Financial Recovery Plan – Securing Kent's Future

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Background Documents

1. County Council Budget meeting 9th February 2023
https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=113&MId=9026&Ver=4

2. KCC Share of Retained Business Rates and Final Local Government Finance Settlement 2023-24 report to Cabinet on 30th March 2023
https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=115&MId=8995&Ver=4

3. Revenue and Capital Budget Outturn 2022-23 report to Cabinet on 29th June 2023
https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=115&MId=8997&Ver=4

4. Securing Kent's Future = Budget Recovery Strategy & Financial Reporting report to Cabinet on 17th August 2023
https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=115&MId=9380&Ver=4

Headline 1 2022-23 revenue outturn was overall £47.1m overspend (3.9% of net revenue).	The provisional outturn was reported to Cabinet on 29th June 2023. This showed a net revenue overspend of £47.1m. Overspends before roll forwards were reported in Adult Social Care & Health (ASCH) of £24.4m, Children, Young People and Education (CYPE) of £32.7m, Growth Environment and Transport (GET) of £0.9m, Deputy Chief Executive Department (DCED) of £1.6m. These were partly offset by underspends in Chief Executive Department (CED) of £3.5m and Non-Attributable Costs and Corporately held budgets (NAC) of £11.8m The most significant overspends were: • £30.5m older persons residential and nursing care in ASCH • £16.1m home to school transport in CYPE • £9.9m children in care in CYPE
Headline 2 The overspend was balanced through £47.1m drawdown from reserves (11.5% of general and earmarked revenue reserves).	The outturn was balanced through the drawdown of the total £25m risk reserve with the balance of £22.1m from the general reserve. The drawdown from general reserve amounted to 39% of this reserve and reduced the balance as at 31st March 2023 to £37.6m. This is below the recommended 5% of net revenue and general reserves will need to be replenished at the earliest opportunity. Earmarked reserves included a transfer of £17m to Dedicated Schools Grant reserve as KCC's 2022-23 contribution to the Safety Valve agreement with the Department for Education (DfE) as part of the high needs deficit recovery. A further transfer will be needed for the 2023-24 contribution, and future years' budgets will need to include £50.9m provision for the remaining contributions. The combination of drawdowns from risk and general reserves have reduced the Council's ability to withstand unexpected circumstances and costs. These reserves will need to be replenished at the earliest opportunity. The drawdowns and transfer have reduced the adequacy of reserves since the assurance given when approving 2023-24 budget.
Headline 3 Financial resilience was already reduced in comparison to other councils before 2022-23 outturn.	The latest available 2021-22 comparative financial resilience indicators from the Chartered Institute of Public Finance and Accountancy (CIPFA) shows that KCC's general and earmarked reserves excluding public health are 37.2% of net revenue (40.4% including public health). This is lower than the average for all county councils (49.5% excluding public health, 51.9% including public health).

	KCC's reserves as percentage of net revenue have reduced since 2020-21 (41.7% excluding public health, 42.9% including public health). The average reserves for all county councils have increased since 2020-21 (45.4% excluding public health, 46.4% including public health). This was not because KCC reduced reserves in 2021-22, but they increased by less than other county councils and net revenue increased by more. At this stage we do not know the extent to which other county councils reduced or increased reserves in 2022-23 in comparison to KCC's drawdown. The comparative level of reserves are likely to have been affected by the treatment of Covid funding and spending and therefore needs to be treated with some caution. The comparative reserves position for 2022-23 is expected to be published later this year and will provide a more comparable assessment of reserves levels.
Headline 4 Final revenue budget 2023-24 £1,318.3m after roll forwards	The revenue budget for 2023-24 was approved by County Council on 9th February 2023. At the time this did not include the impact of the final local government finance settlement or final share of retained business rates. These were reported to Cabinet on 30th March 2023 and resulted in a final approved net revenue budget of £1,315.6m (an increase of £124.1m on 2022-23). The final budget including £2.7m roll forwards (cash limit for 2023-24) is £1,318.3m.
Headline 5 2023-24 revenue budget included spending growth increases of £182.3m	Additional spending included £63.5m for the net full year impact of recurring 2022-23 budget variances, £65.2m forecast in-year price increases, £33.5m for forecast increases in demand and cost increases unrelated to price uplifts e.g. more complex packages of care, £14.2m for the 2023-24 pay award, and £5.9m service improvements. Additional spending excludes any increases funded by specific grants.
Headline 6 2023-24 revenue budget included savings and income of £51.9m	Savings and income included £23.3m from policy changes (service reductions), £14.9m increased income (client charges and contributions), £9.7m from efficiencies and transformation (mainly in relation to contracted services), and £3.9m financing savings (debt charges and investment income). Savings and income exclude any on specific grant funded activities.
Headline 7 2023-24 budget included net drawdown from	The net increase from spending growth and savings/income of £130.4m was offset by a combination of increased funding and reserves. The main funding increases came from council tax of £52.9m (including 3% general increase, 2% adult social care increase and 1.45% tax base increase), additional grants for social care pressures of £51.6m, other grant increases (largely

reserves of £6.3m and increased funding of £124.1m	compensation for business rates reliefs) and retained business rates of £19.6m. The conditions for the additional social care grants and the council tax precept requirements effectively put a limit on the amount of savings that can be made in adult social care. These conditions and requirements effectively set a minimum spending increase for adult social care. From 2024-25 onwards the expectation is that this minimum passporting is the only increase for adult social care. The net drawdown from reserves came from additional contributions to general reserve (to maintain 5% of net revenue before the subsequent drawdown at the end of 2022-23) and local taxation equalisation reserve (from excess collection surpluses). There were reduced contributions to strategic priorities and regeneration reserves from insecure funding which were used to fund core spending in 2023-24. Drawdowns included £4.3m from corporate reserves to smooth spending (to be replaced and repaid in 2024-25 from savings).
Headline 8 Forecast Overspend for 2023-24 of £37.3m before management action	The first quarter's monitoring was reported to Cabinet on 17th August 2023. The biggest overspends are in the same areas as 2022-23 (adult social care, children in care and home to school transport). This is despite including additional spending in the budget for the full year effect of recurring spend from 2022-23 and forecasts for future price uplifts, increases in demand and cost increases unrelated to price uplifts. The latest monitoring as reported separately to this Cabinet Report is showing little change in the underlying structural overspends on people based services. The agreed action from reducing capital financing has now been incorporated reducing the forecast overspend before management action to £37.3m from the quarter 1 report, although it is important the structural overspend is still clearly identified. The immediate actions that are planned and as set out in section 2 of this report if fully delivered would reduce the overspend by £28.0m. This includes a target to reduce non committed spend by £11.4m plus £9.2m of one-off (totalling £20.6m one-off savings) and £7.4m of recurring savings from further management action. There is also the additional grant from the Market Sustainability and Improvement Fund amounting up to £9.4m, which has been confirmed since the last report, and following determination will be used to fund the increased fees for new clients (subject to final agreement of the plan for the use of this grant).

	If all these actions can be achieved, and the forecast spending does not materially change then 2023-24 would be close to balanced by year end.
Headline 9 Forecast gap for 2024-25 of between £31m to £72m	The core principles for the 2024-25 local government finance settlement were announced as part of the 2023-24 settlement. This included the council tax referendum principles and further additional funding through social care grant, market sustainability and improvement fund, and hospital discharge fund. The latest estimate is that funding through grants, council tax and retained business rates is around £93m. The latest estimate for spending growth is between £146m to £165m. The range reflects uncertainty over the trajectory for inflation from the latest Bank of England forecasts, and different scenarios for future demand and cost increases unrelated to price uplifts. As well as spending growth there is need to set aside an additional £30m in reserves. This includes KCC's contribution towards the Safety Valve agreement with DfE from 2024-25 onwards, replenish general reserves for the draw down at the end 2022-23 over 2024-25 and 2025-26, and replenish smoothing reserves used to balance 2023-24 budget. Any further use of reserves in 2023-24 would increase the requirement to replenish reserves in 2024-25 and increase the budget gap. Additional savings and income of between £30m to £52m. The range reflects the savings for 2024-25 in the published 2023-26 MTFP at the lower end with further potential savings for initial assessment of 2024-25 recovery plan quantified to date at the upper end. <u>Summary table showing lower and upper end of 2024-25 budget planning scenarios.</u>

	Lower End £'m	Upper End £'m
Spending Growth	146	165
Contribution to Reserves	30	30
Savings & Income	-52	-30
Increases in General Funding	-93	-93
Forecast Gap	31	72

Headline 10 Council’s overriding priority is to deliver financial recovery plan over next 18 months to 2 years	Cabinet agreed on 17th August the council priority must be deliver a financial recovery plan to Secure Kent’s Future. This plan must address the structural deficit on spending and improve the council’s financial resilience. The plan includes immediate short-term measures to bring 2023-24 into balance, and more importantly over the medium term to reduce future spending growth and/or identify mitigating savings and income to offset growth and to restore and improve reserves. As outlined in the August report this paper sets out more detail on the recovery plan. This is set out in separate sections dealing with urgent actions that are expected to have an immediate impact in 2023-24 and the more structural actions which will take longer to deliver and will not have an impact until 2024-25 or 2025-26. Reserves remain a possible mechanism to smooth the transition between the one-off actions and the medium to longer term structural changes and to support invest to save measures to support the recovery (including temporary external support). However, reserves are not a mechanism to fund recurring spending and would need to be replenished from future savings. The additional costs of developing the recovery plan are one-off and need to be funded from reserves. Any use of reserves for smoothing or invest to save purposes would require replenishment and would further impact on the adequacy assessment in the short-term.

2.1 Corporate Management Team has been focussing on the immediate actions which can be taken across the whole council to bring the overspend in 2023-24 down and to reduce the risk of further drawdown from reserves. The team acknowledges that many of these actions are one-offs (or in some cases can be repeated in 2024-25) and therefore do not resolve the underlying structural deficit on spending largely in people based services in ASCH and CYPE. Table 1 sets out a summary of the immediate actions together with an indication of when these would take effect.

2.2 The plan will need to be responsive to further developments both from more up to date monitoring forecasts and progress on delivering the recovery plan. At this stage the emphasis is on enhanced monitoring to identify if we are on track, if this proves to show that further action is needed to balance the current year this will be agreed/taken if and when it becomes necessary to ensure we end the year as close to balanced as possible.

Table 1 – Actions with Immediate Impact

	2023-24	2024-25	Later Years	Brief description of activity
Immediate Actions				
Cross cutting review of non-committed spend	✓	✗	✗	Budget, spend to date and forecast for selected subjective codes. Directorates to consider spending restrictions
Further Management Action templates	✓	?	?	Directorates are completing templates to identify further targeted savings across all services but with particular regard to those forecasting overspends.
Review of spending from reserves	✓	✓	?	Review of uncommitted spending directly funded from reserves. This would not reduce revenue spending but would increase the level of reserves
Potential receipts from assets	✓	✓	✗	Review of all assets other than surplus property with regard to possible disposals
Review of early payments	✓	✓		Saving from taking fuller advantage of early settlement discounts through call-ff contract with Oxygen Finance Ltd for the supply of Early Payment Services

Consultant led review of spending growth and savings opportunities	✓	✓	✓	Review areas of highest growth and overspend in ASCH & CYPE to identify transformation opportunities to generate savings and mitigate growth and support services to deliver this.
Review of strict compliance with existing policy	?	✓	✓	Evaluation of spend on people-based services in excess of current policies. This is unlikely to yield significant savings in 2023-24.
Reserves review	✓	✓	✗	Finance led review of existing reserves and appropriate levels commensurate with forecast future requirements and risks. This could result in reduced contribution in 2023-24 and/or 2024-25 as well as releasing reserves to replenish previous drawdowns and/or support the recovery plan

2.3 The cross cutting review of non-committed spending from KCC funded activity (i.e. this does not include spending funded from external grants or spending related to securing other income) will include recruitment of staff to vacant roles, agency staff, use of external venues for meetings, specialist and consultant fees, and supplies and services. Managers across the whole organisation will be expected to avoid spending in all these areas. The following immediate steps will be applied for the remainder of 2023-24 together with regular monthly monitoring reporting. The target for savings from cross cutting reviews is up to £11.4m although until the additional steps and reporting has been put in place it is not possible to identify how close we are to this target:

Staff contracts& premises

- Responsibility for approval required at Corporate Director level for all new external staff appointments at KR13 and above.
- Responsibility for approval required at Director level for all new external staff appointments at KR9-KR12.
- Responsibility for approval at budget manager level for all new external staff appointments at KR8 and below, and all new internal appointments, at budget manager level.
- Reports will monitor the number of new external staff appointments at the above levels but will not be able to identify how many new staff appointments have been avoided. Financial reports will identify revised actual and forecast staff spend at Director level.
- Accountability required at Corporate Director level for all new agency staff appointments at more than £600 a day.
- Accountability required at Director level for all new agency staff appointments at day rates between £300 to £600.
- Accountability required at budget manager level for all new agency staff appointments at less than £300 a day.

- Monitoring reporting of actual and forecast agency staff spend at Director level.
- No external venues to be hired for internal meetings excluding staff training. Internal meetings with only KCC staff must be held in KCC owned facilities or via MS Teams. Meetings with public, clients or external partners can still use external venues but only as a last resort where KCC facilities are inappropriate. Actual and forecast spending on external venue hire to be reported at Director level.

Specialists and Consultants

- Accountability for new contracts at Corporate Director level for contracts over equivalent of £500k per annum.
- Accountability for new contracts at Director level for contracts over equivalent of £100k per annum
- Accountability for new contracts at budget manager level for contracts under equivalent of £100k per annum
- Monitoring reporting of actual and forecast spend on specialists and consults at Director level.

Supplies and Services

- No additional approval or accountability responsibilities for supplies and services spend (remains at budget manager level). All new actual and forecast spending to be reported at Director level.

2.4 Directorates have reviewed specific areas of spending with targeted savings identified. Savings have been identified separately for one-offs and recurring amounts in 2023-24, together with further savings in subsequent years. In some cases the savings are additional to existing savings already included in the 2023-24 budget, and in some cases they are new savings. Table 2 provides a high level summary of the additional targeted savings. These have been split into those already incorporated into budget monitoring reports (either already in forecasts or identified as management action) and those that are additional to existing reported forecasts.

Table 2 – Targeted Savings (management action)

	2023-24 One-Off £000s	2023-24 Recurring £000s	2024-25 Additional Recurring £000s
ASCH – already reported	4,310	5,700	4,529
CYPE	1,700	1,550	TBC
GET	1,480	TBC	TBC
CED/DCED	1,670	150	100
Cross Cutting Review of Non Committed Spend	11,400		
Directorate Total	**20,560**	**7,400**	**4,629**
Non Attributable – already reported and in latest forecast	4,000	3,000	
Total	**24,560**	**10,400**	**4,629**

2.5 The overall impact of these further actions on cross cutting spend and directorate targeted spend will be identified separately in future budget monitoring reports. This will serve the dual purpose of not disguising the underlying structural deficit (which must be resolved over the medium term) and enable separate reporting on progress on the individual actions.

2.6 Receipts from the sale of any assets on the balance sheet including those from non-surplus property assets would still have to be accounted for as capital receipts. There are restrictions on the ability to use capital receipts for revenue spending and separate reporting requirements. Non property assets include a range of cultural assets.

2.7 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 28th September 2023. The details of the additional £9.4m Market Sustainability and Improvement Fund grant have been confirmed since the last report and following determination will be used to fund the increased fees for new clients (subject to final agreement of the plan for the use of this grant).

2.8 The other immediate actions in table 1 will affect levels of reserves, capital receipts or are likely to have a limited impact in 2023-24 and do not require detailed action steps at this stage as it is vital that most attention is given to the cross cutting and targeted savings which will need to deliver the vast majority of the solution to bringing 2023-24 back into balance.

3.1 As well as the urgent actions which are intended to have an immediate impact there are a range of other actions which are also urgent although these are unlikely to result in any savings or spending reductions in 2023-24 due to the lead times. These actions are focussed on addressing the underlying structural deficit on people based services either from changing the recent trends that have resulted in substantial spending growth, or other mitigations where growth is now expected to be the new normal. Inevitably this means that these actions will result in a combination of future cost avoidance as well as savings on current spending. Table 3 sets out a summary of the immediate actions together with an indication of when these would take effect. Inevitably these actions still require some further development.

Table 3 – Actions with Medium to Long Term Impacts

	2023-24	2024-25	Later Years	Brief description of activity
Review of cost drivers to reduce future growth/risk of overspends		✓	✓	Identify and influence those cost drivers which services can affect to drive down future cost increases (and if possible savings on current spend). Introduce regular monitoring and reporting on of key cost drivers to maintain oversight of changes in price and units of activity, and to ensure corrective action can be taken at the earliest opportunity
Special assistance from government e.g. restitution of supported borrowing		?	?	Independent evaluation of significant aspects of local government finance settlement that are unique to Kent (or a limited number of authorities) which could be addressed in advance of delayed Fair Funding reforms
Quality assurance of resource envelope submissions		✓		Review Directorate spending and saving templates for a) completeness and b) to ensure submissions have supporting evidence that is robust and stacks up, is consistent with previous year's policies where applicable, and that consistent use of things like inflationary indicators has been applied.

Staffing considerations		✓	✓	Cross cutting to include layers of management, embedded staff vs central functions, and recruitment/deployment of agency staff
Further savings and income plans for MTFP		✓	✓	Ongoing approach as part of developing draft 2024-25 budget and 2024-27 medium term financial plan. There will need to be a process to identify which of the long list of savings/income options and any optional spending growth should be included in the draft and final budget publications
Contract review		✓		Review of all contracts due for renewal over the next 12 months to identify those which can lapse and not recommission and those that need to be recommissioned with reduced specification/scope.
Evaluation of statutory minimum requirements		?	✓	Focus on statutory services and the extent to which relative spending influences relative outcomes
Review of discretionary spending		✓	✓	Review of discretionary spend and the extent to which there is objective or subjective evidence whether spend contributes to reducing demand on statutory services and/or the council's stated outcomes
Full cost recovery on discretionary spend		✓	✓	Further evaluation of the extent to which charges for discretionary services represent full cost recovery or whether charges mean services are being provided with subsidies or concessions.

3.2 A comprehensive analysis of the changes in activity and spending in the key areas of people based services (adult social care, children in care and home to school transport) has been undertaken to compare cost changes between quarter 1 in 2023-24 and 2022-23. This analysis was intended to provide a better understanding of the factors driving cost increases over the last year such as changes in client numbers (demand), changes in price (inflation) and other changes affecting costs such as higher needs, market factors, type of placement, use of procurement frameworks, etc. It was not intended to identify the cost drivers affecting total spend. This is very important distinction so for example if there has not been a significant increase in the number or needs of clients discharged from hospital into social care between Q1 2023-24 and 2022-23 this would not be a driver of cost increases, but the overall number of clients discharged is still a driver of total spending on social care.

3.3 Having identified the key drivers of spending increases the next detailed step is for services to identify which of these they can affect and to develop plans how to reduce future cost increases (and identify any retrospective savings opportunities to reverse previous increases) with support from Analytics and Finance. It is anticipated that the majority of impact from this work on cost drivers will reduce future cost increases rather than deliver savings on current spend. This would result in reduced spending growth already included in the medium-term financial plan or to avoid adding further growth, and reduce the risk of future overspends.

3.4 Quarterly monitoring will be established for 2024-25 for the key cost drivers to evidence the impact on activity and costs from enhanced service interventions on cost drivers. Detailed templates setting out the proposed actions to reduce cost drivers are in the process of being completed. The indicative range for savings from cost drivers towards the 2024-25 budget gap is £5m to £15m, recognising the lead-time to make changes means some of the impact is unlikely to be achievable until 2025-26. These templates will identify whether the intention is to reduce future costs or make savings on current spend, a description of the actions being taken, links to existing savings plans, timescale, estimated saving/cost reduction in 2023-24 and 2024-25, senior responsible officer and whether policy changes are required. Additional information on performance and finance metrics, any financial investment needed, and staff resources will be available for some of the actions where relevant. These would have to be agreed and accepted as part of the administration's draft 2024-25 budget proposals.

3.5 The targeted additional savings for immediate impact in 2023-24 identify those that have a recurring impact in 2024-25 along with some further savings which could be made in 2024-25. The next step is to revisit with directorates what further savings can be targeted in 2024-25 as part of the recovery plan. These would have to be agreed and accepted as part of the administration's draft 2024-25 budget proposals. The indicative range for further targeted savings of £22m is already included in the upper end of range on potential savings for 2024-25 in headline 9 of the summary table. A further ambition of up to £30m to come from targeted savings towards the 2024-25 budget gap is needed.

3.6 We have identified all contracts that are scheduled to be renewed over the next 12 months. The next step is to identify which of these contracts can be allowed to lapse or the specification significantly changed before contracts are recommissioned. The next step after that is then to identify the impact of not recommissioning contracts that could lapse or recommissioning contracts with reduced specification. The indicative range for savings from contract renewals is £10m to £30m towards the 2024-25 budget gap. Any savings from lapsing or recommissioned contracts as part of the recovery plan for 2024-25 would need to be agreed and included in the administration draft 2024-25 proposals when published.

3.7 It is anticipated that the most significant elements of the 2024-25 recovery plan will come from the work on cost drivers, further targeted savings and contract renewals. The indicative range for savings from other actions is up to £10m towards the 2024-25 budget gap. The indicative ranges for savings from cost drivers, targeted savings, contract renewals and other activities are a high-level estimate at this stage and more detailed plans will need to be developed for the administration's draft budget publication at the end of October and final draft budget proposals in January.

3.8 We have introduced a centrally co-ordinated approach to collating spending growth and savings plans into the overall budget planning. This will enable budget plans to be more easily considered and scrutinised at a more consistent granular level of detail and in a more accessible format. The next step is to pilot this new more accessible format in advance of publication of the administration's draft budget proposals for scrutiny in November. The earlier publication of budget plans is designed to allow more time for scrutiny and to allow time for key decisions on individual elements of the budget to be considered in principle (pending final agreement of the budget at February County Council) in the January committee cycle. This allows time for earlier implementation in the financial year with a greater share of savings and income achieved in the first year. The earlier publication of draft budget proposals does mean estimates will need to be based on longer range forecasts and it must be acknowledged this brings its own risks.

3.9 The comprehensive list of actions which includes further consideration of the type of spending e.g. staffing or contractual spend, together with service based analysis e.g. review of cost drivers, statutory or discretionary spend does present a risk that cost reductions and savings could fall under more than one category or could fall between the categories. Finance will play a key quality assurance role to ensure that this is not the case. At this stage it is inevitable there is less detail available about 2024-25 plans until this quality assurance has been completed and plans are ready to be published in accordance with the timetable for November cabinet committees.

3.10 Being able to set a balanced budget for 2024-25 is as important as the current year if we are to Secure Kent's Future. The demands on people led services in adults and children's are such that these will inevitably impact on 2024-25 both from the full year effect of current pressures and future forecast spending in the next year until the work to address the structural deficits begins to take effect. Addressing these structural deficits is key to securing the medium term future but further actions across the council as outlined in this recovery plan will need to be identified and agreed to close the forecast gap for 2024-25.