeks to keep increases to a minimum, the proposed increase is in line with the government's Council Tax referendum principles for 2024-25. The tax base (the number of dwellings liable for Council Tax after discounts, exemptions and assumed collection rates) has increased by 1.64% on the base for 2023-24. The Council Tax precept is based on a combination of the Council Tax band D charge and the band D equivalent tax base for 2024-25.

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

2.1 The background and context are largely unchanged from the initial draft budget published on 1st November 2023 but are set out again in full in this final draft as the setting of the budget is a decision reserved for full Council. The Council's Budget and Policy Framework requires that a draft budget is issued for consultation with the Cabinet and Scrutiny Committees to allow for their comments to be considered before the final budget proposals are made to full Council. Feedback from Scrutiny Committees was considered by Cabinet on 25th January and there are no material changes other than further clarification of some individual proposals included in the administration's final draft budget. There are changes following the final settlement, final Council Tax and collection fund notifications, Personnel Committee recommendations on Kent pay scheme, and potential expiration of inter authority agreement since the January draft was published.

2.2 The overall strategy for the budget is to ensure that the Council continues to plan for revenue and capital budgets which are affordable, reflect the Council's strategic priorities, allow the Council to fulfil its statutory responsibilities and continue to maintain and improve the Council's financial resilience. This is consistent with the objectives set out in Securing Kent's Future – Budget Recovery Strategy. However, these aims are not always an easy combination and involves some difficult decisions about service levels and provision both for the forthcoming year and over the medium term. In reaching this balance it is essential that the Council has regard to bearing down on spending growth (future price inflation, non-inflation related cost increases and demand increases), delivering efficiency/transformation savings, generating income to fund services, and agreeing changes in policies to reduce current recurring spending and/or avoid future spending while making the necessary investments to support service improvement. In this context it is worth clarifying that savings relate to reducing current recurring spend, whereas bearing down on future growth is cost avoidance, both amount to the same end outcome of reducing future spending from what it would otherwise have needed to be without action and intervention. The final draft budget should be assessed against these aims recognising that there are still gaps to close.

2.3 The Council is under a legal duty to set a balanced and sustainable budget and maintain adequate reserves such that it can deliver its statutory responsibilities and priorities. A MTFP covering the entirety of the resources available to the Council is considered to be the best way that resource prioritisation and allocation decisions can be considered and agreed in a way that provides a stable and considered approach to service delivery and takes into account relevant risks and uncertainty. However, it must also be acknowledged that the Government's Autumn Budget 2023 statement only included very high level public spending plans and no individual department plans beyond 2024-25, and the LGFS only covered 2024-25 with no indicative allocations for subsequent years. This means that although the funding for 2024-25 is now confirmed, the forecasts for later years are speculative, consequently planning has to be sufficiently flexible to respond accordingly. Even so, it is clear that 2024-25 and the medium term to 2026-27 are likely to continue to be exceptionally challenging and will require significant spending reductions. Even though overall net cash is increasing, this is not sufficient to keep pace with forecast spending demands. This will be a difficult message to convey.

2.4 As the Council develops its detailed proposals it must continue to keep under review those key financial assumptions which underpin the Council's MTFP, particularly in the context of wider public spending and geo-economic factors. Over the previous decade the Council had to become ever more dependent on locally raised sources of income through Council Tax and retained business rates, and it is only in recent years that additional central government funding has been made available to local authorities, primarily to address spending pressures in social care (albeit at a time when the national public sector deficit has been increasing). However, there is no certainty that this additional central government funding will be baselined/continued for future years.

2.5 In accordance with the Council's Financial Regulations, a medium term capital programme and financing plan is prepared on an annual basis. Where capital estimates are included, funding must be secured and approved prior to any expenditure being incurred.

2.6 Setting the annual budget is one of the most significant decisions the County Council takes each year. It sets the County Council's share of Council Tax and the overall resource framework in which the Council operates. The administration's budget is the financial expression of the Council's strategic priorities. The budget gives delegated authority to manage the budget to Corporate Directors and Directors within the parameters set out in the Council's Constitution and Financial Regulations. Corporate Directors and Directors are accountable for spending decisions within delegated powers reporting to the Chief Executive, and these are monitored through the Council's budget monitoring arrangements reported to every Cabinet meeting. The final draft budget has been developed, scrutinised and ultimately approved in compliance with the following six key considerations:

A) Strategic Priorities – Strategic Statement

2.7 The County Council approved a new strategic statement "Framing Kent's Future (FKF)" on 26th May 2022. The statement sets out the challenges and opportunities Kent is faced with and the actions the Council will prioritise to address them over the next four years, focussing on four key priorities. The 2023-24 budget recognised that the significant shift in the financial and operating landscape since FKF's approval meant that policy and service decisions had to be taken to balance the budget which could run counter to some of the priorities and ambitions set out in Framing Kent's Future.

2.8 Securing Kent's Future (SKF) has explored these shifts in more depth and acknowledges that given the significance of adults and children's social care within the Council's budget, and that spending growth pressures on the Council's budget overwhelming (but not exclusively) come from social care, that the priority of delivering New Models of Care and Support within FKF must take precedence over the other priorities. This creates an expectation that council services across all directorates must prioritise delivering the new models of care and support objective as a collective enterprise.

2.9 This does not mean that the other objectives of Levelling Up Kent, Infrastructure for Communities, and Environmental Step Change are not still important and all work on these must stop. However, the scope of these other three objectives will have to be scaled back in terms of additional investment and funding, and management time and capacity that can reasonably be given to them.

B) Best Value

2.10 SKF has recognised that the Council must prioritise its Best Value statutory responsibility. The expansion of the legislative framework in which councils operate in has extended statutory duties without the necessary additional financial resources through increased government funding or income generating/local tax raising powers to cover all the additional costs. The government has recently issued revised statutory Best Value guidance (subject to consultation) reminding local authorities of the requirement to secure continuous improvement having regard to economy, efficiency and effectiveness. The revised guidance goes on to explicitly state that this covers delivering a balanced budget, providing statutory services, including adult social care and children's services, and securing value for money in all spending decisions.

2.11 The implication is clear. Those councils that cannot balance competing statutory duties, set a balanced budget, deliver statutory services, and secure value for money are not meeting their legal obligations under the Local Government Act 1999. Consequently, the statutory Best Value duty must frame all financial, service and policy decisions and the Council must pro-actively evidence best value considerations, including budget preparation and approval. The final draft budget is balanced in line with the enhanced Best Value requirements, and we will look to continue to develop Best Value assessments of individual elements within the budget (and in subsequent budgets).

C) Requirement to set a balanced budget

2.12 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, 2024-25. Whilst there is no legal requirement to set a balanced MTFP, this is considered good practice with an expectation that the financial strategy is based on a balanced plan in the medium term (albeit the resource equation beyond 2024-25 is still highly uncertain).

2.13 Setting the Council's revenue and capital budgets for the forthcoming year has been incredibly challenging, due to the economic circumstances and forecast levels of growth pressures on council services. This has made managing within the current year budgets significantly more volatile, due to unpredictable cost of providing council services from inflation, market conditions, placement decisions, delivering statutory responsibilities and ultimately client and resident expectations. Demand is also unpredictable although currently this is less volatile in terms of client numbers in most services. This volatility has knock-on consequences for our ability to forecast future spending requirements and income levels.

2.14 The LGFS for 2024-25 provided some additional certainty and increase in the resources available to the local government sector as a whole (and social care in particular) in the final settlement. Nonetheless, the additional funding in the final settlement still means that the combination of Council Tax referendum levels and grant increases is still significantly less than forecast spending increases.

2.15 The Council has a statutory duty to set a balanced budget. However, what is meant by 'balanced' is not defined in law and relies on the professional judgement of the Chief Financial Officer to ensure that the budget is robust and sustainable. A prudent definition of a balanced budget would be a financial plan based on sound assumptions which shows how planned spending and income equals the available funding for the forthcoming year. Plans can take into account deliverable cost savings and/or local income growth strategies as well as the use of reserves. The government has confirmed that the Statutory Override for the Dedicated Schools Grant deficits is extended for a further 3 years from 2023-24 to 2025-26. However, despite this extension under the Safety Valve programme the Council will have to start to make provision for a contribution in the 2024-25 budget and subsequent years for the duration of the agreement towards the accumulated DSG deficit.

2.16 While there is no legal definition of a balanced budget, legislation does provide a description to illustrate when a budget is considered not to balance:

- where the increased uncertainty leads to budget overspends of a level which reduce reserves to unacceptably low levels, or
- where an authority demonstrates the characteristics of an insolvent organisation, such as an inability to pay creditors.

2.17 The administration's final draft budget 2024-25 reflects significantly increased financial risks, compared to previous years. These have only been partially mitigated by the additional funding for social care in the final LGFS. These risks arise from a combination of the magnitude of overspends in the current year (including under delivery of savings plans), unsustainable levels of growth and the need to avoid/reduce these, the magnitude of savings/income required for 2024-25, and external factors including geo economic circumstances and the impact of a recent high court order that the Council must take all possible steps to care for all Unaccompanied Asylum Seeking (UAS) children arriving in the county under the Children's Act 1989, unless and until they are transferred to other local authorities under the National Transfer Scheme (NTS). The risks from the judgment not only arise from the cost of securing additional care provision for UAS children should government departments not fully compensate the Council but also knock-on consequences on the availability and cost of care for other children already in Kent. At the time of drafting this report, we are close to reaching agreement with government departments on both capital and revenue funding which would increase the capacity to care for UAS children in appropriately registered and regulated provision which would substantively reduce the risks, although there are still financial and operational risks in both the short and medium terms should arrivals exceed the increased capacity or transfers through NTS are delayed or don't happen at all.

2.18 The increased overall risks means there will need to be:

- a very robust approach to negotiating and agreeing prices for a range of council services to stay within the inflation allocations in the draft budget;
- an enhanced emphasis on controlling the drivers of non-inflation related cost increases;
- a more rigorous approach to managing, monitoring and reporting on demand for council services; and
- greater oversight, monitoring and reporting of savings delivery to reduce the risk of further calls on reserves.

2.19 The level of savings required in 2024-25 and over the medium term continues to be higher than in recent years driven largely by growth in spending rather than cuts in funding, representing a new and very specific challenge.

2.20 To avoid the risk of an unbalanced budget the Council has to be financially resilient. Good financial management is fundamental in establishing confidence in the budget and ensuring that the finances can withstand unexpected shocks. The Council undertook a review of each Directorate's financial management arrangements, following the Council wide financial management review undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Council is also developing Outcomes Based Budgeting which will see a more integrated approach to budget and service planning over the MTFP period focussing on priority outcomes and value for money.

2.21 Setting a clear medium term financial plan (MTFP) also strengthens the Council's financial resilience by identifying financial issues early and options for potential solutions.

D) Budget Consultation

2.22 The Council launched a consultation on the 2024-25 budget on 13th July 2023. The consultation was open until 6th September 2023 and can still be viewed via the https://letstalk.kent.gov.uk/budget-consultation-2024-25 or the Council's website.

2.23 2,620 responses were received which is higher than the 2,161 responses to last year's budget consultation. Responses were received from Kent residents, KCC staff and local businesses. 49.8% of respondents found out about the consultation via Facebook advertising, 19.4% via a KCC e-mail and/or website.

2.24 A supporting document set out the background to the consultation including key facts about Kent, KCC's strategic priorities, the financial challenges the Council has had to address in recent years, the 2022-23 budget outturn, and the 2023-24 budget. The document included information on the Council Tax referendum principles together with the assumed levels for 2024-25 and impact on Council Tax bills. The document sets out the financial outlook for the forthcoming year and the difficult decisions that will be needed to balance significant forecast spending increases with the forecast resources from Council Tax and central government settlement.

2.25 The supporting document focuses on the six main spending areas which account for over 80% of revenue spending (excluding non-attributable costs):

- Care, support and preventative services for vulnerable adults (32%)
- Care, support and preventative services for vulnerable and disabled children (17%)
- Care, support and preventative services for older persons (15%)
- Public transport including home to school transport (8%)
- Waste recycling and disposal (7%)
- Highways management and maintenance (4%)

2.26 The consultation sought views on both the general Council Tax and the adult social care levy, and whether increases up to the referendum level are supported, increases should be less than referendum level, or any increase is opposed. The consultation sought views on spending priorities within the big six areas, and whether current spending is too little, too much or about right. The consultation sought views on if spending has to be reduced in one of the big six areas which should it be. The consultation also sought views on ideas for savings.

2.27 A separate detailed report setting out the responses received is included as a background document to this report and previous draft budgets.

E) Equalities Considerations

2.28 The Equality Act 2010 requires the Council, in the exercise of its functions to have due regard to eliminate unlawful discrimination, harassment and victimisation, advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.

2.29 To help meet its duty under the Equality Act the Council undertakes equality impact assessments to analyse a proposed change to assess whether it has a disproportionate impact on persons who share a protected characteristic. As part of our budget setting process an equality impact assessment screening will be completed for each savings proposal to determine which proposals will require a full equality impact analysis (with mitigating actions set out against any equality risks) prior to a decision to implement being made.

2.30 The amounts for some savings can only be confirmed following consultation and completion of an equalities impact assessment. Consequently, amounts are only planned at the time the budget is approved and can change. Any changes will be reported through the in-year budget monitoring reports which will include separate and specific consideration of delivery of savings plans.

F) Treasury Management Strategy

2.31 The Treasury Management Strategy Statement is included as an appendix to the report for approval by full Council, in accordance with the CIPFA Treasury Management Code of Practice. The Statement sets out the proposed strategy with regard to borrowing, the investment of cash balances and the associated monitoring arrangements.

2.32 The prudential indicators set out in the Treasury Management Strategy and Capital Strategy are based on the first three years of the 10 year Capital Programme.

3.1 The final LGFS for 2024-25 was published on 5th February 2024. In an unusual step the final settlement included some changes from the provisional LGFS published on 18th December 2023. These changes provided an additional £600m in total increasing the overall settlement from 6.5% increase in Core Spending Power (CSP) to 7.5%. The additional funding was largely distributed as £500m through Social Care Grant, Rural Services Grant, Services Grant, Internal Drainage Boards and increasing the minimum guarantee from 3% to 4%.

3.2 The final settlement shows an increase in CSP for the Council of £99.2m (7.7%). The largest single element of the increase in CSP is still coming through Council Tax (3.5% in the CSP increase) nationally and (4.2% in the CSP increase) for the Council. The CSP assumes every authority increases Council Tax up to maximum allowed including general and social care elements and is based on DLUHC's autumn tax base information. The Council's 2024-25 budget and Council Tax precept is based on the Council Tax increase proposed to be agreed by full Council, and Council Tax base estimates for 2024-25 provided by district and borough councils as required for the precept notification.

3.3 The Social Care Grants account for next largest element of the final settlement (2.3% in the CSP increase) nationally and (2.8% in the CSP increase) for the Council. The additional Social Care Grant in the final settlement for the Council amounts to £12.8m (1.0% in the increase in CSP). This has been reflected through increases in the final draft budget for adult social care and children's social care on a 50/50 basis reflecting the emphasis on children's services in the minister's letter dated 24th January 2024. The Social Care Grants for 2024-25 are based on several different announcements as set out in table 3.1 below for the Council, and for England. Each grant is allocated by a slightly different methodology.

Table 3.1 – Social Care Grants

	Social Care Grant £'m	MSIF* £'m	Discharge Fund £'m	Total £'m
KCC				
Base 2023-24	88.8	14.4	7.0	110.2
**ABS 2022/LGFS 2023-24	14.4	7.3	4.7	26.4
Workforce Fund – Summer 2023		5.3		5.3
From Services Grant in PLGFS 24-25	1.0			1.0
Final LGFS 2024-25	12.8			12.8
Total Settlement 2024-25	**117.0**	**27.0**	**11.7**	**155.7**
England				
Base 2023-24	3,852	562	300	4,714
ABS 2022/LGFS 2023-24	532	283	200	1,015
Workforce Fund – Summer 2023		205		205
From Services Grant in PLGFS 24-25	80			80
Final LGFS 2024-25	500			500
Total Settlement 2024-25	**5,044**	**1,050**	**500**	**6,594**

**MSIF in above table is Market Sustainability and Improvement Fund*
*** ABS in above table is Autumn Budget Statement*

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

3.5 The other elements of the core spending power include settlement funding assessment (SFA) – comprising revenue support grant and business rate baseline, and compensation grant for business rates indexation and reliefs. These have to be considered in conjunction and account for (2.1% in the CSP increase) in the final settlement nationally and (1.2% in the CSP increase) for the Council. Other elements of the settlement include Services Grant (still significantly (82%) reduced), one final year of New Homes Bonus Grant, Rural Services Grant and 4% funding guarantee.

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

3.7 A summary of the change in core spending power between the restated 2023-24 position and the final 2024-25 position is set out in table 3.2 below:

Table 3.2 – Core Spending Power

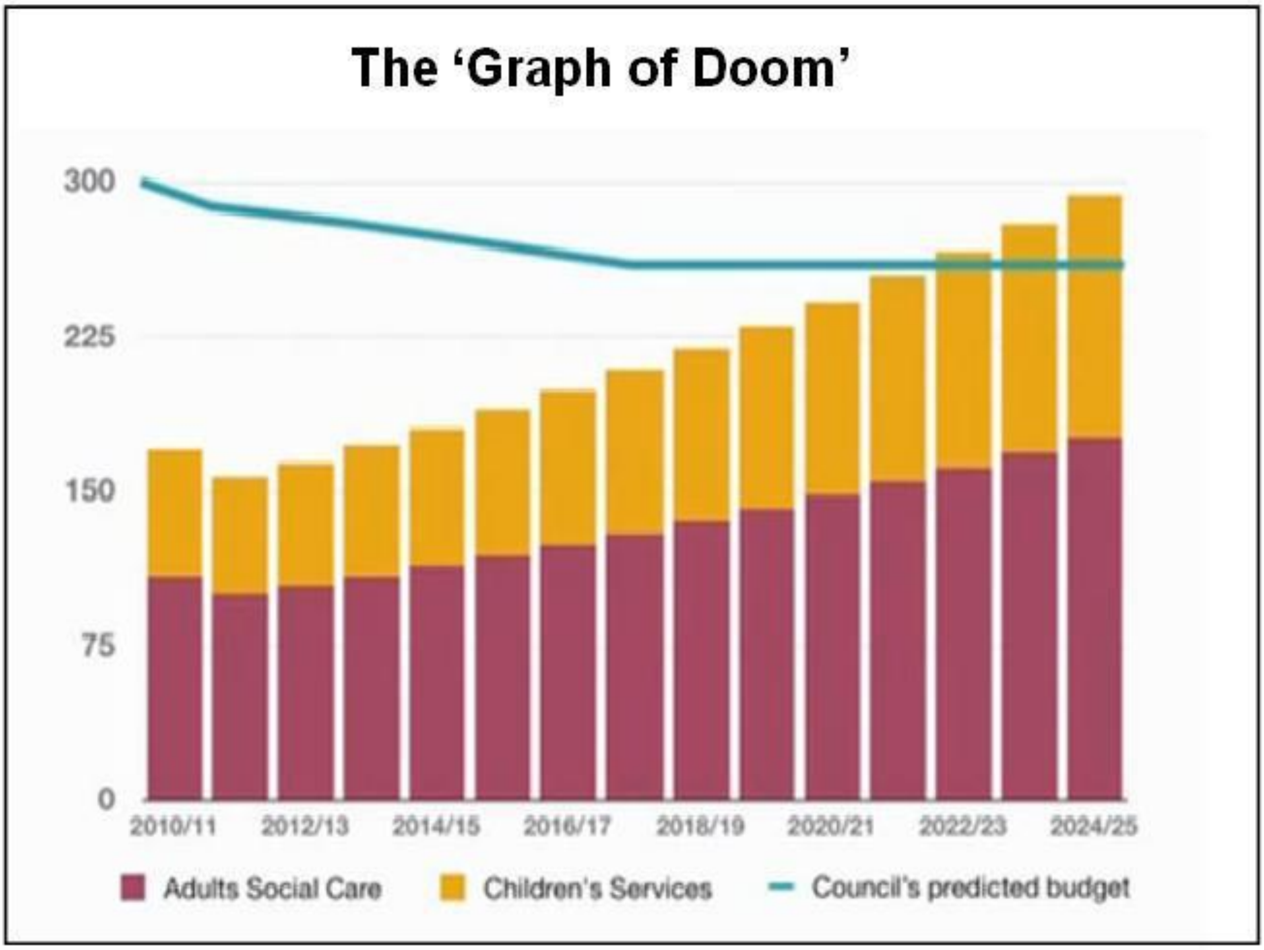
	KCC			England		
	2024-25 £'m	2023-24 £'m	Change £'m	2024-25 £'m	2023-24 £'m	Change £'m
Council Tax	931.0	876.8	54.3	36,070.8	33,984.3	2,086.5
Settlement Funding Assessment	215.8	206.0	9.8	16,562.7	15,671.1	891.5
Business Rate Compensation	38.8	33.2	5.6	2,581.3	2,204.6	376.7
Social Care Grant	117.0	88.8	28.2	5,044.0	3,852.0	1,192.0
MSIF/Hospital Discharge	38.7	21.4	17.2	1,550.0	862.0	688.0
iBCF	50.0	50.0	0.0	2,139.8	2,139.8	0.0
Services Grant	1.3	7.6	-6.3	87.4	483.3	-395.9
New Homes Bonus	2.1	2.3	-0.2	290.8	291.3	-0.5
Rural Services	0.0	0.0	0.0	110.0	95.0	15.0
Funding Guarantee	0.0	0.0	0.0	268.6	133.3	135.3
Rolled in Grants (MSIF)	0.0	9.4	-9.4	0.0	480.0	-480.0
Totals	**1,394.7**	**1,295.5**	**99.2**	**64,705.3**	**60,196.7**	**4,508.6**
Year on Year % increase			7.7%			7.5%

3.8 The Public Health grant for 2024-25 was also confirmed on 5th February 2024. The grant allocation amount for the Council is £75,734.8k, which is an increase of £728.2k on the indicative 2024-25 grant allocation reflected in the draft budget, and £1,703.7k (+2.3%) higher than the 2023-24 grant allocation. The service is currently reviewing how to allocate this additional funding across Public Health services, and this will be fully reflected via a technical adjustment prior to the start of the 2024-25 financial year.

Historical Social Care Spending

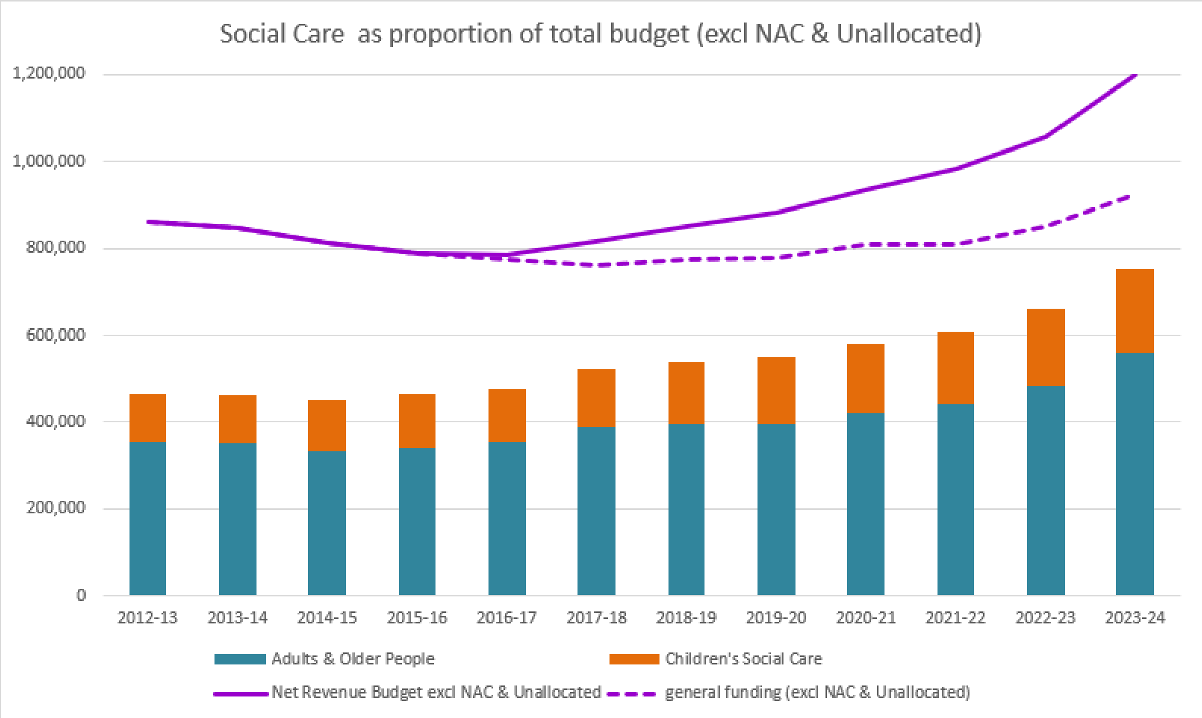
4.1 In the early years of austerity the Barnet “graph of doom” received a lot of attention, partly due to its evident simplicity. The graph showed a prediction of how dramatic the impact would be if spending and adult and children’s social care was rising at the same time overall budget of the Council was reducing. The graph is repeated as chart 4.1.

Chart 4.1 – Barnet Graph of Doom



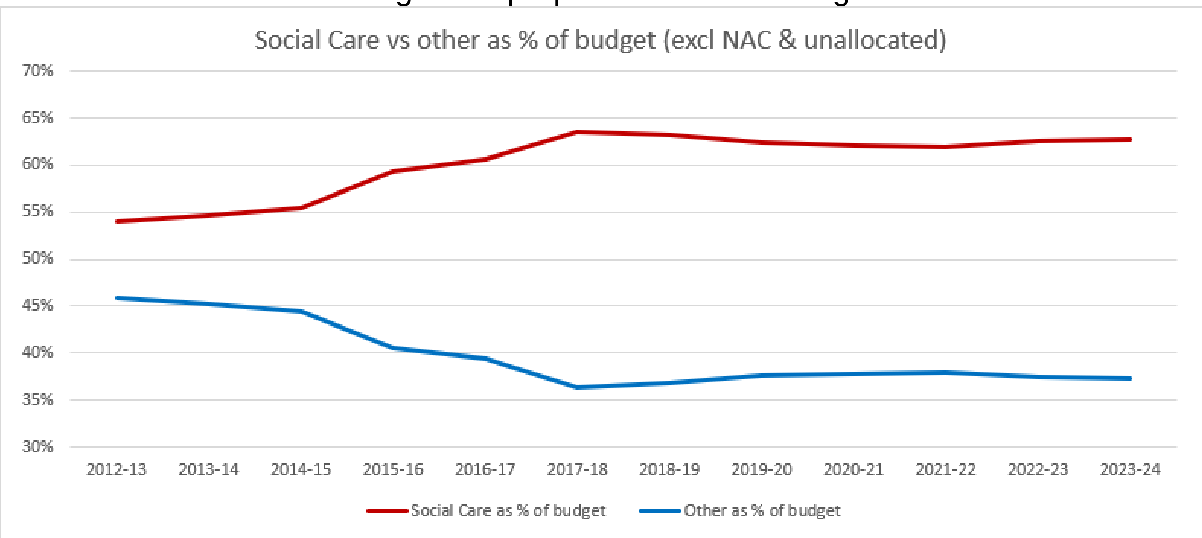
4.2 The reality has been somewhat different, particularly following the change in emphasis from 2016 which allowed councils to raise a specific adult social care Council Tax charge and greater recognition of adult social care in grant settlements since 2016. We have plotted the Council’s budgeted expenditure on adult’s and children’s social care over a similar period compared to total budget (excluding non attributable and centrally held costs for consistency). This shows a similar picture to the Barnet prediction in the early years but a marked shift since around 2016 to 2017 as the Council passported the increases in funding for social care from Council Tax and grants into social care budgets. Had this additional funding not been available (dotted line on chart 4.2), the Barnet prediction would have been a more accurate portrayal. Chart 4.2 shows KCC comparison of approved budgets for social care.

Chart 4.2 – KCC Approved Budgets on Social Care



4.3 Effectively the graph shows that the Council's social care budgets initially increased as a proportion of the total budget in the early years and have subsequently plateaued with the passporting of specific funding. However, what this does not show is the recent trends with significant cost and demand increases to fulfil the Council's statutory obligations in both adults and children's social care. If the graph was plotted on actual spend it would show adults and children's consuming an ever increasing share of overall Council spending. Chart 4.3 shows a simpler presentation as the same information as chart 4.2 plotting social care and other budgets as proportion of total budget (although again if this were based on actual spend it would show an increasing proportion on social care).

Chart 4.3 – Social Care budgets as proportion of Total Budget



Social Care Funding 2024-25

4.4 The vast majority of the Council's funding is not hypothecated for individual services. This includes the general Council Tax precept, the settlement funding assessment (comprising the retained business rate baseline and revenue support grant), business rate compensation grant, service grant and New Homes Bonus Grant. In total this un-hypothecated funding amounts to nearly £1.1bn of the £1.4bn net budget for 2024-25 (76.6% of total funding).

4.5 Since 2016-17 the Council has had the ability to raise a specific adult social care Council Tax precept, now raising approx. £135m in 2024-25 (9.6% of total funding) and a number of social care related grants have been included in the settlement, now amounting to over £200m in 2024-25 (14.5% of total funding). The 2024-25 final draft budget includes an overall increase in funding of £108m (8.2%). Of this £19.7m is from the adult social Council Tax precept and £36.1m from the following Social Care Grants:

- £28.3m Social Care Grant - this grant is to address pressures in adults and children's social care
- £3.1m market sustainability and improvement fund grant – This comprises £12.5m increase from the additional element from 2023-24 settlement announcement (£7.3m) and the 2024-25 workforce element (£5.3m) less an adjustment of £9.4m for the workforce element in 2023-24 that has not been rolled in. The primary purpose of the fund is to support local authorities to make tangible improvements to adult social care services in their area, in particular to build capacity and improve market sustainability and now includes the previous workforce element aimed at supporting more workforce and capacity within the adult social care sector.
- £4.7m hospital discharge fund – this grant is to support people who need to draw on social care when they are discharged from hospital can leave as soon as possible

4.6 There are no prescribed splits of either the general Social Care Grant between adults and children's social care, or of the Council Tax precept or the other grants on how much should be used to fund price uplifts to reflect cost pressures in the market and how much should be devoted to other objectives and cost pressures e.g. increasing capacity. DLUHC had advised that national average split of social care for 2023-24 was 63% adults and 37% children's (although the Council has applied a 50/50 split to the share of the additional £500m in the final settlement). If we apply these splits to the social grant £28.3m increase for 2024-25 this equates to £16.2m for adult social care and £12.1m for children's. This together with the adult social care Council Tax and other grants amounts to a total of £43.5m for adult social care. If theoretically it is assumed 2/3 of this is available for price uplifts this amounts to £29.0m. As set out in section 7 of this report the total adult social care budget is increasing by 10% for 2024-25 including the amounts for full year effect of 2023-24 overspend, inflationary price uplifts, demand and non-inflationary cost drivers, policy and efficiency savings, transformation savings and increases in income.

5.1 The largest single grant received by the Council is the Dedicated Schools Grant (DSG), which is ring-fenced to fund school budgets and services that directly support the education of pupils The Local Authority is responsible for distributing and spend these grants in accordance with the Department of Education (DfE) guidance. The Local Authority receives its DSG allocation gross (including allocations relating to academies and post 16 provision), and then the Education & Skills Funding Agency (ESFA) recoups the actual budget for Academies to pay them directly, based on the same formula as the funding allocations made to local authority-maintained schools.

5.2 The DSG is allocated through four blocks: The Schools Block, Central School Services Block, High Needs Block and Early Years Block. All elements of the DSG are calculated based on a national funding formula, however these are calculated using historic funding as a baseline. In addition, the Council receives, and passports fully to schools, other specific grants such as pupil premium funding or the Teachers Pay Grant announced for September 2023.

5.3 The table below sets out the latest DSG allocation over the funding blocks for 2024-25.

Table 5.1 - Dedicated Schools Grant 2024-25 and Final DSG 2023-24

Block	**2024-25 £m**	**2023-24 £m**	**Change £m**
Schools Block	1,275.7*	1,202.1	73.6
CSSB	12.2	11.9	0.3
High Needs Block	322.6	312.0	10.6
Early Years Block	154.2	97.9	56.3
Total	**1,764.7**	**1,623.9**	**140.8**

* includes £40.7m (23-24 supplementary grant rolled in) and £32.8m (new monies)

5.4 The early years block is used to fund the free entitlements for under-fives and has been increased in 24-25 to reflect funding increases announced in September 2023 along with further inflationary increases of between 2.9% & 3.8%. Further funding has also been allocated to fund the extension of the free entitlement for working age parents down to 2 years from April 2024 and, to 9 months from September 2024. The Council is required to plan to pass on at least 95% of the funding to early years providers.

5.5 The primary and secondary pupil funding rate in the Schools Block, used to fund School Budgets, has increased by 2.1% & 1.9% respectively in 24-25. The total schools block for Kent (before deductions for academies) has increased by £73.6m (6.1%) to £1.3bn on the comparable figure for 2023-24, of which £32.8m (2.9%) is new monies.

5.6 The High Needs Block is funding to support costs of pupils with additional educational needs, across mainstream and special schools & colleges as well as the associated support costs. The allocation of the high needs block for 2024-25 has increased by £11.5m (3.7%) on the comparable figure for 2023-24.

5.7 The increase in funding for schools and the high needs block is significantly lower than in recent years, at the same time Central Government has confirmed the National Living Wage (NLW) will rise by a further 9.5% from April 2024. The disparity between funding and staff cost rises will have a financial impact on schools, where the salaries of most support staff track close to NLW, with the most significant impact on schools supporting high numbers of children with special education needs (where there is greater requirement for support staff), including special schools and pupil referral units. Community and Voluntary Controlled maintained schools are required to implement the Personnel Committee recommendations on Kent Scheme pay, whilst other schools (voluntary aided and foundation-maintained schools, academy trusts & free schools) can make their own pay decisions, many still mirror the KCC pay structure to remain competitive in the County.

5.8 A significant financial risk for the Council is the continuing and increasing underlying deficit and accumulated debt on the High Needs Block of Dedicated Schools Grant (DSG), a forecast total of £178m as at 31st March 2024 (excluding contributions from KCC and DfE). Since the introduction of the Children and Families Act 2014, the Council has seen an unprecedented rise in the number of children and young people assessed for Education Health and Care Plans (EHCPs) and the increasing proportion of children being educated in special and independent schools and a smaller proportion educated in mainstream schools. The high needs funding within the DSG has not kept pace, resulting in in-year overspends and an accumulated deficit on the unallocated DSG reserve. Whilst this is recognised as a national problem it has been particularly acute in Kent with numbers significantly higher than the national and nearest neighbours' average.

5.9 Since March 2023, KCC has been part of the Safety Valve Programme where the DfE and the Council are contributing towards the historic deficit on the understanding that plans will be put in place to bring the Council to a breakeven position by 2027-28. As a result of this, the deficit on the High Needs Block has been reduced by contributions to an estimated £76m at the end of 2023-24.

5.10 The Council recognises it needs to take further actions to ensure children with SEN are supported and that this is sustainable within the funding provided, and significant work is being undertaken to identify efficiencies and improvements in high needs provision, including:

- Reviewing the commissioning strategy to ensure greater consistency in offer of SEN provision across the county including reviewing both special schools and Specialist Resource Provision (SRP) to reduce the increasing reliance on independent schools
- Reviewing commissioning arrangements with independent providers.
- Improving parental confidence through supporting inclusive practice and capacity building in mainstream schools
- Further collaborative working with Health and Social Care partners

5.11 The Schools' Funding Forum have also agreed a 1.2% transfer from Schools Block to the High Needs Block to help to support the system of SEN support in mainstream schools across the county including ensuring sufficient funding for the County Approaches to Inclusive Education. This has been approved by the Secretary of State.

5.12 The Central School Services Block (CSSB) was introduced in 2018-19 to fund councils for their statutory duties relating to maintained schools and academies including for retained statutory duties and ongoing central functions i.e. admissions, and historic commitments including items previously agreed locally such as termination of employment costs. The element of the CSSB that funds ongoing services has increased by 2.5%

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

6.2 A significant proportion of the funding towards the revenue budget is derived from the County Council's share of Council Tax. The County Council share of Council Tax typically amounts to around 70% of a household Council Tax bill. The County Council charge is the same for all households in the county (as is the share for Police & Crime Commissioner and Fire and Rescue authority), the amount for district/borough and town/parish councils will vary depending on the local area and the individual decisions of these councils.

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

6.4 The Council Tax referendum principles for 2024-25 allow for up to but not exceeding 3% general tax rate increases without a referendum plus an additional Adult Social Care levy of up to 2%. These increases are based on the total County Council share of the household charge for 2023-24 (£1,534.23 for band D household). The administration's final draft budget 2024-25 includes a proposed 2.998% increase for the general precept (up to but not exceeding the referendum level) and a further 1.994% increase for the adult social care levy (ASCL). The proposed Council Tax increases and overall charge by individual bands are shown in tables 6.1 and 6.2.

Table 6.1 – Proposed Council Tax Increases by Band

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

Table 6.2 – Proposed Council Tax Charges by Band

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

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

6.6 The final Council Tax precept and Council Tax funding levels are based on tax base estimates notified by the 12 district and borough councils as shown in table 6.3. The total tax base increase of 1.64% is very close to our initial estimate of 1.7% and results in an increase in Council Tax funding of £14.4m (£0.5m less than estimated in the January draft budget).

Table 6.3 – Final estimates of tax base changes and 2024-25 Precept

District	2023-24 Band D Equivalent Taxbase	2024-25 Band D Equivalent Taxbase	2024-25 Precept @ £1,610.82 (incl. ASCL) £000s	% change
Ashford	48,906.00	49,832.00	80,270.4	1.89%
Canterbury	52,372.76	53,348.27	85,934.5	1.86%
Dartford	40,288.37	41,029.46	66,091.1	1.84%
Dover	39,974.37	40,874.50	65,841.5	2.25%
Folkestone & Hythe	39,977.09	40,466.09	65,183.6	1.22%
Gravesham	35,266.50	35,994.62	57,980.9	2.06%
Maidstone	67,161.69	68,263.60	109,960.4	1.64%
Sevenoaks	51,990.30	52,394.75	84,398.5	0.78%
Swale	49,673.46	50,367.85	81,133.5	1.40%
Thanet	45,759.46	46,454.06	74,829.1	1.52%
Tonbridge & Malling	52,706.29	53,477.93	86,143.3	1.46%
Tunbridge Wells	47,402.10	48,360.90	77,900.7	2.02%
Total	**571,478.39**	**580,864.03**	**935,667.4**	**1.64%**

6.7 The district and borough councils also have to notify us of their estimated collection fund balance for over/under collection by 24th January 2024. This must also be reflected in the final draft budget as over/under collection has to be taken into account as part of the final decision on the Council Tax charge for 2024-25. The final draft budget includes a £2.5m collection balance, this is £4.5m less than the £7m assumed in previous drafts and in accordance with established policy and practice the difference from the assumption is drawn from the local taxation equalisation reserve, which avoids any impact on the overall revenue budget and savings/income requirement. Table 6.4 shows the changes in collection fund balances in 2023-24 and 2024-25 for each collection authority.

Table 6.4 – Collection Fund Estimated Balances

District / Borough Council	2023-24 Collection fund surplus/ (deficit) £	2024-25 Collection fund surplus/ (deficit) £	Difference £
Ashford	264,941	-1,290,972	-1,555,913
Canterbury	2,443,390	1,091,180	-1,352,210
Dartford	676,599	1,584,612	908,013
Dover	664,823	487,573	-177,250
Folkestone & Hythe	539,543	1,070,000	530,457
Gravesham	-218,830	-218,780	50
Maidstone	3,637,927	-1,425,915	-5,063,842
Sevenoaks	985,043	-58,283	-1,043,326
Swale	128,708	-207,649	-336,357
Thanet	497,105	568,715	71,610
Tonbridge & Malling	465,627	412,048	-53,579
Tunbridge Wells	1,403,800	502,950	-900,850
Total	**11,488,676**	**2,515,480**	**-8,973,196**

7.1 The administration's updated draft revenue and capital budget report published on 3rd January 2024 was subject to the budget scrutiny process during January and endorsed by Cabinet on 25th January 2024 subject to the caveats about the need to make the changes arising from final settlement, final tax base and collection fund and other changes as set out in this report. No formal proposed amendments were presented to Cabinet from Cabinet Committees and Cabinet Members addressed informal comments raised. The final draft budget will be published by 9th February 2024 for consideration and approval by County Council at its meeting on 19th February 2024. As required by the Council's Constitution and Financial Regulations, the final draft budget for County Council approval will be proposed by the Deputy Leader/Cabinet Member for Finance Corporate and Traded Services (under delegated powers from the Leader) and published in a format recommended by the Acting Corporate Director, Finance and agreed by the Leader.

7.2 The administration's final draft capital programme 2024-34 is set out in appendices A and B of this report. Appendix A provides a high-level summary of planned capital spending and financing over the 10 year period. The financing is a combination of government departmental capital grants, anticipated developer contributions and capital receipts, external funding and borrowing. In many cases funding has not been increased for inflation and consequently inflation has had to be absorbed, reducing the real terms values within the programme. The programme is largely unchanged from the January draft other than inclusion of additional grant funded spending and some rephasing, borrowing is unchanged and there are minor changes in funding from receipt and revenue contributions. Appendix B contains planned spending on individual projects and rolling programmes by directorate. Appendix C is not part of the approved programme and is only included for reference, providing information on indicative spending on potential projects in the pipeline where funding has not yet been secured.

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

7.4 The presentation of the administration's final draft revenue budget 2024-25 and 2024-27 MTFP focuses on the key policy and strategic implications of the proposals. The revenue proposals are summarised in appendices D to G of this report. These appendices show the spending, income and savings changes from the current year's approved budget (2023-24) and the financing requirements. Appendix D provides a high-level summary of the proposed three-year plan for the whole Council, showing separately the spending growth, savings & income, changes in reserves for core Council funded activity (funding from the LGFS and local taxation) from changes in externally funded activities (largely specific grant funded). There have been a number of changes in planned core spending and funding from the January draft as result of the final LGFS, final tax base and collection fund balance, Personnel Committee recommendation on Kent scheme pay and potential expiration of inter authority agreement. The changes are summarised in table 7.1 and listed in table 7.2.

Table 7.1 - Changes in core funded spending, savings and funding in Appendix D from January draft

	2024-25 £'m	2025-26 £'m	2026-27 £'m
Spending			
Base budget changes – from latest forecast	10.2		
Pay – from Personnel Committee recommendation	-3.5		
Demand – from Social Care Grant	0.4		
Service Improvements – from Social Care Grant	2.3		
Service Improvements – Provision for impact of potential expiration	0.5	-0.5	
Policy Savings – Rephasing due to expiration and replacement for one-offs	-1.3	1.3 3.0	
Reserves drawdown – from Council Tax changes, pay and other	-0.7	0.7	
Net Change	7.9	4.5	
Funding			
Social Care Grant	12.8		
Council Tax Base	-0.5		
Council Tax Collection Fund	-4.5	4.5	
Other (Services Grant)	0.1		
Net Change	7.9	4.5	

Table 7.2 – List of significant changes since January Draft

	2024-25 £'m
Social Care Grant income in final settlement	-12.8
ASCH spending from Social Care Grant	+6.4
CYPE spending from Social Care Grant	+6.4
Personnel Committee pay recommendation	-3.5
Change in one-off use of reserves	+3.5
Potential Waste Partnership saving brought forward	-1.3
Contingency provision for potential impact on waste collection/disposal	+0.5
Potential change in one-off use of reserves	+0.8
Council Tax taxbase	+0.5
Council Tax collection fund	+4.5
Change in one-off use of reserves	-5.0

7.5 Appendix E provides a directorate high level summary of the proposed plan for 2024-25, separately showing spending growth, savings & income, changes in reserves and funding for core Council funded activity (funding from the local government settlement and local taxation) from changes in externally funded activities (largely specific grant funded). Throughout this report the focus is on core funded spending, savings, income and reserves as changes on externally funded spend are financially neutral. Table 7.3 shows the net increases in core funded spending for each directorate as a result of spending growth, and savings/income. The adult social care Council Tax levy and Social Care Grants in the settlement must be passported into social care spending in ASCH and CYPE. In total the passporting amounts are £65.2m. In reality this has been exceeded by a net proposed budget increase of more than £90m across Adult Social Care and Integrated Children's Services. In addition CYPE includes a net £27.2m increase in Home to School transport. These increases in social care and home to school transport spend account for the vast majority of spending increases and funding gap necessitating savings across council services and one-off to balance 2024-25.

Table 7.3 – Year on Year changes in net budget by directorate

	ASCH £m	CYPE £m	GET £m	CED & DCED £m	NAC & CHB £m	Total £m
Revised Base Budget 2023-24	529.9	363.9	194.7	111.3	115.8	1,315.6
Spending Growth	106.2	75.3	10.2	0.1	2.7	194.4
Cost Increase Avoidance	-30.2	-6.3	-	-	-	-36.5
Savings and Income	-23.1	-6.3	-4.7	-1.3	-17.0	-52.4
Reserves	-	-	-0.5	-	2.9	2.4
Net Budget 2024-25	582.9	426.5	199.7	110.2	104.3	1,423.6
Net Change	53.0	62.6	5.0	-1.1	-11.5	108.0
Net Change (%)	10.0%	17.2%	2.6%	-1.0%	-9.9%	8.2%

7.6 The final draft budget presented to County Council includes the key service analysis in appendix F. The key service analysis sets out the spending in the main service areas by directorate (at director level) as used for budget monitoring reports to Cabinet at every meeting. The original planned spending on key services is set out in appendix E of the final approved Budget Book for 2023-24 (published in March) and is available on KCC website at 2023-24 Budget Book. The half-year monitoring report for 2023-24 was reported to Cabinet on 30th November 2023 . Reports for October and November were reported to Cabinet on 4th January 2024 and 25th January 2024.

7.7 Appendix G provides a full list of individual spending, savings & income, and reserves items. This appendix shows the spending forecasts, savings and income proposals, and changes in reserves for all the three years 2024-27. The scale of the savings for 2024-25 is such that detailed delivery plans are prepared for the key savings that require action or policy change (these saving amount to £62.3m out of the total of £88.9m) and enhanced monitoring arrangements will be put in place to track progress in addition to the arrangements already embedded through the monthly monitoring with budget managers and regular budget monitoring reports to Cabinet. New savings and income for later years are included to highlight the areas that will need to deliver the required level of recurring savings in 2025-26 and 2026-27 although inevitably these savings proposals will need to be developed in more detail and subject to consultation and scrutiny in the coming months as the full detail for the subsequent years is not essential for the approval of 2024-25 budget and the MTFP at this stage amounts are considered to be indicative for planning purposes.

7.8 The final draft budget includes the impact of the Personnel Committee recommendations on Kent Scheme pay for 2024-25. The previous drafts included scope for negotiation as part of the pay bargaining process, but it has not been possible to reach an agreement in time for the Personnel Committee recommendation on the budget. The Committee recommended that an overall pay pot of 4% should be agreed with a total cost of £11m, of which £10m needs to be included as increase in the budget (with the remaining £1m covered from savings from staff turnover where new staff are appointed lower in the pay range than existing staff).

7.9 The pay pot will be distributed via Total Contribution Pay (TCP) awards for all staff with corresponding adjustment to pay scales in accordance with the Council's agreed pay principles (these allows the pay ranges to be uplifted by the equivalent of at least ½ of the successful rating and maintain 0.5% differential between the top of a range and the bottom of the next range) and a minimum pay rate for Kent Range 3 set £12.10 per hour. This minimum rate maintains the Council's position above the National Living Wage (this requires a minimum of £11.44 per hour for employees aged over 21) and 10p per hour above the Living Wage Foundation minimum. The pay principles mean there is a knock on consequence for KR4, KR5, KR6 and the bottom of KR7 to maintain the 0.5% gap and ensure each grade has a reasonable range for progression. It is estimated that the successful award from a 4% pot after funding the increases for the lower pay ranges will be circa 2.6%.

7.10 The County Council agreed the Members' Allowances Scheme for 2021-2025 on 4th November 2021. This included agreement to an updated annual indexation formula. It is not possible, under the relevant regulations, to vary the Scheme without separate independent panel review which is scheduled to take place for 2025/26. The annual increase under this formula is the average of two figures. The first is the average of the increases arising in sectors covered by 8 national public sector pay review bodies (6.2%). The second is the percentage proposed to be awarded to staff awarded 'Successful' in the Total Contribution Pay scheme based on the proposals from Personnel Committee for 2024-25 (circa 2.6%) in the forthcoming year. This approach involves some time lag between the national element and the KCC element because the percentage increase covered by the other public sector pay review bodies is taken from the previous year. Applying the required formula for this year, as per the agreed Members' Allowances Scheme, results in a 4.4% increase in Basic Allowance, Special Responsibility Allowances and Dependent's Carers Allowance from 1st April 2024. The final draft budget includes the impact of both Kent Scheme pay and member allowances.

7.11 The high-level equation for changes in planned revenue spending for 2024-25 (growth and savings), income and net budget, together with the balancing changes in funding is shown in table 7.4 below. This summarises how the requirement to set a balanced budget will be met once the outstanding actions for 2024-25 outlined in Securing Kent's Future have been finalised and confirmed. To improve transparency the spending, savings and reserves from core Council funds are shown separately from externally funded changes (consistent with the revised presentation of appendices D and E).

Table 7.4 – Net Year on Year Change in Spending and Funding

Change in Net Spending	Core Funded £'m	External Funded £'m	**Change in Net Funding**	Core Funded £'m
Estimated additional spending	194.4	-23.1	Increase in Social Care Grants	45.5
Proposed savings from spending reductions and future cost avoidance	-73.5*		Net Increase in other government grants	7.6
Proposed changes in income	-15.4*	-0.3	Change in Council Tax base	14.4
Assumed changes in specific government grants		20.9	Assumed increase in Council Tax charge	44.5
Proposed net change in reserves	2.4	2.5	Change in retained business rates	2.6
			Change in net Council Tax collection fund/S31 compensation	-4.3
			Change in net Business Rate collection fund balances/S31 compensation	-2.3
Total Change in Net Spending	**108.0**	**0.0**	**Total Change in Net Funding**	**108.0**

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

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

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

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

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

Proposed Revised Draft 2024-25 Revenue Budget – key numbers

£1,423.6m	Assumed net revenue budget for 2024-25. This represents a £108.0m increase on the final approved budget for 2023-24 of £1,315.6m.
£194.4m	Additional estimated core funded spending growth – see paragraph 8.1 for more detail.
-£88.9m	Assumed savings, income and future cost increase avoidance. Of this £37.0m relates to proposed savings, £15.4m additional income generation (mainly fees and charges), and £36.5m reductions in the amount assumed for future demand and cost increases in adult social care and home to school transport – see paragraph 8.2 for more detail.
£2.4m	Estimated net impact on the budget of changes in the use of reserves including new contributions and removing previous years drawdown and contributions – see section 8 for more detail.
£935.7m	Estimated to be raised from Council Tax precept. An increase of £58.9m on 2023-24. £14.4m is due to a 1.64% estimated increase in the tax base due to additional dwellings, changes in discounts and exemptions and assumed collection rates. £44.5m is from the estimated increase in the household charge up to but not exceeding 5% (including £17.8m from the adult social care levy).
£55.7m	Net increases as announced in the final LGFS. This comprises of the following changes: • £28.3m expected increase in Social Care Grant announced in the 2023-24 settlement from repurposed funding from social care charging reforms, including an unexpected additional amount added to the final settlement of £12.8m • £12.5m expected increase in Market Sustainability and Improvement Fund to support capacity and discharge (including £7.3m announced in 2023-24 settlement and £5.2m further announcement in summer 2023) • £4.7m expected increase in the Adult Social Care Discharge Fund • -£6.3m reduction in the Services Grant • £14.1m indexed linked uplifts in business rate top-up, business rate compensation (including estimated amount not yet announced) and Revenue Support Grant • -£0.2m continuation of New Homes Bonus Grant but at a lower value than 2023-24 • £2.6m expected net increase in local share of retained business rates

Revenue spending: a reminder of what it is

Revenue spending is spent on the provision of day to day services, either directly through KCC staff and operational buildings, or commissioned from third parties. Revenue spending is identified as gross spend and net spend after taking account of service income and specific government grants. The net revenue budget requirement is funded by a combination of Council Tax, locally retained business rates and un-ring-fenced grants from the Department for Levelling-up, Housing and Communities (DLUHC) included in the Local Government Finance Settlement. Grants from other government departments are ring-fenced to specific activities and are shown as income to offset the related spending.

9.1 The additional estimated core funded spending growth (i.e. excluding changes arising from external funding changes) of £194.4m for 2024-25 is summarised in appendices D and E and set out in more detail in appendix G. It has been subdivided into the following categories:

Net base budget changes £31.7m	Changes to reflect full year effect of variations in the current year's monitoring forecast compared to approved budget. These adjustments are necessary to ensure the draft budget is based on a robust and sustainable basis.
Demand and future cost increase drivers £85.3m	Forecast estimates for future non-inflationary cost and demand increases such as additional care hours, increased journey lengths, etc. across a range of services including adult social care, integrated children's services, home to school transport and waste tonnage.
Price uplifts £49.6m	Contractual and negotiated price increases on contracted services, including full year effect of planned mid-year uplifts in current year and forecast future price uplifts.
Pay £10.8m	Additional net cost of estimated pay award and progression after savings from appointing new staff lower in pay ranges. Lowest pay rate increased to £12.10/hour, with remaining balance distributed via Total Contribution Pay assessments. Also allows for increases in agency rates, non kent scheme pay and apprenticeship levy.
Service Strategies & Improvements £15.7m	Other estimated spending increases to deliver strategic priorities and/or service improvements and outcomes including financing the capital programme.
Government & Legislative £1.3m	Additional spending to meet compliance with legislative and regulatory changes.

9.2 The proposed savings, income and future cost increase avoidance of £88.9m for 2024-25 are summarised in appendices D and E and set out in more detail in appendix G. They have been subdivided into the following categories:

Policy Savings £11.9m	Savings arising from proposed changes in Council policies including full year effect of 2023-24 savings and new proposals for 2024-25 (full year effect in later years shown in summary and will be shown in more detail in the final draft). Savings in this category are changes to charging policies and changes in the service offer.
Transformation & Efficiency Savings £36.5m	Savings aimed at avoiding future cost increases.
Transformation & Efficiency Savings £14.1m	Savings aimed at achieving improved or the same outcomes at less cost including full year effect of 2023-24 savings and new proposals for 2024-25 (full year effect in later years shown in summary and will be shown in more detail in the final draft) shown in summary and will be shown in more detail in the final draft). Savings in this category relate to reductions to existing recurring spend. Transformation and efficiency savings include contracted spending as well as in-house spending on staffing and premises.
Financing Savings £11.0m	Review of amounts set aside for debt repayment (MRP) based on asset life and increased investment income returns.
Income Generation £15.4m	Increases in fees and charges for council services from applying existing policies on fee uplifts (including contributions from other bodies) and new income generation proposals. Existing policies include increases in client contributions in line with estimated 2024-25 benefits and other personal income increases and increases in contributions to Kent Travel Saver and 16+ pass linked to fare increases.

Proposed Draft 2024-34 Capital Programme – key numbers

£1,665m	Total planned capital spending over the ten years 2024-25 to 2033-34
£1,011m	Confirmed or indicative government grants to fund capital expenditure
£376m	Total proposed borrowing to fund the programme
£278m	Funding from other sources (capital receipts, developer contributions, external funding and revenue)

9.1 The ten-year Capital Programme 2023-34 was approved by County Council in February 2023. This took into account the need to set a realistic and deliverable programme and avoid the significant over-programming and subsequent underspending against capital that has been a feature for several years. The ten-year horizon allows for a longer-term plan for capital investment, taking into consideration an updated assessment of the capital financing requirements and the consequent impact on the revenue budget and borrowing strategy.

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

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

9.4 Appendix A of this report sets out a summary of the administration's final draft 2024-34 programme and associated financing requirements for each year. The summary provides a high-level overview for the whole Council. The individual directorate pages in appendix B provide more detail of rolling programmes and individual projects.

Capital spending: a reminder of what it is
Capital spending is expenditure on the purchase or enhancement of physical assets where the benefit will last longer than the year in which it is incurred e.g. school buildings, roads, economic development schemes, IT systems, etc. It includes the cost of purchasing land, construction costs, professional fees, plant and equipment and grants for capital expenditure to third parties. Capital spending plans are determined according to the Council's statutory responsibilities and local priorities as set out in the MTFP, with the aim of delivering the vision set out in the Strategic Plan.

Capital spending is funded via a variety of sources including government grants, capital receipts, external contributions and borrowing. Borrowing has to be affordable as the cost of interest and setting aside sufficient provision to cover the loan repayments are borne by the revenue budget each year based on the life of the asset.

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

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

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

11.1 Reserves are an important part of the Council's financial strategy and are held to create long-term financial stability. They enable the Council to manage change without undue impact on the Council Tax and are a key element of its financial standing and resilience.

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

11.3 There are two main types of reserves:

- Earmarked Reserves – held for identified purposes and are used to maintain a resource in order to provide for expenditure in a future year(s).
- General Reserves – these are held for 'unforeseen' events.

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

11.5 There remains a significant risk to reserves if the forecast overspend for 2023-24 is not balanced through the further management action that is being put in place for the remainder of the current financial year. The level of reserves held is a matter of judgment which takes into account the reasons why reserves are maintained and the Council's potential financial exposure to risks. A Reserves Policy is included as Appendix H to this report. An analysis of budget risks and adequacy of reserves is included as Appendix I, and a budget risk register at Appendix J.

11.6 The Council holds reserves in order to mitigate future risks, such as increased demand and costs; to help absorb the costs of future liabilities; and to enable the Council to initially resource policy developments and initiatives without a disruptive impact on Council Tax. Capital reserves play a similar role in funding the Council's capital investment plans.

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

11.8 Reserves are one-off monies and, therefore, the Council generally aims to avoid using reserves to meet on-going financial commitments other than as part of a sustainable budget plan. The Council has to balance the opportunity cost of holding reserves in terms of Council Tax against the importance of interest earning and long-term future planning.

11.9 Reserves are therefore held for the following purposes:

- Providing a working balance
- Smoothing the impact of uneven expenditure profiles between years e.g. collection fund surpluses or deficits, local elections, structural building maintenance and carrying forward expenditure between years.
- Holding funds for future spending plans e.g. capital expenditure plans, and for the renewal of operational assets e.g. information technology renewal.
- Meeting future costs and liabilities where an accounting 'provision' cannot be justified.
- Meeting future costs and liabilities so as to cushion the effect on services e.g. the Insurance Reserve for self-funded liabilities arising from insurance claims.
- To provide resilience against future risks.
- To create policy capacity in the context of forecast declining future external resources.

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

11.11 The administration's final draft budget 2024-25 includes an assumed net impact on the MTFP from the use of reserves of £2.4m in 2024-25 and a net reduction of £3.9m over the medium term 2024-25 to 2026-27 on the core funded budget. The externally funded element includes a net contribution of £2.5m in 2024-27 and net contribution of £3.8m over the medium term. The movement in in reserves includes new contributions and removing previous years drawdown and contributions. These changes include the following main changes:

Increased/new contributions (core budget) £36.7m

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

Drawdowns and Removal of Prior Year Drawdown and Contributions -£34.3m

- -£9.1m drawdown from reserves/reduced contributions to reserves to balance the budget as part of the package of £19.8m one-off solutions for 2024-25. These one-off solutions will need to be replaced through further savings in 2025-26 and 2026-27
- -£1.3m for funding of specific projects within the 2024-25 revenue budget proposals
- -£5.8m removal of 2023-24 contribution to general reserve for increase in net budget
- -£12m removal of the contribution to the risk reserve (now treated as contingent spend rather than reserve)
- -£4.5m drawdown from Local Taxation Equalisation Reserve due to lower than anticipated estimated collection fund balance included in 2024-25 budget
- -£5.6m removal of 2023-24 contribution to Local Taxation Equalisation reserve
- -£1.2m removal of the annual contribution for the phased repayment of long term reserves borrowed to fund grant reductions in 2011-12 as these are now fully repaid
- +£4.3m to replace the drawdown from reserves to support the 2023-24 budget
- +£1.0m to replace the drawdown from reserves for specific projects in the 2023-24 budget

Net changes in externally funded reserves £2.5m

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

Appendices and background documents

List of Appendices

Background documents

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

KCC's Budget webpage	1
KCC's Corporate Risk Register (item 8)	2
KCC's Risk Management Strategy, Policy and Programme (item 11)	3
KCC's approved 2023-24 Budget	4
2024-25 Budget Consultation (Let's Talk Kent) inc. the Budget Consultation report	5
Revenue and Capital 2023-24 Budget Monitoring Report for October 2023 (item 5)	6
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