Date – 14/08/2023

Dear Member

CABINET - THURSDAY, 17 AUGUST 2023

I am now able to enclose, for consideration at the Cabinet meeting due to be held on Thursday 17 August 2023, the following report that was unavailable when the agenda was first published.

Agenda Item No	
5	**Securing Kent's Future - Budget Recovery Strategy & Financial Reporting** **(Pages 1 - 34)**

Yours sincerely

Benjamin Watts
General Counsel

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From: Roger Gough, Leader
Peter Oakford, Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services
Amanda Beer, Interim Chief Executive
Zena Cooke, Corporate Director, Finance

To: Cabinet

Subject: Securing Kent's Future – Budget Recovery Strategy & Financial Reporting

Classification: **Unrestricted**

Summary:
This report provides an overview of the first financial forecast position for the current year and details the activity that is already being taken and will be taken in the coming months to secure Kent's future.

The first revenue out-turn forecast for 2023-24 shows a £43.7m overspend before management action. The initial management action set out in the monitoring report reduces the forecast overspend to £26.7m, (£10m from adult social care and £7m from capital programme financing). These management actions are based on an initial assessment of immediately deliverable actions and are the first part of a recovery plan, which is being developed at pace and will be reported to Cabinet in October with further actions already taken and planned in the current year and future years set out as a multi-year programme with the aim of Securing Kent's Future.

This forecast overspend comes on top of the £47.1m overspend in 2022-23 which has already reduced the council's usable reserves. The 2023-24 budget included the full year recurring impact of the 2022-23 spending as well as forecasts for future price and demand growth in 2023-24. The 2023-24 budget did not replenish the general reserves drawn down at the end of 2022-23, this replenishment will need to be included in future budgets. The most significant overspends (and budgeted spending growth) in both 2022-23 and 2023-24 are in adult social care and children's services.

The council's priority is to deliver a budget recovery plan that secures Kent's future, restoring and improving financial resilience. This plan must focus predominantly on the material spending areas of council activity and those areas with the greatest forecast variances from the approved budget in adults and children's services. However, it is unlikely that all the solutions to sufficiently reduce the forecast out-turn within the current financial year will be found in these areas, not least because some (though not all) of these areas may require significant lead times to achieve reductions. Therefore, non-essential spending in other areas of council activity will need to be curtailed to secure the council's financial viability. The budget recovery plan will need to set out the detail of these immediate actions to reduce spending in the short-term as well as the more structural changes necessary over the medium to long term to ensure the council's spending is sustainable within the resources available from central government and local taxation.

The delivery of the budget recovery plan means that the council cannot continue operating in the same way and will need to reprioritise organisational capacity to deliver the plan, this will also require additional external support. Council meetings will need to focus on core

activity relating to the budget including taking the necessary decisions and performance monitoring.

The next meeting of Cabinet on 5 October 2023 will receive a progress update report setting out in more detail the additional actions taken and those actions and decisions requiring Cabinet approval to bring the forecast overspend down to as close to a balanced position as possible. The report will set out the framework for the medium to longer term plan for "Securing Kent's Future" with sustainable spending and sufficient financial resilience. This report will include a more detailed financial and activity analysis of the most material spending and variances in adult social care and children's services, updates on the savings delivery plans, and benchmark comparisons with other councils, that will inform the actions and decisions to be taken.

1. Introduction

1.1 The attached report sets out the revenue budget monitoring position as at the end of June 2023-24. The revenue budget is showing a forecast overspend of £43.7.m before management action. This reduces to £26.7m after the management actions set out in the monitoring report (£10m from adult social care and £7m capital programme financing). The revenue overspend is a significant and pressing concern, and this report outlines the budget recovery strategy, "Securing Kent's Future" to bring revenue spending down to a sustainable level both within the current financial year and, as importantly, over the medium term to safeguard the council's financial resilience and viability. The attached monitoring report identifies the immediate actions that are being and will be taken to reduce the overspend. Additional actions and the progress to date will be presented to Cabinet on 5th October.

1.2 This report includes the analysis and enhancements to financial reporting that are being introduced to better identify the underlying drivers for the main budget variances and the impacts and dependencies of management action and policy choices to reduce the forecast overspend.

2022-23 Outturn

1.3 The final revenue outturn for the previous financial year 2022-23 was reported to Cabinet on 29th June and showed a net overspend of £47.1m. This is compared with a forecast overspend of £50.6m in the first monitoring report presented to Cabinet in September 2022. The most significant overspends were in Children's, Young People and Education (CYPE) totalling £33.7m, and in Adult Social Care & Health (ASCH) totalling £24.5m.

1.4 Within ASCH the largest overspends were on residential and nursing care for older persons due to a combination of market conditions and increasing client complexity. A significant increase in the use of short-term beds was also a major contributory factor. There were lesser but still significant overspends for clients with mental health needs, learning disability and physical disability. Within CYPE the most significant overspends were on home to school transport and placement costs for children in care. In both cases these arose from increases in numbers of children being supported and increased operator costs. There were lesser but still significant overspends on younger adults and children with disabilities for similar reasons to adult social care, and on school services (most notably premises costs including provision of temporary accommodation).

1.5 The 2022-23 overspend required the full utilisation of the risk reserve of £25m with the remaining £22.1m being drawn down from the General Fund reserve. The overspend from 2022-23 has significantly impacted the council's financial resilience with the General Fund reserve level now at £37.4m, well below the amount consistent with the agreed policy of 5% of net revenue budget (£65.8m). The need to replenish the general reserve for this drawdown was not budgeted for in the 2023-24 budget and medium-term plan but will need to be built into future budgets.

1.6 The indication from comparable councils is that most are forecasting overspends in 2023-24 in similar areas of activity to Kent (children's and adults' social care) although in many cases these are of a lesser magnitude and other councils have more resilience through their historic level of reserves. Further work is being undertaken to analyse and distinguish between those spending pressures arising from general trends affecting upper tier councils and those spending pressures which specific to Kent.

Current Year 2023-24

1.7 The recurring impacts of the forecast revenue overspends in 2022-23 were considered and advised upon by the Section 151 Officer in the build process for the 2023-24 budget and medium-term financial plan together with forecasts for future price and demand growth. This strategy assumed the approved budget for 2023-24 would be delivered, as set out in the Section 25 Assurance Statement attached as Appendix 2. £182.3m growth, excluding external funded spending increases, (15.3% of net revenue) was allocated and split between the full year recurring effect of 2022-23 spending variances (£63.5m), forecast price increases in 2023-24 (£65.2m), forecast demand growth in 2023-24 (£33.5m), and staff pay increases (£14m). The majority of the £182.3m growth was allocated to ASCH (£85m, 18.3% of net revenue on ASCH) and CYPE (£56.1m, 17.6% of net revenue on CYPE).

1.8 The 2023-24 revenue budget is showing a forecast overspend of £43.7.m before management action. This reduces to £26.7m after the initial management actions set out in the attached monitoring report, (£10m from adult social care and £7m capital programme financing). Work continues to develop further management action that can be taken immediately in the current year, and over the medium term and this will be reported back to the Cabinet meeting of 5th October. The forecast revenue overspends in the current year are in addition to the growth built into 2023-24 budgets. The forecast would have been £4.6m more had corrective actions not already been taken during the first quarter. Within the overall forecasts the most significant overspends are in ASCH (£25.8m) and CYPE (£28.4m) before management action. The main areas of forecast overspend, the causes and the management actions already identified and being implemented are detailed in the attached monitoring report.

1.9 Given the size of the forecast overspend and the budgets in question, it is important to focus on these budgets in ASCH and CYPE. Spending growth in these areas is unsustainable and needs to be brought back to a level that can be afforded within the overall resources available to the council from local taxation and central government grants. This is highly unlikely to be fully achievable in the current financial year and short term due to the lead-in time that some of the actions and decisions will require, and consequently savings on other activities and services outside these areas will be necessary to avoid drawdowns from reserves which would further weaken the council's financial resilience. Nonetheless, the greatest focus must remain on these major areas of overspend and every effort made to address these challenges. The forecast overspend represents over 3% of the revenue budget and presents a serious and significant risk to the council's financial viability if it is not addressed as a matter of urgency.

1.10 The current circumstances present a material risk to the council and require significant action to bring the overspend under control. It is important to ensure that the council makes sensible and informed decisions around the next steps. Whilst recognising the need to urgently mitigate the overspend, it is also important to properly consider the impact on the proper functioning of the council.

1.11 This report sets out an overview of the budget recovery strategy "Securing Kent's Future", the immediate actions and activities, and details the necessary recommendations for further activity and financial performance monitoring that will be reported back to Cabinet on 5 October 2023. In developing this approach, as with the Budget in February, the Leader and Deputy Leader have had the benefit of advice from the Section 151 Officer confirming the need for the actions contemplated as a necessary and proportionate response to the current overspend. They have also received advice relating to the organisational and legal implications from the Chief Executive and Monitoring Officer accordingly and this will be reflected in the paper brought to Cabinet on 5 October 2023.

2. Budget Recovery Strategy – "Securing Kent's Future"

2.1 Framing Kent's Future (FKF), the KCC Strategic Statement, was approved at County Council in May 2022 and sets out the council's ambition and strategic priorities until 2026. FKF acknowledged the significant financial and demand pressures the council would be facing over the coming four years, whilst concurrently delivering an ambitious agenda for Kent residents, businesses, and local communities. The strategic priorities set out FKF remain vital to the medium-long term future for Kent if the council is to address the significant structural challenges the county faces around levelling up, devolution, the environmental challenge, securing infrastructure improvements, and the associated demand on people-based services from an aging population and a changing demographic.

2.2 There has been a significant deterioration in the financial and operating landscape facing the council since FKF was approved, due to an acceleration of demand pressures and the continued impact of a challenging national and global economic environment. Combined with changes in how residents access and use many of our services post the Covid-19 pandemic, this has driven unsustainable cost of delivery and a fundamental challenge to the design of our service offer. This means that there must be a short-term reprioritisation of all council activity to support bringing the budget back into balance, with a significant focus on the transformation of both adults and children's social care as set out in the 'New Models of Care and Support' within FKF, alongside other high cost services including home to school and public transport, waste and highways, to ensure that they remain sustainable whilst meeting the council's statutory duties to some of the most vulnerable residents in Kent, and meeting our overall fiduciary duty to the Kent taxpayer. This will necessarily require a strong focus from elected Members, the Corporate Management Team, Directors, Heads of Service, and all our staff to recognise that this spending challenge is now the fundamental policy priority of the council and to respond accordingly.

2.3. It should be noted that the council does continue to provide significant funding into other community, environmental and place-based services as well as the big spending areas in adults, children's, transport, waste and highways. And whilst acknowledging the changed financial landscape, and the fundamental policy priority of bringing the budget back into balance, the challenge for these services must be to think radically about how they can meet the overall ambitions set out in FKF, without further additional investment, and potentially within an increasing constrained financial envelope to help Securing Kent's Future. None of these decisions will be easy, and in some cases, it may lead to a necessary rescoping of the ambitions originally set out in FKF. Corporate Directors, Directors and Heads of Service for community, environmental and placed-based services will be working with Cabinet Members over the course of the next few weeks and months to assess what is possible within their areas of responsibility within the limited financial envelope available, and the policy and services choices that will be consequential as a result. All the decisions necessary to meet the revised ambitions outlined in paragraphs 2.2 and 2.3 will be subject to the Council's usual governance.

2.4 The council's budget strategy, confirmed at the Budget Meeting in February 2023 and subject to the section 25 assurance statement issued by the Section 151 Officer, continues to be based on the following principles:

- Plan and deliver a balanced budget and medium-term financial plan with net expenditure (after income and specific grants) not exceeding available funding from un-ringfenced grants and local taxation.
- Set a council tax that does not exceed the government referendum limits.
- Ensure the Council is financially sustainable minimising the risk that the council could cease to be responsible for its financial and other affairs through government intervention such as the appointment of commissioners.
- Maintain an adequate and prudent level of reserves commensurate with risks.
- Maintain and improve the council's overall financial resilience through sustainability of reserves, reduced levels of borrowing and debt costs, balance of income compared to spend, proportion of council budget spent on social care.
- Prudent management of cashflow and liquidity through its Treasury Strategy which balances risks and returns on financial investments and low interest costs and certainty on borrowing.
- Full cost recovery on charges for discretionary services other than where Cabinet agrees to provide services at a subsidy and/or concession.
- Prudent capital investment programme.
- Align the council's strategic vision and priorities to available resources in a sustainable way whilst allowing the council to fulfil statutory obligations.

2.5 The recovery plan will distinguish between the in-year and short-term spending reductions which will often be driven by expediency and necessity to balance the budget, and the more structural medium to long term changes we need to make which will be driven by policy and priority decisions that need to be addressed following fuller analysis of the key drivers of historic and current spending growth pressures. It is vital to understand the factors that have given rise to the current overspend and to ensure that the strategic response reflects these to apply the right solution given the assurances given as part of the Budget build process. The medium to longer term recovery plan will find ways to mitigate spending growth and identify deliverable savings including, the recommissioning of adult social care residential, nursing, homecare and supported living services, investment in preventative services, optimising the use of reablement rehabilitation and step down services for those leaving hospital, ensuring sufficiency of placements in adults and children in care, optimising support for schools, and promoting independence as clients transition from children's care to adulthood. These will set out a comprehensive plan from initial diagnostic, design of alternatives through to adopting and sustaining the solutions. Whilst many of these initiatives are already in train and within existing plans, work will be undertaken ahead of the next Cabinet Meeting to develop a single, comprehensive strategic and financial plan in response to the current overspend that will prioritise resources on securing Kent's future.

2.6 To ensure the effective delivery of Securing Kent's Future it is essential that the council focuses most attention on the material spending areas and those areas where there is the greatest forecast variance from the approved budget. Variances from the approved budget not only result in-year overspends, (which if not addressed or compensated for by reduced spending elsewhere present a risk to reserves and the council's financial resilience) but are also a spending pressure in future years' budgets where the spending causing the overspend is recurring. This means that overspends effectively have a double impact on future years' budgets due to ongoing recurring spending and the need to replenish reserves drawn down to cover overspends in the current year.

2.7 Focussing attention on the most material and significant spending areas does not mean spending in other areas is irrelevant or can be ignored. The budget strategy recognises that non-essential spending will need to be curtailed in-year and in the short term, whilst actions to contain spending in the material and significant areas take effect. All opportunities to maximise income from fees and charges on discretionary activities also need to be considered to reduce net expenditure. Whilst it would not be appropriate to generate a surplus on these activities the principles of full cost recovery must be applied where Cabinet has not agreed that services are provided with a subsidy or concession.

2.8 The maximum available to be drawn from reserves in 2023-24 is the £12m set aside in the risk reserve in the approved budget. However, this £12m was planned as part of the budget setting before the need to draw down £22.1m from the general reserve to cover the balance of the 2022-23 overspend and it is therefore critical to minimise the need to utilise the £12m in the risk reserve. The final approved budget for 2023-24 included £23.5m contributions to reserves (£12m risk reserve, £5.8m general reserve to maintain 5% of the net revenue budget for 2023-24 and £5.6m local tax equalisation reserve from surplus collection fund balances). The final 2023-24 budget included the one-off use of £8.5m from reserves (£4.3m from smoothing reserves to be repaid in 2024-25, £3.2m from public health reserves, and £1.0m other corporate reserves). Any draw down from general or earmarked reserves would further weaken reserves which are already at the lower end of the spectrum compared to other county councils. Most other upper tier councils are facing similar pressures, particularly in children's services and adult social care but have proportionately larger reserves to help mitigate short-term impacts.

2.9 The council's Financial Regulations are being reviewed to ensure they remain fit for purpose. Delegation levels within the Financial Regulations and "Spending the Council's Money" will also need to be reviewed. Any review needs to ensure that the council can discharge its statutory responsibilities and local priorities in a timely manner but with a due regard to the short-term and longer-term financial consequences of spending decisions. This includes decisions on appeal.

2.10 The delayed delivery of savings was a significant factor in the 2022-23 overspend and whilst it is not the main reason for the forecast overspend in the current year, it is a contributory factor that needs to be addressed. A total £54.8m savings and increased income (excluding external fining income) was agreed as part of the 2023-24 budget, with a further £67m planned savings and increased income in 2024-25 and 2025-26. The progress on the delivery of the agreed savings is set out in the attached report.

2.11 Over the medium-term consideration has to be given to alternative service provision to reduce costs (including future cost increases). This will include both commissioned services and services provided in-house. Commissioned services need to ensure that only those services that the council requires to fulfil its obligations and priorities are procured, that a sustainable and appropriately structured market is available, and that publicly funded services are not being provided with excessive profits for providers, and services are commissioned where possible from not-for-profit organisations. In-house services need to be subject to the same value for money rigour as commissioned services.

2.12 The council will review its future operating model and related cost base to maximise efficiencies, including from greater use of technology, automation and innovations, drawing from best practice in the local government sector and beyond.

2.13 The council needs to work closely with other public sector bodies to ensure they are meeting their obligations, and where relevant contributing their share of costs. This includes reviewing the council's relationship with health authorities, district and borough councils, and government agencies.

2.14 The budget strategy as executed by Cabinet Members and Senior Officers will continue to make representations to government to seek appropriate settlements, including adequate funding for increased costs and responsibilities, a more efficient and effective distribution of funding from government departments and between individual authorities, as well as reforms to local taxation. Specific representations have been made in relation to the loss of supported borrowing funding, insufficient highways funding and the impact of Unaccompanied Asylum Seeking Children (UASC). The broader operational and legal issues (and their financial consequences) relating to UASC will be dealt with by a separate update at this Cabinet Meeting.

3. Organisational Capacity

3.1 In order to urgently address the financial situation it is necessary to accept that the council cannot simply continue to operate in the same way. The council has limited capacity to deliver the budget recovery strategy and this capacity must be focussed on those activities which will sustainably reduce the overspend and build our financial resilience. The council will use its analytics function to undertake detailed analysis of the main areas of overspend. The council will also require some external support to identify both in year and medium-term actions that will address the main areas of forecast overspend and unsustainable spending growth.

3.2 To maximise the scope of effective scrutiny by all Members, there will be a review of meetings and agendas to ensure there is a targeted focus on core activity on the budget, key decisions and performance related to "Securing Kent's Future", with a report going to the County Council in September/October to make the appropriate arrangements to governance. Informal Member Groups will be urgently reviewed to ensure they materially contribute to "Securing Kent's Future". Member training will be prioritised, particularly in relation to local government finance, legal duties, performance and risk. Member scrutiny will play a vital role in carefully considering the material activity and decisions necessary as part of Securing Kent's Future.

3.3 The meeting review is without prejudice to the important role to be played by Governance and Audit (G&AC) and Scrutiny Committee.

3.4 A detailed briefing will be arranged for all 81 Members to set out the current year's forecast, the underlying drivers and the actions being taken. The briefing will help strengthen Members' role within "Securing Kent's Future" and the governance arrangements and opportunities for meaningful scrutiny.

4. Next Steps and Future Timeline

4.1 The next meeting of Cabinet on 5 October 2023 will set out progress to date on delivering "Securing Kent's Future" and will specifically consider the additional activities and decisions required to reduce the forecast overspend to as close to balancing the budget as possible and certainly no more than the £12m set aside in the risk reserve.

4.2 The report will set out a clear exposition of the latest financial position with additional supporting information including:

- By directorate and materially overspent budget line, the amount of over-spend, the reasons for over-spend, the analysis of activity/performance information including trends and the accountable officers.
- A detailed update on the analysis of all budget savings identified in 2023-24 budget, by directorate and budget line, the amount and nature of savings, the current status of savings, delivery confidence, reasons for non or delayed delivery and the accountable officers.
- Benchmark comparisons with other councils, identifying exemplar performance by others in areas of overspend, Performance and finances of similar councils, trend and unit costs analyses, budget and savings journey, population and demographic data to allow for nuanced comparison (prior year policy choices) and an explanation of to what extent and why the current year overspend is different to comparator county councils.
- Identification of the key opportunities for further savings within 2023-24 and the medium term, including consideration of the arrangements around the use of temporary staff and consultants to review the most efficient short and medium-

term arrangements, targeted prevention activity and further efficiencies. These will be reflected in a revised and updated medium term financial plan.

- Careful analysis of areas of underperformance linked to budget pressures, data held by the organisation in relation to activity, performance and spend, comparator finance and performance with similar authorities and the unintended consequences of planned activity.
- A review of the council's property and asset management strategies to identify opportunities to reduce both capital and revenue commitments.

4.3 Finance and performance monitoring progress reports will be considered at every Cabinet meeting, to ensure the focus on Securing Kent's Future remains until the council's financial position is stabilised. In the meantime, given the materiality of the position, the Section 151 Officer shall also meet weekly with the Leader, Deputy Leader, Chief Executive Officer and Monitoring Officer to provide an update on progress.

4.4 The Leader, Deputy Leader and General Counsel will meet with the relevant Chairmen and opposition Members of G&AC and Scrutiny to discuss how best to build the reporting and oversight model for the activity related to "Securing Kent's Future" into the planning ahead of the 5 October Cabinet meeting.

5. Financial Implications

5.1 The immediate management actions to reduce the forecast revenue overspend are set out in the attached budget monitoring report. These reduce the forecast overspend from £43.7m to £26.7m. This assumes that £54.8m of savings and increased income are delivered as planned. Assuming the forecasts do not materially alter this would require a minimum £14.7m of further spending reductions and income to be achieved during the remainder of 2023-24. These further savings and income would need to come from a combination of further action in ASCH and CYPE, curtailing other non-essential spending across the rest of the council for at least the remainder of 2023-24, increased income from discretionary fees and charges, and any additional external income (including government funding).

5.2 On 28th July the government announced a further £570 million of ringfenced funding across 2023--24 and 2024-25 to local authorities through the Market Sustainability and Improvement Fund. The government expects that this funding to be used to improve and increase adult social care provision, with a particular focus on workforce pay and increasing workforce capacity within the sector, to ensure that appropriate short-term and intermediate care is available to reduce avoidable admissions and support discharge of patients from hospital when they are medically fit to leave. £365m will be allocated in 2023-24 (KCC's share is £9.375m) with a further £205m in 2024-25. Local authorities will need to provide a summary description, aligned to NHS winter surge plans, of how they will use this funding to ensure sufficient capacity to meet potential adult social care surges in demand over winter by 28 September 2023. This will need to include spending already included within the 2023-24 forecast. The £9.375m is not yet reflected in monitoring forecasts until this plan has been developed and agreed.

5.3 It is critical that all necessary actions and decisions are taken so that the final out-turn position for the 2023-24 budget is as close to a balanced position as possible, to minimise the need to utilise the £12m risk reserve, as this would further weaken our financial resilience. Any recurring additional spending in 2023-24 over and above the budgeted level will need to be reflected in the 2024-25 budget (less any recurring savings from further action). This will represent an additional unfunded growth pressure that could only be addressed by increasing the savings and income requirement over and above the £67m already identified in the Medium-Term Financial Plan for 2024-25 and 2025-26.

5.4 The October Cabinet finance monitoring report will need to evidence sufficient progress is being made on savings delivery, on reducing the forecast overspend in the current year as well as setting out the detailed plans for delivering a sustainable budget in the medium term. This is key to ensuring the council is able to demonstrate its short term and longer-term financial viability and enhanced resilience.

6. Legal Implications

6.1 The Council has a range of statutory duties set out in the annual budget papers and rehearsed elsewhere. This report identifies the importance of an appropriate and detailed plan to control the budget and to reflect the duties owed by the Council in relation to balancing its budget.

6.2 Whilst considering the issues raised by this paper, it is vital that the Council ensures that those resources that are available are prioritised towards those services attached to a statutory duty. In discharging those duties, Members and Officers must note the challenges set out in this report and ensure that the discharge of duties provides continued compliance across the organisation as a whole and not just within individual budget lines and services.

6.3 Legal advice will need to be taken on relevant proposals, key decisions and on the paper for 5th October given the balancing exercise that will be required. In the meantime, Members and Officers are respectfully reminded of their obligations under the constitution and existing governance arrangements including the Financial Regulations and Code of Corporate Governance. A review of these in the light of this paper will be undertaken alongside the activity set out in paragraph 3.2 above.

7. Equality Implications

7.1 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.

7.2 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 is 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.

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

7.4 Equality impact assessment screening will be completed for any alternative and/or additional savings necessary under the recovery plan to determine which proposals will require full equality impact analysis (with mitigating actions set out against any equality risks) prior to a decision to implement being made.

Recommendations

Cabinet is asked to:

1	**NOTE the forecast revenue position for 2023-24 of £43.7m before management action.**
2	**NOTE the initial management action already identified to reduce the forecast revenue out-turn position to £26.7m.**
3	**NOTE that the overspend for 2022-23 combined with the 2023-24 forecast revenue position has significantly impacted the Council's financial resilience.**
4	**AGREE that the Cabinet recognises the significant financial challenge and AGREE that actions must be developed to understand, mitigate and address the over-spend.**
5	**NOTE that any further deterioration of the Council's financial resilience may result in an inability to give the necessary assurance that the Council can balance its budget for 2024-25 or at some future point.**
6	**AGREE the next steps as set out in section 4 of this report and to report the outcomes of this activity to the next Cabinet meeting**
7	**AGREE that Cabinet Members will identify the political decisions that can be taken to reduce the overspend and improve financial resilience, including consideration of further savings within their cabinet portfolios**
8	**AGREE to receive a report at the Cabinet meeting on October 5th 2023, which will include the outcomes of the actions recommended above (including seeking the approval of the detailed action plan)**
9	**AGREE the actions in relation to organisational capacity and Member**

oversight at section 3 and ask the Monitoring Officer, where necessary, to draft the necessary amendments to the Constitution for consideration by County Council.

6. **Appendices**

- **Appendix 1: Financial Monitoring Report**
- **Appendix 2: Section 25 Assurance Statement**

Background Documents

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1 Introduction

This report presents the first high level revenue forecast outturn position for 2023-24. The first forecast has been reported at the September Cabinet meeting in previous financial years, however due to the significant revenue out-turn overspend in 2022-23 it has been brought forward to allow for earlier consideration. The revenue forecast outturn position for 2023-24 is an overspend of £43.7m (excluding schools). Initial management action is expected to reduce this forecast overspend to £26.7m.

The final revenue outturn position for the previous financial year 2022-23 was an overspend of £47.1m compared with a reported £50.6m overspend in the first forecast provided in September 2022. Within the overall outturn position there were significant overspends in Children's, Young People and Education (CYPE), totalling £33.7m, and in Adult Social Care & Health (ASCH), totalling £24.5m.

The 2022-23 overspend required the full utilisation of the risk reserve of £25m that had been established to cover the increased risks and uncertainties, with the remaining £22.1m being drawn down from the General Fund reserve. The overspend from 2022-23 has therefore significantly impacted the council's financial resilience with the General Fund reserve level now £37.4m which is well below the agreed £65.8m (5% of the net revenue budget).

The 2023-24 budget approved in February 2023 was prepared against the backdrop of extraordinary economic consequences of global and national circumstances which have had a significant impact on public spending and borrowing and have impacted on local spending. The forecast revenue overspend from 2022-23 was taken into account when determining the 2023-24 budget and future medium term plans, with significant additional spending growth of £182.3m allocated in the 2023-24 budget.

However, despite the additional spending growth allocated in the 2023-24 budget, as highlighted above, the revenue forecast outturn position for 2023-24 is an overspend of £43.7m (excluding schools), with initial management action expected to reduce this forecast overspend to £26.7m. Work continues to develop further management action that can be taken immediately in the current year, and over the medium term and this will be reported back to the Cabinet meeting of 5th October. **Within the overall outturn position there are significant forecast overspends in Children's, Young People and Education totalling £28.4m, and in Adult Social Care & Health totalling £25.8m.**

The forecast overspend represents 3.3% of the revenue budget and presents a serious and significant risk to the Council's financial sustainability if it is not addressed as a matter of urgency. The risk reserve set aside to deal with any overspends in 2023-24 is only £12m, so further action will need to be taken to ensure the budget is brought back to as close to balance as possible by the end of the financial year. The action taken, building on the initial management action detailed in this Report, will need to focus on recurring cost reductions and savings to ensure the 2024-25 budget and medium-term financial plan are not impacted.

Detailed analysis of the main areas of overspend is being undertaken to fully understand the underlying causes, the degree of common features with the pressures experienced by other councils and how these will be mitigated. The council will need to limit its actions to focus on the most essential activities and priorities until the financial position is brought under control. The outcome of the analysis, the related actions and progress to date in reducing the forecast overspend will be presented to Cabinet in October.

2 Recommendations

Cabinet is asked to:

2.1	NOTE the forecast revenue position for 2023-24 of £43.7m before management action.
2.2	NOTE the initial management action already identified to reduce the forecast revenue out-turn position to £26.7m..
2.3	NOTE that the overspend for 2022-23 combined with the 2023-24 forecast revenue position has significantly impacted the Council's financial resilience.
2.4	AGREE that the Cabinet recognises the significant financial challenge and AGREE that actions must be developed to understand, mitigate and address the over-spend.
2.5	NOTE that any further deterioration of the Council's financial resilience may result in an inability to give the necessary assurance that the Council can balance its budget for 2024-25 or at some future point.
2.6	AGREE the next steps as set out in section 4 of the covering decision report and to report the outcomes of this activity to the next Cabinet meeting
2.7	AGREE that Cabinet Members will identify the political decisions that can be taken to reduce the overspend and improve financial resilience, including consideration of further savings within their cabinet portfolios
2.8	AGREE to receive a report at the Cabinet meeting on October 5th 2023, which will include the outcomes of the actions recommended above (including seeking the approval of the detailed action plan)
2.9	AGREE the actions in relation to organisational capacity and Member oversight set out in section 3 of the covering decision report and ask the Monitoring Officer, where necessary, to draft the necessary amendments to the Constitution for consideration by County Council.

General Fund

Directorate	Revenue Budget	Revenue Forecast Outturn	Net Revenue Forecast Variance
	Forecast position as overspend/(underspend) before management action		
	£m	£m	£m
Adult Social Care & Health	527.5	553.3	25.8
Children, Young People & Education	361.3	389.7	28.4
Growth, Environment & Transport	195.5	196.3	0.8
Deputy Chief Executive Department	84.2	81.7	(2.5)
Chief Executive Department	33.9	33.0	(0.9)
Non Attributable Costs	116.1	107.9	(8.2)
Corporately Held Budgets	(0.3)	0.0	0.3
General Fund	**1,318.3**	**1,362.0**	**43.7**

General Fund

The General Fund forecast position is a net overspend of +£43.7m, with the most significant forecast overspends in Children, Young People and Education of £28.4m and Adult Social Care & Health of £25.8m. The paragraphs below provide explanations for the key variances and the management actions that are being and will be implemented to reduce the forecast overspend. The management actions identified below represent a first stage and will not eliminate in full the forecast overspend for 2023-24. Further urgent action will need to be taken to ensure the council remains financially sustainable and will be brought forward subsequently

Adult Social Care & Health

There is a forecast overspend of +£31.4m in Adult Social Care and Health Operations, which is partially offset by an underspend of -£5.7m in Strategic Management & Directorate Budgets.

The main reasons for the variance in Adult Social Care & Health Operations are detailed below, more detailed analysis is being undertaken to inform further management action and spend reductions:

Older Peoples Residential and Nursing Care - +£16.2m – this includes a forecast overspend of +£13.1m on long term placements, and a further +£3.1m on short term beds. It is estimated that the most significant element of this is in relation to the average cost of 'beds' which is the continuation of the trend that has been seen over the last 2 years, and mainly relates to the cost of new people being placed at a far higher cost than those leaving care. It is considered that this is in part due to the current hospital discharge process, which will be reviewed as part of management action, to ensure costs are shared appropriately. We are working towards identifying and separating out the spending growth due to market conditions and increasing complexity of client needs.

Older People's Homecare - +£4.6m. This forecast overspend is driven by an increase in both numbers of people now receiving homecare, but also due to people on average requiring increased hours of support. It is estimated that the increased activity is +£2.7m of the £4.6m. There is also +£1.6m that relates to the average costs being higher than anticipated, this is considered likely to be due to the continued use of non-framework providers who are a higher cost, and +£0.3m due to service costs not directly related to activity. A review of the use of non-framework providers is being undertaken as part of the management action.

Learning Disability Supported Living - +£5.4m. This is driven in the main by increased activity in terms of hours of support being required - +£3.7m. There is a cost pressure of +£2.9m, which is considered likely to be due to the use of non-framework providers, offset by -£1.0m from unrealised creditors. A review of the use of non-framework providers is being undertaken as part of the management action.

Mental Health – Residential - +£1.6m – This forecast overspend relates primarily to increased activity from when the budget was set +£1.6m.

Mental Health - Supported Living - +£3.1m – This relates to increased activity in terms of hours of support being required +£3.5m, partly offset by a slightly lower than anticipated cost, leading to a variance of -£0.4m.

Physical Disability – +£3.9m – This forecast overspend spans the following services - Supported Living of +£5.4m; Homecare of +£1.7m and Residential Care of +£1.9m, offset by a transfer of budget required from Autism and Sensory services -£4.5m, following the restructure of Adult Social Care. The main reasons for the forecast overspend are due to increasing costs and short-term beds in nursing and residential care and increases in hours of support for homecare services.

Other Services – £-2.9m – There is a forecast net underspend across other services, which is offsetting the forecast overspend on the service areas detailed above.

Strategic Management & Directorate Budgets – £6.1m – There is a forecast underspend which relates to centrally held directorate budgets mainly growth for demography which is used to offset the above forecast overspends.

An enhanced management action plan is being developed and implemented to reduce the forecast overspend, complementing and enhancing the savings plan that is already in place, in the following areas:

- Review of workstreams across the Directorate to ensure that all available resources are directed towards the delivery of statutory functions, savings and efficiency plans and all non-essential work is stepped down.
- Plans to ensure we maintain a highly skilled and effective workforce through specific recruitment and retention activity.
- Reprofiling of targets to deliver savings to provide assurance on (a) savings delivered to date (b) savings yet to be realised over the financial year (c) stretch targets to enhance savings opportunities.
- Phase 2 of the ASC restructure to embed 4 community hubs, that sets out how ASC will manage, contain, and work to prevent costs, reduce and delay the need for care and support through ensuring all new requests for ASC support commence with interventions through enablement, technology, equipment, community micro enterprises and the wider voluntary and community sector. This will reduce the numbers of people requiring a formal Care Assessment and the scope of any assessments as they will focus on need that can only be met through the provision of funded care and support.
- Reprofiling the targets for reviews within 6 weeks for new packages of support commencing to provide assurance on (a) savings delivered to date (b) savings yet to be realised over the financial year (c) stretch targets to enhance savings opportunities.
- Reprofiling the targets for reviews within 6 weeks for people in short stay beds to provide assurance on (a) savings delivered to date (b) savings yet to be realised over the financial year (c) stretch targets to enhance savings opportunities
- Reprofiling the targets for annual reassessment to provide assurance on (a) savings delivered to date (b) savings yet to be realised over the financial year (c) stretch targets to enhance savings opportunities. This will include meeting needs through technology, equipment, community micro enterprises and the wider voluntary and community sector, and identifying opportunities to reduce the financial ask of meeting non regulatory care and support needs by regulated providers.
- Working with the market leading up to the retender of the older peoples' residential contract and care and support in the home contract to reduce the necessity for use of non-framework placements and care packages. Additional Commissioning support is being sourced to do this.

- Setting out the benefit realisation for reducing double handed care and support across the ASC supply chain.
- Working collaboratively with NHS Colleagues to ensure the most appropriate and cost-effective pathways are in place for those people being discharged from hospital settings and ensuring that the necessary joint funding arrangements are in place.

It is estimated that the actions set out above will reduce the forecast ASCH overspend of £25.8m by £10m, alongside the savings plan that is already being implemented. A more detailed analysis of activity and finance data is being undertaken and this will provide further information on the operational and financial impact of the actions being taken, which will update the reduction in the forecast overspend included in the next finance monitoring report.

On 28th July the government announced a further £570 million of ringfenced funding across 2023-24 and 2024-25 to local authorities through the Market Sustainability and Improvement Fund. £365m will be allocated in 2023-24 (KCC's share is £9.375m) with a further £205m in 2024-25. Local authorities will need to provide a summary description, aligned to NHS winter surge plans, of how they will use this funding to ensure sufficient capacity to meet potential adult social care surges in demand over winter by 28 September 2023. A summary of the plan for use of this funding will be included in the next finance monitoring report on 5th October and will need to include eligible spending already included within the 2023-24 forecast.

Children, Young People and Education

The Children, Young People and Education Directorate is forecasting a £28.4m overspend.

There is a forecast overspend of £12m in Integrated Children's Services (Operations). The number of Looked After Children (excluding Unaccompanied Asylum Seeking Children) continued to rise during the latter part of 2022-23 whereas it had been anticipated these numbers would stabilise and start to reduce as the delays in the courts started to clear. Due to the ongoing challenges of recruiting in- house foster carers, children are being placed in increasingly more expensive alternatives including independent fostering agencies, unregulated and residential care. Pressures in the market for suitable children's social care placements are causing the costs of placements to rise at a higher rate than inflation. The number of looked after children reached a peak at the end of April and has started to slowly reduce although not at the pace provided for in the budget. The forecast assumes the costs of placements will continue to rise and the number of LAC remains relatively constant. Invicta Law have also increased their prices but have not been able to match this with efficiencies leading to a possible cost pressure. Detailed analysis of the assumptions is being undertaken to identify and quantify the measures that will help to reduce the forecast overspend.

There is a forecast overspend of £3.9m in Integrated Children's Services (Countywide Services). The main reasons for this variance are an overspend on Children in Need Disability Services and an overspend on Young Adults (18-25) supported in community-based settings. The forecast assumes trends in both numbers and cost of support will continue to rise in a similar way as 22-23. Savings across these two areas are expected to take longer to realise than initially anticipated, but further work and more detailed analysis is being undertaken to identify and quantify measures to limit the forecast overspend as far as possible.

There is a forecast overspend of £12.5m in the Education & SEN Division. The main reasons for this variance are an overspend on Home to School/College Transport (+£9m) mainly for children with SEN and pressures resulting from the use of temporary accommodation to deliver school places (+1m). The cost and numbers of children travelling to school increased at a higher rate than expected in the latter part of 2022-23 resulting in an ongoing commitment in 2023-24 along with similar trends being anticipated for the remainder of the year. This forecast will be updated further once the September pupil numbers are known. Special Educational Needs are forecasting a £1.5m overspend, recruitment has continued at pace, but the use of agency remains high to provide additional capacity whilst the new structure and processes are embedded.

The following management actions have been implemented to reduce the forecast overspend:

- Work is continuing with the NHS to explore joint commissioning opportunities (including tier 4 admissions) and joint funding agreements for eligible young people.
- Panels have been established in every district across both Integrated Children Services and Disability Services to review suitability and level of support for all looked after children's placements. This is in addition to a further peer review focused on high cost placements.
- Development of a Placement Framework to explore alternative ways to support children at risk of coming into care including increasing the role of family members.
- Development of a CYPE staffing recruitment & retention strategy to reduce reliance on agency staff.
- Signposting of families to community services where it is available and appropriate.
- Review of 18-25 community-based services (i.e. direct payments, supporting living, daycare and transport): Reduction in expenditure on non-framework packages of care for 18-25 year olds and ensuring strict adherence to policy.
- Working more closely with colleagues in Adult Social Care to support transition for those young people (aged 18 to 25) requiring adult social care support.

The detailed financial impact of these actions is currently being finalised and will be formally reported in the next finance monitoring report.

Growth, Environment & Transport

The Growth Environment and Transport Directorate is forecasting a £0.8m overspend.

There is an underspend of -£0.5m in Highways & Transportation. The main reason for this variance is an underspend of -£1.6m on Streetlight energy following recent confirmation of a reduced summer price for electricity plus estimated savings on the winter rate for the proportion of energy that has already been purchased; both are below budgeted rates. This underspend, together with additional income (-£0.3m), more than offset pressures against Winter Service, where there is a projected price uplift in the contract (+£0.8m), and additional activities for tunnels and structures (+£0.7m). The position has also improved as the forecast assumes £0.3m of DfT funding to support border management activity which was previously forecast as an overspend.

There is an overspend of £0.2m in Growth & Communities. Within this is an overspend on the Coroners Service resulting from postmortem fees, funeral director costs and NHS Mortuary costs (+£0.3m). The duration of the required public and staff consultations to achieve the Community Warden service saving represents part of the division's pressures (£0.2m). The following management actions will be implemented to manage the Community Warden overspend insofar as all current and future vacancies will remain unfilled and this has helped to reduce the overspend. Further management actions are being developed to offset the shortfall and these will be included in the next monitoring report.

There is an overspend of £1.1m in Environment & Circular Economy. The main reason for this variance is the delay in the proposed plan to deliver a saving to the HWRC service. An informal Members group (IMG) has been established to assess the options prior to the consultation being launched. The overspend of £0.5m is the 2023-24 part year effect of the planned 2-year £1.5m budget reduction.

Volume variances in both Residual Waste and Recycling, primarily higher than budgeted organic waste tonnes, add +£0.5m to the position. In addition are contractual pressures relating to inflation that are higher than that anticipated at the time the 2023-24 budget was being set. This includes increased prices on the Material Recycling Facilities contract, which are highly variable and based on market commodity prices and volumes of materials, as well as on the East Kent haulage contracts. These pressures have largely been offset by below budgeted prices for Allington Waste to Energy Plant and composting contracts. The combination of these result in a circa net £0.1m pressure.

Whilst income remains positive and is higher than budgeted the market remains highly volatile and can change throughout the year. It remains too early in the year to confidently commit to tonnage variances and better commodity prices, future monitoring reports will reflect the latest position.

The following additional management actions are being implemented to manage the overspend.

- Negotiations continue with suppliers to ascertain whether any in-year benefit can be secured from operational adjustments.
- All services across the directorate are reviewing staffing and spend levels to ensure only essential spend is incurred.

Non Attributable Costs

There is a forecast underspend of -£8.2m in Non Attributable Costs. The majority of this variance is due to increased income from the Kent Business Rates Pool relating to 2022-23, and the increase in the Bank of England base rate since the time of setting the budget, leading to a significantly higher forecast income return on investments.

The following management action has also been implemented to reduce the forecast overspend:

- The annual recalculation of debt charges has been completed and due to the decisions that Members have taken to contain the capital programme, the significant levels of re-phasing of the capital programme in 2022-23, and changes in interest rates £8m can be released from the debt charges budget, £4m of this is on a recurring basis, with £4m as a one-off in 2023-24. It is proposed to use £1m of the recurring saving as an annual revenue contribution to a new capital reserve to meet the cost of emergency capital events, giving an overall saving of £7m this financial year. This saving does not impact our prudent Minimum Revenue Provision policy which is unchanged.

The table below reflects the updated position after taking account of the management actions set out above:

General Fund	Updated forecast position as overspend/(underspend)				
Directorate	Revenue Budget	Revenue Forecast Outturn	Net Revenue Forecast Variance	Management Action	*Revised Net Revenue Forecast Variance*
	£m	£m	£m	£m	*£m*
Adult Social Care & Health	527.5	553.3	25.8	(10.0)	15.8
Children, Young People & Education	361.3	389.7	28.4		28.4
Growth, Environment & Transport	195.5	196.3	0.8		0.8
Deputy Chief Executive Department	84.2	81.7	(2.5)		(2.5)
Chief Executive Department	33.9	33.0	(0.9)		(0.9)
Non Attributable Costs	116.1	107.9	(8.2)	(7.0)	(15.2)
Corporately Held Budgets	(0.3)	0.0	0.3		0.3
General Fund	**1,318.3**	**1,362.0**	**43.7**	**(17.0)**	**26.7**

4 Savings

Savings

Some of the variances within the above position have been caused by a delay in the delivery, or non-delivery of the savings that were approved as part of balancing the 2023-24 budget.

An initial review of the 51 savings over £0.2m has taken place. These savings totalled £56.2m and early indications are that 15 individual savings plans totalling £4.7m are not going to be delivered as planned.

The table below shows the breakdown by Directorate of the number of savings that will not be fully delivered in 2023-24:

Directorate	Number of Savings	2023-24 Approved Savings £m	Estimated shortfall £m
Adult Social Care & Health	3	5.1	(2.4)
Children, Young People & Education	10	6.5	(2.0)
Growth, Environment & Transport	2	1.0	(07)
Total	15	**12.6**	**(4.7)**

The reasons for non-delivery are set out below:

	2023-24 Agreed Saving £000s	Amount forecast under delivered £000s	Reason for under/non-delivery
Adult Social Care & Health			
Client Related Transport	400.0	44.0	Under delivery linked to charging policy (below)
Charging policy for Full Paying service users	380.0	380.0	Consultation and key decision required
Review of Discretionary Voluntary Sector Contracts	4,310.0	2,000.0	Work is ongoing with providers with only part year effect available this year, the remainder expected to be achieved in 2024/25.
Sub Total ASCH	5,090.0	2,424.0	
Children, Young People & Education			
Reconfiguration of Children Social Work Teams	200.0	200.0	Requires change in agency staff regulation and reduction in referrals
Review of 18-25 community based services	1,754.8	TBC	Savings likely to be offset by demand and cost increases
Client Related Transport	250.0	250.0	Savings offset by inflation and fuel costs

Review of open access services through Family Hub model	200.0	200.0	Subject to consultation and future requirements from DFE
Review the Kent 16+ Travel Saver scheme	250.0	250.0	Replaced through Bus Strategy Grant
Services to Schools	400.0	400.0	Engagement with schools and Schools Forum on-going
Disabled children's placements & support	1,529.3	TBC	Savings likely to be offset by demand and costs increases
Review of Integrated Looked After Children's Placements.	1,000.0	TBC	Partly dependent on providers and health authorities
Review Section 17 payments	229.2	229.2	Review not yet complete
Care leavers independence at age 19	700.0	500.0	Lack of suitable alternative accommodation options. Requires co-ordination with District Councils and other housing providers
Sub Total CYPE	6,513.3	2,029.2	
Growth, Environment & Transport			
Review of Community Warden Service	500.0	150.0	Consultation and key decision required
Review of HWRC sites	500.0	500.0	Consultation and key decision required
Sub Total GET	1,000.0	650.0	

Alternative savings of £4.5m have been identified to offset the non-delivery of the 15 savings. The table below shows the breakdown by Directorate of the alternative savings in 2023-24:

Directorate	Number of Savings	2023-24 Approved Savings £m	Estimated shortfall £m	Alternative savings identified £m
Adult Social Care & Health	3	5.1	(2.4)	2.4
Children, Young People & Education	10	6.5	(2.0)	1.8
Growth, Environment & Transport	2	1.0	(0.7)	0.7
Total	15	12.6	(4.7)	4.5

4 Savings

The alternative savings are as follows:

Overview of saving	Alternative saving identified	Alternative savings value £000s
Adult Social Care & Health		
Client Related Transport	Review of spend on private taxis in light of new charging policy	44.0
Charging policy for Full Paying service users	Additional savings to be delivered as part of other continuous improvement plans in locality teams	380.0
Review of Discretionary Voluntary Sector Contracts	Alternative one off funding sources have been identified to fund continuation of contracts	2,000.0
Sub Total ASCH		2,424.0
Children, Young People & Education		
Reconfiguration of Children Social Work Teams	Exploring options to recruit permanent social workers through alternative recruitment routes	200.0
Review of open access services through Family Hub model	Over-delivery of saving on vacancy management and ceasing non-essential spend across children's centres and youth hubs (in line with 2022-23 underspend).	200.0
Review the Kent 16+ Travel Saver scheme	Replaced through Bus Strategy Grant	250.0
Services to Schools	Alternative savings from The Education People company & ceasing of current arrangement with Kent Association of Headteachers	400.0
Review Section 17 payments	Kinship or alternative offer to support children at risk & avoiding children coming into care.	229.2
Care leavers independence at age 19	Underspend on Care Leavers placement costs	500.0
Sub Total CYPE		1,779.2
Growth, Environment & Transport		
Review of Community Warden Service	Hold further future vacancies, and other operational savings.	150.0
Review of HWRC sites	Alternative savings possible through HWRC and wider contract variations and engagement with District and Boroughs on kerbside improvements.	500.0
Sub Total GET		650.0

4 Savings

It is too early to confirm the position for some savings and the progress on those will be included in the next finance monitoring report.

There are also 47 savings that are individually under £0.2m totalling £2.9m. £2.0m of these have already been delivered and £0.9m require further action to ensure they are delivered. Progress on the delivery of these savings will also be included in the next monitoring report.

Delivery of savings in full and on time is a critical part of ensuring the revenue out-turn position is balanced and is key to avoiding further pressure on future years' budgets. The progress on savings delivery will continue to be monitored closely and where necessary corrective and alternative action will be taken and reported through this finance monitoring report.

Conclusion

The forecast overspend even after taking the management action into account presents a serious and significant risk to the Council's financial sustainability if it is not addressed as a matter of urgency. It is vital that the actions set out in the recommendations in the report are taken with further actions and progress detailed in the next monitoring report, to evidence that the revenue budget will be brought back to as close to balance as possible by the end of the financial year.

The next meeting of Cabinet on 5 October 2023 will receive a progress report setting out in more detail the actions and decisions needed to bring the forecast overspend down to as close to balanced as possible. This report will include a more detailed financial and activity analysis of the most material spending and variances in adult social care and children's services, detailed delivery of savings plans, and benchmark comparisons with other councils.

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From: Zena Cooke, Corporate Director, Finance

To: County Council

Subject: **Section 25 Assurance Statement**

Classification: **Unrestricted**

Summary:
This report sets out my view as the Section 151 officer as to the robustness of the budget estimates for the administration's proposed budget for 2023-24, the medium-term financial plan, and the adequacy of reserves. It includes an evaluation of the background to budget preparations for 2023-24, including the impact of under delivery of 2022-23, future risks and uncertainties, deliverability of the proposed budget plan, and financial sustainability of the Council. It is acknowledged that setting a balanced budget for 2023-24 has been incredibly challenging due to the extraordinary economic consequences of global and national circumstances in the current year which have added significant turbulence and uncertainty.

The 2022-23 revenue budget has an unprecedented level of forecast overspend, particularly in adults' and children's services. Whilst the latest indications are that the forecast overspend is reducing there are still some further increases. The level of the forecast overspend poses a significant risk to Council reserves if it is not brought down to the level of reserve specifically set aside for this purpose. As well as the risk to reserves, the forecast overspend adds significant spending growth pressures to the administration's draft 2023-24 budget even before any consideration of replenishing reserves that would need to be drawn down to balance 2022-23 spending.

The capital monitoring continues to show high levels of slippage. This has a short-term benefit for revenue spending as borrowing is only taken up once capital spending has been incurred. However, this does have an impact on revenue budget planning as it means amounts have been set aside for forecast future borrowing costs based on the original capital plans which increases the amounts that need to be found from savings and income to balance the revenue budget. Furthermore, the capital programme still requires significant borrowing over the lifetime of the plan with long term revenue consequences. Although the vast majority of this is not new borrowing as it is largely a continuation of the previous capital programmes, as has been highlighted in previous assurance statements the levels of historic debt represent a significant drag on the Council's financial resilience (with relatively high levels of borrowing than comparable councils). The further borrowing required to fund the programme (whether internal or external) is significant and exceeds reductions in debt through maturity. It is essential that sustainable alternatives to borrowing to fund capital spending are identified to reduce this further drag on financial resilience.

Setting a robust revenue budget for 2023-24 means the budgets with forecast overspends in 2022-23 need to reflect the full year effect of higher than budgeted

costs and demand in the current year, as well as under delivery and rephasing of savings plans and the revenue consequences of the borrowing required for the capital programme. To safeguard the Council's financial resilience, it will be essential that for 2023-24 there is a relentless focus on financial management, demand management, timely delivery of the agreed savings, with all the necessary key decisions taken in a timely manner, and that there are no additional spending requests that would add to costs over and above budgeted levels or repurposing of budget variances without following due governance processes.

Provided all the measures set out in the draft budget and medium term plan are implemented, including the delivery of the proposed revenue savings and income, resisting future spending growth, limiting the use of one-off funding including reserves with no one-off funding sources supporting the base budget by the end of 2024-25, minimising the level of borrowing for the capital programme, council tax increases and precepts, the Council will continue to demonstrate financial sustainability for the next two years, although there remains considerable uncertainty over the medium term.

Recommendations:

(a) Pursuant to section 25 of the Local Government Act, County Council is asked to CONSIDER and NOTE this report and AGREE to have due regard to the contents when making decisions about the proposed budget.

1. Background and Introduction

1.1 Section 25 of the Local Government Act 2003 requires the Section 151 officer (for Kent this is the Corporate Director, Finance) to formally give an opinion as to the robustness of the budget estimates and the level of reserves held by the Council. The Act also requires that the Council must give consideration to this report when making decisions about the budget.

1.2 It is essential that the budget includes an assessment of the potential financial risks facing the Council and that the Council has adequate reserves should those risks materialise. The Council holds a general reserve for unforeseen and unplanned circumstances and a range of earmarked reserves for specific eventualities. The proposed 2023-24 budget includes a further additional contribution to general reserves to maintain these to the previously agreed level of 5% of the 2023-24 proposed budget. However, if the current year's forecast overspend is not reduced over the remainder of the year to a level that can be accommodated from specific reserves set aside for budget risks and stabilisation, then some of the general reserve may need to be drawn down to balance the 2022-23 outturn with a consequent reduction in the Council's financial resilience.

1.3 In recent years the section 25 assurance statement has noted that the Council has maintained adequate but not generous levels of reserves and has a relatively high level of accumulated debt. The Corporate Director, Finance has undertaken an assessment of the financial resilience of the Council compared to other county councils and has concluded that KCC remains in the lower half of the resilience range. Furthermore, KCC is forecasting proportionately more significant financial growth pressures in 2022-23 and 2023-24 than other county councils and consequently if savings plans are not agreed and delivered the Council is in more imminent danger of financial failure than other comparable councils despite the strengthening of reserves in recent years. Although reserve levels are still considered to be adequate for 2023-24 (subject to the final 2022-23 outturn position), reserves will need to be further strengthened over the medium term to cover the Council's contribution to the Safety Valve agreement with the Department for Education. The level of reserves will require continuous monitoring considering the remaining level of forecast overspend in the current year (including under delivery of previous savings plans) together with the heightened risks from the wider economic circumstances. The Council cannot be complacent and must continue to maintain financial rigour, particularly with regard to accumulated debt and associated financing costs, which have in recent years benefitted from internal borrowing to a large degree.

1.4 The Council's revenue spending in previous years has been managed within the approved budget and ended the year with a small surplus. However, there has been an underlying overspend in both Adult Social Care and Children's Services offset by underspends elsewhere in the budget and drawdowns from reserves. 2022-23 has seen a significant forecast overspend which if not closed over the remainder of the year will need to be covered by reserves set aside for budget stabilisation. Whilst the Council has maintained a substantial capital programme over this period without adding to external accumulated debt, it has continued to borrow internally from cash reserves.

1.5 The Council's Constitution specifically defines the role of all Members in determining and agreeing the policy and budgetary framework of the Council in accordance with applicable laws providing sufficiency of resources. The budget approval process includes Cabinet Committee meetings, the Scrutiny Committee meeting and an informal Member briefing leading up to the formal Budget meeting and the consideration of the recommendations set out in the County Council budget report. These are the mechanisms by which all Members have the opportunity in advance of the full County Council meeting to define, challenge, amend and ultimately vote on the Council's budgetary framework for the next year and medium term, in which all Members have a voice and a vital role to play.

2. Evaluation of the administration's proposed 2023-24 Revenue Budget and Medium-Term Financial Plan

2.1 As outlined in the summary, the administration's proposed 2023-24 budget and medium-term plan have been prepared against the backdrop of considerable uncertainty and volatility.

2.2 The uncertainties of the economic environment, in particular rising inflation, a one year settlement, the scale of savings and growing demands on core services and a forecast overspend have all meant that there are significant risks facing the Authority in delivering a balanced budget. In fulfilling the various responsibilities placed on me as Chief Financial Officer, I have set out below what I see as the key risks associated with the proposed budget and how they can be managed within the Administration's proposed budget, so that Members are clear on the risks associated with these budget proposals when making their budget decision.

Risk A – Impact of Forecast Overspend

2.3 The budget monitoring position as at the end of September 2022 was reported to Cabinet on 1st December 2022. The revenue budget showed a significant forecast net overspend of £60.9m. Action to address the reported £60.9m overspend is critical to avoid an unsustainable drawdown from reserves and full year consequence of additional spending from the current year in 2023-24. It is not unreasonable to drawdown from the risk reserve, which was set aside for the increased risks arising from the post pandemic uncertainties. The quarter 2 monitoring report included £7.9m of proposed actions to reduce the overspend. The Council will need to continue to look to reduce and minimise non-essential spending for the remainder of the current year to reduce the risk of any further drawdown from general or earmarked reserves to offset overspends. The main reasons are due to a combination of rising costs (largely due to economic circumstances of extraordinary inflation and market instability including recruitment difficulties), under delivery of savings, and in some cases increased demand for services. The budget was set with contingency provisions for additional risks particularly due to the early signs of rising inflation and market sustainability issues but if the overspend is not reduced during the remainder of the year any overspend would have to be met from reserves, weakening the Council's financial resilience.

2.4 The most significant forecast overspends in children's services are on home to school transport and children in care. The most significant forecast overspend in adult social care continues to be older persons residential and nursing care. Overspends on other council services are partly due to under delivery of savings, including in some cases delays to decisions necessary to implement the original budget plan e.g. savings on supported bus services, and the impact of higher inflation (particularly streetlights/road signs and energy costs for the council's property estate).

2.5 The proposed 2023-24 draft revenue budget includes £216.8m of additional spending. This includes £63.5m for the full year effect of increased costs and demands in 2022-23, £70.4m for estimated future price increases, £34.0m for forecast future demand and cost drivers, £28.0m for government specific grant funded additional spending (offset by matching grant income), £13.9m for increased pay related costs (including removal of employer national insurance increase and lower employer pension contributions) and £2.0m for additional borrowing. This mix of revising budgets for known variances and forecast spending growth is a robust approach and provides a sound basis for financial planning, however it is critical that budgets are not simply increased to reflect increased spending, without a rigorous approach to demand and financial management.

2.6 The proposed 2023-24 budget includes estimates for future demand and price increases. Due to the considerable uncertainty about these forecasts growth based on future estimates will be held in a way that ensures it is separately identifiable so that it can be revised once the actual incidence has been evidenced. Other provisions will be held centrally and allocated during the year.

Risk B – Delivery of the Planned Savings

2.7 The proposed 2023-24 draft budget also requires the delivery of a package of £86.6m of planned savings and income. This comprises £39.1m of savings from spending reductions, £15.6m increased income from charges and contributions, and £31.9m increased income from specific government grants. Recent experience is that savings have slipped or have not been delivered at all. The magnitude of the savings required for 2023-24 significantly heightens the deliverability risk. The risk of under delivery can be mitigated provided key decisions to implement savings plans are agreed in a timely manner. The proposed budget also still includes a planned contribution to the risk reserve and maintains the general reserve at 5%. These reserves are available to counter the risk of savings delivery and any under forecast of the estimated growth pending in year confirmation, although any sizeable use of these reserves will impact on the Council's financial resilience if they are not replenished in the following year.

Risk C – High Needs Block overspend

2.8 The single greatest financial risk to the Council remains the substantial and growing deficit on High Needs spending from the Dedicated Schools Grant (DSG). This has been flagged as the biggest risk for several years with the accumulated deficit forecast to be £146.6m by the end of the current year. A statutory override has been extended by a further 3 years which means that DSG deficits do not have to be covered from the General Fund i.e. they are not cash backed. However, the Council does need to make provision to repay a proportion of the accumulated deficit from General Fund reserves as part of the Safety Valve agreement with the Department for Education. Currently there is no specific provision within General Fund reserves for this repayment. The current level of accumulated deficit remains unsustainable posing a considerable risk to the Council if there is not a significant reduction in the deficit. The assessment of financial resilience based upon the ratio of reserves to debt as a percentage of net revenue budget now includes an additional assessment for this risk. Formal regular monitoring and reporting of the local deficit recovery action plan, highlighting any corrective action, will be critical to ensure the deficit is being tackled effectively.

Risk D – Capital Programme

2.9 The capital programme continues to show a high and unsustainable level of slippage on projects. It is essential that future capital programmes are based on more realistic phasing of planned expenditure. The implementation of a 10 year capital programme, the introduction of a reserve to fund feasibility costs and the new capital monitoring and reporting solution, should ensure a more realistic capital programme with significantly less slippage, but this is still proving to be a challenge to achieve.

2.10 The capital programme as at the end of September 2022 is forecast to underspend by £74.6m, comprising +£29.1m overspending on schemes and -£103.7m rephasing into later years. Whilst the introduction of a 10-year programme from 2022-23, and a feasibility fund, together with a planned capital monitoring and reporting IT solution, should ensure capital programme budgets and delivery are more realistic in future, this is still proving to be a challenge to achieve. More work is needed to reduce the level of slippage in the programme, a review of the current arrangements is underway and will help inform any changes that may be required.

2.11 The proposed draft capital programme is £1,624m over the 10 years 2023-24 to 2033-34. The 10 year element of the plan primarily relates to the rolling annual programmes. Spending on approved projects is set out over the anticipated timescales to deliver these projects. A separate schedule of potential projects is not included as part of the approved programme to ensure that schemes in the initial stages of development and/or where funding has not been secured are not formally included in the programme too early in their development. However, minimising additional borrowing does not come without risks and consequences. This means the Council will need to prioritise maintenance and improvement works which avoid the risk of death or serious harm on the Council's highest priority assets, with the possible closure of non-priority sites on safety grounds. This in turn will lead to an increase in maintenance backlogs and higher potential future costs. The Council also needs to investigate alternative funding mechanisms for maintenance works avoiding the need for borrowing to fund what are essentially recurring costs.

2.12 The proposed draft programme is funded from a combination of government grants, external funding and borrowing. In line with previous years, it is proposed that borrowing is supported from the Council's cash balances rather than external debt. This not only reduces the cost of borrowing (bearing in mind the difference between returns on cash investments and borrowing rates) but also ensures the Council does not increase accumulated debt based on spending profiles which are subsequently delayed. This strategy of internal borrowing is considered sustainable for the next two to three years providing there is no significant revenue need to draw down reserves and the Council has sufficient cash balances. In the medium term this approach will need to be reviewed and revised as it will not be possible to sustain this level of capital investment without the greater achievement of savings, generation of income or increased funding. It is essential that sustainable alternatives to borrowing to fund capital expenditure are identified to avoid further drag on financial resilience.

Risk E – Impact on the Medium Term Financial Strategy

2.13 The medium-term plan shows a balanced position over a three-year period. The forecasts for 2024-25 are inevitably less reliable than the forecasts for 2023-24 (which themselves have a degree of uncertainty bearing in mind the extraordinary volatile economic environment). The Chancellor's Autumn Budget statement only set out spending plans for two years with detail only for the first year and substantial uncertainty how the high level spending plans for 2025-26 and later years will translate into individual departmental spending plans and the local government finance settlement. The most likely scenario is that any additional funding in 2025-26 will be substantially less than spending growth needed to maintain services at the current level and further significant savings are likely to be needed to continue to set a balanced budget.

2.14 In the medium to longer term the Council has to have a sustainable plan where spending growth is more closely aligned to Council priorities and available funding as the scope for savings without significant changes to legislative requirements is limited. The medium-term plan for 2022-25 was balanced (albeit with limited use of reserves in the first years). No plan, no matter how robust, could have foreseen the significant economic impacts of the global and national circumstances faced in the current year and it is unsurprising that there are significant variances from the original plan. What is important is how the Council responds so that there is greater agility in future without relying heavily on reserves. To this end it is vital that the Council continues to evolve financial planning taking an Outcomes Based Budgeting (OBB) approach that was started for 2023-24 (albeit that resource envelope approach agreed for building 2023-24 budget could not deal with the extraordinary circumstances witnessed during the current year). The experience from this year is also that the Council should not place over reliance on consumer and retail price indices for negotiating future costs of commissioned services.

Risk F – Impact on Reserves

2.15 The latest forecast for usable revenue reserves at the end of 2022-23 is £308.6m, this represents a substantial decrease of £99.5m on the position at the 1st April 2022. The forecast takes account of a drawdown of Covid-19 reserve, risk reserve, and other planned drawdowns from earmarked reserves as well as the amount needed to offset forecast overspends. In total the forecast drawdown from earmarked reserves is £102.4m, this is partially offset by a £3m increase in general reserves approved as part of 2022-23 budget to maintain these at 5% of net revenue budget. The reserves forecast includes draw downs to balance the year end position although this could change further during the remainder of the year.

Overall Assessment

2.16 The proposed budget represents a compromise between additional spending growth, spending reductions through savings, income losses and planned income generation, changes in reserves, government grants in the provisional settlement, the estimated council tax base, and proposed council tax charge increases. It is not the role of the S25 assurance statement to comment on the precise mix providing the overall package results in a balanced budget and the estimates on which the calculation is based are considered robust.

2.17 All the estimates within the proposed draft budget are the product of a comprehensive planning process with Cabinet Members, Corporate Directors and Directors resulting in an agreement on the level of service delivery within the identified financial resources. In addition, a separate appendix of the final draft budget sets out the main budget risks that are taken into account in determining the estimates.

2.18 The final budget includes the updated assessment of budget risks and adequacy of reserves taking account of the continuation of contingency provisions for demand and price risks, new contributions to reserves, and maintaining general reserves at 5% of the proposed 2023-24 net revenue budget. However, it also notes that variable/insecure funding is being used to balance the budget and that the Council's financial resilience is at considerable additional risk as it requires delivery of substantial savings and provision for uncertain forecasts for future cost and demand growth.

2.19 The budget strategy allows for a proposed draft budget which is affordable whilst allowing the Council to fulfil its statutory responsibilities and address local priorities. The proposed draft budget will require some difficult decisions about service levels and provision both in 2023-24 and over the medium term. These decisions will need to be confirmed under the Council's constitutional arrangements and Financial Regulations after due consultation and equalities impact assessments. It is essential that decisions are taken in a timely manner to achieve the amounts assumed in the proposed budget. As such the proposed draft budget is a plan which can be subject to change, with any changes considered and agreed by Cabinet through the in-year monitoring reports.

3. Conclusions

3.1 As Section 151 officer taking all relevant factors into account, I can formally report that in my view subject to all the measures set out in the draft budget and medium-term plan being implemented, the budget estimates are robust and the level of reserves adequate within the constraints in which the Council currently has to operate with funding not keeping pace with forecast spending growth, as required by the Local Government Act 2003. This is on the assumption that the proposed council tax increases up to but not exceeding the 3% referendum threshold and 2% for Adult Social Care levy are agreed. However, if the forecast outturn for 2022-23 is not brought down to a level that can be covered by reserves set aside for budget risks and stabilisation this poses a significant risk to the adequacy of reserves and thus the Council's financial resilience.

3.2 Council tax is now the most significant source of funding for council services. Any lesser increase than that proposed, without a corresponding reduction in base budget spending would have an adverse impact on the Council's financial resilience and ability to mitigate future spending risks or medium-term uncertainties over the future funding gap. This assessment has focussed on the significant uncertainty and volatility around spending and income forecasts for 2022-23 and that the Council has previously had adequate but comparatively less generous reserves for risks at the time.

3.3 The administration's revenue proposals for 2023-24 and medium-term plan are not without significant additional risks. The proposals strike a balance between affordability whilst allowing sufficient resources for the Council to fulfil its statutory responsibilities and address local priorities. This is not an easy combination and will require some difficult decisions about service levels and provision. It will require services to bear down on spending growth, particularly with regard to future price levels and managing demand. In my view whilst this presents risks, the Council currently has sufficient financial resilience and reserves , such that the additional risks are not excessive or reckless. However, it is essential that there is a relentless focus on financial and demand management, delivery of savings and income plans, timely decision making and there are not additional spending requests that would add to costs over and above budgeted levels. It is also essential that where variations from the budget plan are identified that remedial action is taken promptly to ensure a balanced budget can be delivered.

3.4 The proposed draft revenue budget includes a significant package of savings to balance forecast spending growth within the funding available from local taxation and government grants. As identified in this report it is essential that decisions on implementing these savings plans are taken in a timely manner if the amounts included in the budget plan are to be achieved. The forecasts for future spending growth are still considerably uncertain and will only be finalised in controllable budgets once uncertainties have been resolved. The amounts set out in the directorate plans are notional at this stage for comparative purposes.

3.5 The proposed 2023-24 budget includes an additional contribution to general reserves in line with the medium-term strategy to have the overall level at 5% of net spending to improve financial resilience. This level of general reserves is considered to be essential in light of increased financial risks, the increased self-sufficiency of councils and greater reliance on tax income, and medium-term uncertainties. Any drawdown from general reserves either as part of addressing the 2022-23 overspend or to cover variances from the proposed draft 2023-24 plan (which already includes £12.5m from Corporate and Public Health reserves to balance the budget) would require general reserves to be replenished back up to 5% level at the earliest opportunity, even if this requires delivery of additional savings from the proposed amounts identified for 2023-24 and 2024-25. Failure to maintain general reserves at 5% would in my opinion very likely seriously impair the adequacy of the Council's reserves and consequently its financial resilience.

3.6 The longer-term capital planning within the proposed 10-year programme delivers urgent and critical works as well as addressing the need to minimise new borrowing and deficiencies in previous plans that have led to significant rephasing. Both of these have significant consequences on future revenue budgets. The level of borrowing continues to be a concern, even though it has been reduced, sustainable alternatives urgently need to be identified.

3.7 Finally, I draw members attention to the known correlation between those councils which have had the lowest council tax rates, undeliverable savings plans, highest levels of debt, lowest levels of reserves and subsequent concerns about financial management. Whilst these are not the only factors which could give rise to financial management concerns, they remain an important consideration in the assessment of financial resilience and sustainability. KCC's current council tax charge is around the average of all county councils, but levels of debt are well above average compared to levels of reserves which remain below average. The levels of debt are slowly being addressed through the new 10-year capital programme and avoiding additional borrowing, but the Council also needs to maintain levels of reserves which reflect levels of council spending, financial risks and medium-term uncertainty.

Recommendations:

(a) Pursuant to section 25 of the Local Government Act, County Council is asked to CONSIDER and NOTE this report and AGREE to have due regard to the contents when making decisions about the budget.

3. Contact details

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