From: John Betts, Acting Corporate Director, Finance

To: County Council

Date: 19th February 2024

Subject: Section 25 Assurance Statement

Classification: Unrestricted

Summary:

This report sets out my view as the acting Section 151 officer as to the robustness of the budget estimates for the administration's proposed budget for 2024-25, the medium-term financial plan, and the adequacy of reserves. It includes an evaluation of the background to budget preparations for 2024-25, including the impact of revenue overspends in 2022-23 and forecast for 2023-24 before management action, the evaluation of the most significant budget variances and necessary changes in spending forecasts and savings income plans identified under "*Securing Kent's Future – Budget Recovery Strategy*" (SKF).

It is acknowledged that setting a balanced budget for 2024-25 has been incredibly challenging, due to the ongoing and escalating cost pressures the Council faces, alongside insufficient funding in the local government finance settlement. Together these mean that the Council can only set a balanced budget with further and significant savings and income (including the use of one-off measures in 2024-25 which will need to be replaced in 2025-26 & 2026-27).

The combination of drawdowns and transfers at the end of 2022-23 have reduced the adequacy of reserves since the assurance given when approving 2023-24 budget. The levels of reserves are now considered to pose a more significant risk to the Council's medium to long term sustainability than levels of capital debt. This is a significant change from previous assurance statements.

The latest budget monitoring for 2023-24 (reported to Cabinet on 4th January 2024) showed a forecast overspend of £35.6m before management action. Until this management action is delivered the level of forecast overspend for 2023-24 poses a further risk to the council's reserves and financial sustainability. This risk is identified in the assessment of budget risks and adequacy of reserves.

Setting a robust revenue budget for 2024-25 means the budgets with forecast overspends in 2023-24 need to reflect the full year recurring effect of higher than budgeted costs and demand in the current year, as well as under delivery and rephasing of savings plans, forecast future cost increases from price uplifts and other cost/demand drivers affecting spending in the forthcoming year, provision for Kent Scheme pay award 2024-25, and the revenue consequences of the borrowing required for the capital programme. These cost increases amount to a significant additional revenue spending requirement on core funded activities of £194.4m (14% of net revenue in 2024-25). This is significantly more than the government forecast increase in core spending power of 7.7%.

To safeguard the Council’s financial resilience and sustainability, it will be essential that for 2024-25 there is a relentless focus on financial management, cost avoidance, demand management, timely delivery of the agreed savings, with all the necessary key decisions taken in a timely manner. This is the only way to strengthen the Council’s financial resilience and sustainability.

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, minimising the level of borrowing for the capital programme, council tax increases and precepts, the Council will continue to demonstrate financial sustainability over the short-term, although there remains considerable uncertainty over the medium term.

Recommendation:

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.

Background and Introduction

The 2003 Local Government Act places specific responsibilities on me, as “Chief Financial Officer”, to report on the robustness of the budget and the adequacy of proposed financial reserves when the authority is considering its budget requirement. The Council is required to have regard to this report when it sets the budget. There are a range of other safeguards that I must also ensure are complied with, including:

- the balanced budget requirement (England, Scotland, and Wales) (sections 32, 43 and 93 of the Local Government Finance Act 1992)
- the legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs (section 151 of the Local Government Act 1972); and
- Best Value responsibilities (section 3 of Local Government Act 1999)

The report includes an evaluation of the background to budget preparations for 2024-25, including the impact of revenue overspends in 2022-23 and forecast for 2023-24 before management action, the evaluation of the most significant budget variances and necessary changes in spending forecasts and savings income plans identified under “*Securing Kent’s Future – Budget Recovery Strategy*” (SKF).

It is acknowledged that setting a balanced budget for 2024-25 has been very challenging, due to the ongoing increases in costs the Council continues to face and insufficient funding in the local government finance settlement to fully fund these inescapable cost pressures. Together these mean that the Council can only set a balanced budget using significant savings and additional income, including considerable use of one-off measures in 2024-25, which will need to be replaced in 2025-26 and 2026-27.

Analysis of Risks

I have set out below, what I see as the key risks associated with the proposed budget and how they can be managed, so that Members are clear on the risks associated with these budget proposals when making their budget decision. A fuller assessment of risks and adequacy of reserves is included in appendix I of the budget report together with a register of budget risks in appendix J. It is worth noting that the maximum exposure from these budget risks is now higher than the total usable revenue reserves, due to a combination of recent reductions in the council's reserves and increased risks. The risk register includes revenue and capital risks, and it is highly unlikely that the maximum exposure would occur in the forthcoming year.

There is an expectation from government that authorities should continue to consider how they can use their reserves to maintain services over this and the next financial year, recognising that not all reserves can be reallocated, and that the ability to meet spending pressures from reserves will vary between authorities.

Although the council's draft revenue budget for 2024-25 includes one-off use of reserves, planned contributions still exceed planned use of reserves, so the draft budget does not assume an overall reduction in reserves in 2024-25. However, the drawdown in 2022-23 was disproportionate compared to the drawdown from all other authorities, and the risk remains of further unplanned drawdowns in 2023-24 and beyond should the management action necessary to balance 2023-24 and savings/income planned for 2024-25 and 2024-27 MTFP not be delivered in full.

Risk 1 – Delivery of the Savings Plans / Income Targets

The proposed 2024-25 draft budget requires the delivery of a package of £68.2m of planned savings and income. This comprises £36.5m of savings from avoiding forecast future spending increases, £37.0m savings from reductions in current recurring spending, £15.4m increased income from charges and contributions, offset by £20.9m net reduced income from specific government grants[1]. The £88.9m savings expected from core funded activities (grant funding in the core spending power for local government in the provisional spending power, council tax and retained business rates) are shown separately from the net £20.7m reduction in external income from specific governmental departmental grants.

The planned budget reductions need to be fully implemented to ensure the Council's 2024-25 budget remains balanced and sustainable into the future. The Council no longer has the capacity within its reserves to fund the impact of delays to difficult policy decisions that impact on the reduction or cessation of services. This is an issue for all Members, not just the Executive. In an environment of rapidly increasing cost/demand pressures, together with market and workforce challenges, delivery of the savings will be more challenging than ever.

[1] This net reduction includes assumed £22.1m as Household Support Fund has not yet been announced to continue in 2024-25

To mitigate this risk:

- Key policy changes associated with major savings proposals in 2024-25 have been identified;
- Corporate Directors, Directors and Portfolio Holders must ensure that processes are in place to ensure that the planned savings are delivered to the required timetable;
- If the planned savings are not delivered, Corporate Directors, Directors and Portfolio Holders must identify alternative ways of balancing the Service and/or Directorate budgets; and
- Monitoring of the delivery of the planned savings will include the monitoring of project delivery milestones to ensure decisions are taken in a timely manner and implementation timescales are met.

Risk 2 - Impact of Forecast Overspend

The latest budget monitoring for 2023-24 as at November 2023 was reported to Cabinet on 25th January 2024. This showed a forecast overspend of £32.1m before management action. 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.

Management action is identified to bring the outturn back into balance by year end including £6.5m of specific directorate actions and £25.6m from limiting spend across the whole Council using strict spending criteria. Until this management action is delivered the level of forecast overspend for 2023-24 poses a significant risk to the council's reserves and financial sustainability.

The majority of the management action to balance 2023-24 revenue outturn is from one-off measures that will not flow through into 2024-25. Consequently, the forecast revenue overspend for 2023-24 has added spending growth pressures to the administration's draft 2024-25 revenue budget.

This assurance statement is based on the assumption that 2023-24 revenue outturn is balanced without any unplanned use of reserves (other than the risk reserve of £12m). If the outturn position is overspent this will add more pressure to already diminishing reserves.

To mitigate the risks and pressures noted above:

- The risk reserve for 2023-24, specifically set aside for this purpose, may be drawn down
- The Council is introducing additional more stringent spending controls to reduce and minimise discretionary spending for the remainder of the current year (and, if necessary, into 2024-25)
- The full year recurring impact of forecast service overspends has been built into budget allocations for 2024-25

Risk 3 – Spending Pressures

Setting a robust revenue budget for 2024-25 means the budgets with forecast overspends in 2023-24 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. It is critical that budgets are not simply increased to reflect increased spending, without a rigorous approach to demand and financial management. So, the proposed 2024-25 budget also includes estimates for future demand and price, based on a rigorous assessment of current and forecast trends.

These cost increases amount to a significant additional revenue spending requirement on core funded activities of £194.4m (14% of net revenue in 2023-24). This is significantly more than the 8.2% increase in funding, which itself is already more than the government forecast in core spending power of 7.7%, largely due to higher tax base forecast than assumed by government in its calculation of core spending power.

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, there inevitably remains considerable uncertainty about these forecasts, given the precarious economic position, both nationally and internationally. So, although the risk has been mitigated through the allocations in this budget resolution, the risk cannot be completely removed. To mitigate this risk:

- Increases in spending pressures through price increases and other cost drivers have been updated to reflect the latest forecasts and trends.
- 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.
- Enhanced budget monitoring arrangements will be introduced to require corrective action to be put in place as soon as any areas of overspending begin to emerge.
- Other provisions will be held centrally and allocated during the year.

Risk 4 – Dedicated Schools Grant Deficits

For several years, the single greatest financial risk to the Council was the substantial and growing deficit on High Needs spending from the Dedicated Schools Grant (DSG). This risk has been substantially mitigated by a Safety Valve agreement with Department for Education (DfE), which includes £140m of DfE funding, contingent on keeping spend to an agreed trajectory, alongside £82m of Council funding (over a 5 year period). Currently, the Council remains on track to meet the cumulative deficit targets set by DfE. There is a risk that if we do not stay on trajectory and DfE withhold their contribution, then the deficit will be larger than currently planned. To mitigate this risk, formal regular monitoring and reporting of the local deficit recovery action plan, highlighting any corrective action, remains critical to ensure the deficit is being tackled effectively. Members will need to support changes to SEND policy and services that help delivery this financial sustainability.

Risk 5 – Uncertainty of the National Funding Position

There is uncertainty around the national funding position for local government, as a result of the lack of any multi-year government departmental spending plans or local government settlement.

The Chancellor's Autumn Budget statement only set out departmental spending plans for 2024-25, with the plans for subsequent years only set out for total public spending. Although these show year on year increases public spending as a proportion of the overall economy (GDP) is forecast to fall over the period. 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.

To mitigate the risks associated with a lack of long-term certainty we continue to produce a medium term financial plan alongside the annual budget and a ten year capital strategy. To mitigate the considerable risk of ongoing reduced funding from Government, we need to rebuild a higher level of overall reserves. However, this doesn't completely mitigate the risk and we may face more significant revenue pressures, until a multi-year spending review is received.

Risk 6 – Local Government Funding Reform

The 2024-25 Local Government Finance Settlement once again deferred any fundamental changes on how the relative need to spend and the level of Government support needed by authorities is calculated until after the next general election, known generally as the 'Fair Funding Review'. This review may result in the level of our government funding increasing or decreasing, compared to 2024-25 levels. This places greater importance on the need to maintain reserves to manage this volatility risk.

Risk 7 – Impact on the Medium Term Financial Strategy

The Medium Term Financial Strategy (MTFS) outlines the significant additional financial challenge to the authority in future years. The indicative future spending allocations and planned reductions deliver a balanced MTFS over the 3 year period, but is dependent on maximising council tax increases, including the available adult social care levy. Without this level of increase in council tax, or if future spending needs exceeds the indicative levels, or if future grant settlement are less than to rollover assumptions included in the MTFS further budget reductions will need to be identified and delivered to ensure the budget remains sustainable.

Also, the Council has only set a balanced budget for 2024-25 with the use of significant savings and income, including the use of one-off measures in 2024-25 which will need to be replaced in 2025-26 & 2026-27. There needs to be a commitment to support the identification and delivery of ongoing savings in the latter years of the MTFS, to replace the one-off measures used in 2024-25.

In the medium to longer term the Council needs 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 commitment of Members to meet the financial challenges ahead and take the decisions needed to ensure the finances of the authority remain robust into the future is welcomed.

Reserves

The £47.1m overspend in 2022-23 was balanced with a drawdown from reserves (this drawdown equated to 11.5% of general and earmarked revenue reserves) comprising £25m from the earmarked risk reserve (the entire balance of this reserve) and £22.1m from general reserve (39% of this reserve). The 2022-23 outturn also included £17m transfer to Dedicated Schools Grant reserve for the council's 2022-23 contribution to Safety Valve agreement. This combination of drawdowns and transfers at the end of 2022-23 have reduced the adequacy of reserves, since the assurance given when approving 2023-24 budget. The levels of reserves are now considered to pose a more significant risk to the council's medium to long term sustainability than levels of capital debt. This is a significant change from previous assurance statements.

As a result of the above, I have also undertaken a risk analysis of the adequacy of financial reserves, taking account the financial risks above. This highlighted the need to retain a minimum of £58.9 million in general reserves in 2024-25 and the plan is to restore the general reserve to close to 5% of net revenue (£73.0m) by 2025-26. This resolution makes provision for this level of reserves and the Council remains on track to deliver this. I am therefore of the view that this budget does provide for an adequate level of reserves.

Conclusions

It is worth reflecting on the external auditor's latest annual report to the Council[2] where, in considering whether statutory audit action is required, they emphasise "to members that the Council must set a balanced budget for 2024-25 and must ensure that appropriate reserves are in place to support risks that may emerge in 2024-25 and beyond. This responsibility extends to all members and not just the Leader and Cabinet".

So, to safeguard the Council's financial resilience and sustainability, it will be essential that for 2024-25 there is a relentless focus on financial management, cost avoidance, 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.

The budget information used in preparing this budget resolution has undergone extensive scrutiny by Corporate Directors, Directors, and their staff, alongside staff within the Finance Service and the Corporate Management Team collectively. In addition to this I have worked closely with Members in preparing this budget resolution.

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[2] See papers to Governance & Audit committee 1 February 2024 – item 8.

In overall terms I am of the view that this revenue budget has been prepared on realistic assumptions in an uncertain environment and that as such it represents a robust, albeit challenging, budget.

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, minimising the level of borrowing for the capital programme, implementing council tax increases and precepts, the Council will continue to demonstrate financial sustainability over the short-term (defined here as over the following two years), although there remains considerable uncertainty over the medium term.