Draft Revenue Budget 2025-26 and 2025-28 MTFP, and Draft Capital Programme 2025-35

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

1.1 This report sets out the administration's draft revenue budget 2025-26, three-year medium term financial plan (MTFP) 2025-28 and ten-year capital programme 2025-35. The report pulls together information from the reports for each portfolio presented to Cabinet Committees in November 2024 and significant material changes reported to committees in January 2025 including the provisional Local Government Finance Settlement (pLGFS) announcement on 18th December 2024 and provisional council tax collection fund and tax base estimates from districts. Any further changes will be highlighted in the report to full Council in February, these could arise from final settlement and collection fund/taxbase estimates notifications, Personnel Committee recommendations on Kent pay scheme for 2025-26, and any other material issues affecting budget estimates since this draft was prepared. The final report and appendices will provide all the essential information for County Council approval on 13th February 2024.

1.2 The administration's final draft revenue budget and MTFP set out planned spending on day-to-day services based on variations in spending from the approved budget for 2024-25. The variations include known and forecast impacts for both spending growth and reductions from savings and income plans, the removal of one-off or unachieved savings in 2024-25 and changes in reserves. The variations show the impact on net spending. The separate appendix showing gross spending, income and net spend on individual key service lines can only be produced for the final draft for approval by full Council. The separate interactive dashboard made available with previous drafts to provide more information on individual spending growth and savings/income proposals continues to be available and where relevant includes contextual total budget information relating to the individual proposals.

1.3 The administration's updated draft 2025-26 revenue budget includes £149.6m of core funded spending growth (including -£0.8m internal base adjustment between core and externally funded spend). This is £33.2m more than the original draft published for the November cycle of Cabinet Committee meetings. The increase is largely due to spending from additional grants in the pLGFS but also includes full year effect of latest forecasts costs/activity from current year and Office for Budget Responsibility (OBR) inflation forecasts.

1.4 Funding from Council Tax (including proposed increase in household charge up to 5% referendum level and provisional tax base and collection fund estimates) and grants in the pLGFS is £1,529.7m (an increase of £100.2m, 7%, on 2024-25), this is £32.7m more than the original draft for the November cycle of Cabinet Committees. This is mainly due to the additional social care grants, estimated compensation for increases on payroll costs for employers National Insurance Contributions (NICs), and lower than forecast estimated Council Tax base and collection fund balance. The £49.4m difference is resolved through -£61.5m net from savings/income (including a separate presentation for full year effect of current plans/new proposals and removal of one-offs/unachieved savings in 2024-25) and net +£12.1m changes in contributions to and drawdowns from reserves.

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

1.6 The final draft revenue budget and MTFP continue to be based on the latest estimates from the actions in Securing Kent's Future, which recognises that establishing new models of care in a sustainable way will take time. For transparency and on-going monitoring, the spending growth is shown as a gross amount in the cost forecasts before any mitigating action, and the reductions in planned spending from these actions are shown as savings. Even with these actions, the net spending in these key care service areas is still forecast to grow by more than the funding available in the 2025-26 settlement with consequential net spending reductions in other services. The draft budget includes increased financial resilience through strengthening the Council's reserves.

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

1.8 The draft capital programme for 2025-26 to 2034-35 is £1,419m (from £1,665m in the January draft). The core principles of rolling forward the previous programme, avoiding any additional borrowing over and above that already identified in the existing programme and reducing wherever possible the need to borrow in the existing programme still apply. The flexible use of capital receipts to fund from asset sale proceeds revenue costs in 2025-26 reduces the level of receipts available to fund future capital expenditure. The updated draft budget includes appendices on investment strategy, capital strategy and annual Minimum Revenue Provision (MRP) statement.

1.9 The draft budget includes the updated Treasury Management Strategy for 2025-26.

1.10 As well as the impacts of current year overspends and future forecast costs and demand, inflation is still forecast above the government 2% target over the MTFP period and Council spending remains exposed to economic consequences of national and global instability. Inflation impacts on the costs of goods and services in revenue budgets and costs of labour, fees and materials on capital projects as well as base interest rates. The impact of inflation built into the draft budget is based on the November 2024 forecasts from the Office of Budget Responsibility (OBR). The November 2024 OBR economic and fiscal outlook noted that forecasts represent a central case, and ongoing uncertainties make forecasting less predictable.

1.11 The administration's draft budget includes a 4.99% proposed increase in Council Tax. This would increase the County Council share of the bill for a typical band D household by £1.54 per week (£80.37 per year). Council Tax is the Council's most significant source of income to fund essential services (65% of net revenue budget), and whilst the administration seeks to keep increases to a minimum, the proposed increase is in line with the government's Council Tax referendum principles for 2025-26. The latest estimated tax base (the number of dwellings liable for Council Tax after discounts, exemptions and assumed collection rates) has increased by 1.22% on the base for 2024-25. Council Tax precepts are based on a combination of the Council Tax band D charge and the band D equivalent tax base for 2025-26.

1.12 The total usable revenue reserves at the end of 2023-24 were £357.6m (30.3% of net revenue outturn), comprising of £43.0m general reserve, £297.6m earmarked reserves (including £36.2m from Safety Valve contributions which over time will offset the Dedicated Schools Grant (DSG) deficit), and £17.0m public health reserve. The Council’s strategy is to have general reserves of between 5% and 10% of its annual net revenue budget. The total level of revenue reserves at the end of 2023-24 represents a reduction of £33.8m (-8.6%) on the previous year. The 2025-26 budget includes £42.4m additional contributions to reserves (including £16.3m replenishment of general reserves towards restoring 5% general reserve target, £12.0m into new Extended Producer Responsibility (EPR) reserve, and £14.6m local authority contribution to DSG deficit) and £10.7m drawdown from smoothing reserves (largely related to smoothing Council Tax). The use of short-term usable reserves to support revenue spending significantly reduces the council’s ability to withstand unexpected circumstances and costs and reduces the scope to smooth timing differences between spending and savings plans. A considerable risk to short-term reserves remains from forecast revenue overspend for 2024-25. The overall levels of reserves now pose a more significant risk to the council’s financial resilience than levels of debt. Reserves will continue to need to be replenished at the earliest opportunity and will need to be factored into future revenue budget plans.

2.1 The setting of the budget is a decision reserved for Full Council. The Council's Budget and Policy Framework requires that a draft budget is issued for consultation with the Cabinet and Scrutiny Committees to allow for their comments to be considered before the final budget proposals are made to Full Council.

2.2 The first draft of the administration's budget was published for the November cycle of Cabinet Committees. The dates for these meetings were set before it was confirmed that the Chancellor's Autumn Budget 2024 would be announced on 30th October. The committee agenda publication deadlines meant the first report was published the day before the Autumn Budget announcement and the reports for all committees were based on assumptions on council tax referendum limits and grant settlements before the details of the Autumn Budget were known.

2.3 Material changes including details from the provisional Local Government Finance Settlement (pLGFS), provisional council tax base and collection fund estimates, impacts from quarter 2 budget monitoring 2024-25, and latest projections were presented to Cabinet Committees for the January cycle of meetings. For both meeting cycles the reports were tailored to focus on the key policy considerations within the administration's draft budget proposals for the relevant Cabinet portfolio(s) for each committee. The reports included an appendix with the overall high level three-year revenue plan for the whole council, and a separate appendix with the one-year plan for relevant Cabinet portfolio(s)/directorates using the same classification for spending growth and savings/income as the three-year plan. An interactive dashboard was also provided to all members to support detailed scrutiny of individual proposals. The draft capital programme was included in the January reports.

2.4 The draft proposals set out in this report include any changes from the Cabinet Committee recommendations. It also includes latest notification of council tax base and collection fund estimates from districts where these were received by 17th January 2025. This report with full draft proposals was made available for final scrutiny by the Scrutiny Committee on 29th January 2025. Cabinet on 30th January 2025 will receive a verbal update of Scrutiny Committee recommendations. The administration's final draft budget will be published on 5th February 2025 for approval by full Council on 13th February 2025. This final draft will include the final LGFS (provided this is announced in time) and final council tax precepts together with any other final material changes from the drafts considered by Cabinet Committees and Scrutiny Committee.

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

2.6 The Council is under a legal duty to set a balanced and sustainable budget within the resources available from local taxation and central government grants, and to maintain adequate reserves. A MTFP covering the entirety of the resources available to the Council is the best way that resource prioritisation and allocation decisions can be considered and agreed in a way that provides a stable and considered approach to service delivery and takes into account relevant risks and uncertainty. At this stage the later years of the MTFP is set out as a high-level plan showing the forecast trajectory for changes in funding, spending, savings and income, and reserves and consequently is indicative for illustrative strategic planning purposes. This report includes a new section with sensitivity analysis of the key assumptions for 2025-26 and medium term as recommended by the Council's external auditors Grant Thornton.

2.7 The government has announced its intention to restore multi-year settlements and has launched a consultation on objectives and principles for reforms to local authority funding intended to be implemented from 2026-27 alongside the multi-year settlement. This should provide a greater degree of certainty over funding forecasts for 2026-29 plan, although the settlement for 2025-26 remains a one-year announcement. However, even with greater certainty it is likely that the fiscal environment for local government will continue to be exceptionally challenging and will require real terms reductions if spending continues to grow at a faster rate than available resources.

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

2.9 The administration's draft revenue budget for 2025-26 includes £195.6m (13.7% of 2024-25 approved budget) of forecast spending growth (£149.6m core funded, £46.0m externally funded, both including £0.8m internal base adjustment between core and external). Funding is increasing by £100.2m (7%) based on pLGFS and provisional tax base/collection fund. The £95.4m difference (£49.4m core funded, £46.0m externally funded) is balanced from savings and income, and changes in reserves contributions and drawdowns.

2.10 Just under 80% of the £149.6m core spending growth (including -£0.8m internal base adjustment) is on adult social care (£81.9m, 13.2% increase, of which £80.3m is in ASCH and £1.6m for 18-25 year olds in CYPE), children's social care (£23.7m, 10.5% increase) and home to school transport (£13.8m, 14.3% increase). These exclude shares of amounts currently in centrally held budgets (CHB) pending allocation. Spending pressures on these services are common across all upper tier councils. These services currently account for 70.9% of the 2024-25 budget (excluding non-attributable costs [NAC] and CHB). As a result of planned spending, these services will continue to account for an ever greater share of the Council's overall budget.

2.11 The trend of spending growth exceeding the available funding from local taxation and central government cannot continue indefinitely. Either funding needs to increase to better reflect spending demands or the statutory requirements on councils need to be reduced as otherwise the Council's role would be reduced to solely providing care services, with no scope to provide community and place based services which help make local places vibrant for residents and businesses. Council tax increases on their own cannot be expected to solve the shortfalls in funding for statutory functions which predominantly provide support for a small minority of the most vulnerable residents.

2.12 In accordance with Financial Regulations, a medium-term capital programme and financing plan is prepared on an annual basis. Where capital estimates are included, funding must be secured and approved prior to any expenditure being incurred. The administration's draft capital programme continues to be based on the principle of no new borrowing to fund new schemes. The 2025-35 programme includes the rephasing of projects as a result of 2023-24 outturn as well as new fully funded schemes, invest to save projects, resolution of outstanding funding on essential commitments arising since the original programme was published and inclusion of spending on rolling programmes in the 10th year (2034-35). In recent years capital grants have not kept pace with inflation (with in some cases no inflationary uplifts) with the consequence that spending in real terms has reduced. This has resulted in increased maintenance backlogs. The policy of prioritising emergency works which avoid risk to life and limb on essential assets remains. This is a short-term necessity while review and reduction of the Council's estate can be implemented over the medium-term.

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

A) Strategic Priorities – Strategic Statement

2.14 In 2022, KCC published **Framing Kent's Future** (FKF) the council's high-level strategic statement. It set out the challenges and opportunities Kent is faced with and the actions the Council will prioritise to address them a four year period, focussing on four key priorities. Since this strategy was approved there has been a significant shift in the financial and operating landscape.

2.15 KCC's Budget Recovery Strategy, **Securing Kent's Future**, was agreed at a Cabinet meeting on 5th October 2023. This updated the Council's ambitions in light of the changed landscape and given the significance of adults and children's social care within the Council's budget, and that spending growth pressures on the Council's budget overwhelmingly (but not exclusively) come from social care, that the priority of delivering New Models of Care and Support within FKF must take precedence over the other priorities.

2.16 The draft 2025-26 revenue budget continues to be based on the revised strategic ambitions set out in Securing Kent's Future (SKF) approved by Cabinet in October 2023 which recognised the necessity of the ambition to deliver New Models of Care and Support which must take precedence over other priorities. This creates an expectation that council services across all directorates must prioritise delivering the new models of care and support objective as a collective enterprise. The net growth in core funded spending (growth less savings and income) on adult and children's social care is £76.8m (+9.1%) compared to overall net growth in core funded spending for the whole council (excluding NAC and CHB) of £71.9m (+5.4%), this shows that collectively other services have seen a net reduction of £4.8m (-1.0%). This distribution reflects the strategic priority for new models of care under the revised prioritisation of the Council's strategic objectives. Net spending in non-attributable costs (NAC) has increased due to additional reserves contributions to meet the objective of improving financial resilience, and removal of one-off income/projected lower returns on treasury investments.

2.17 This does not mean that the other objectives of Levelling Up Kent, Infrastructure for Communities, and Environmental Step Change are not still important and all work on these must stop. However, the scope of these other three objectives will have to be scaled back in terms of additional investment and funding, and management time and capacity that can reasonably be given to them alongside reduced expectations and outcomes. It also does not mean that we can ignore unavoidable spending in other areas of council activity, but policy ambitions in these areas may have to be limited.

2.18 In recognition of the revised priority in SKF and continued pressures on social care the administration's draft budget for 2025-26 includes passporting all the Adult Social Care council tax levy and all the additional Social Care Grant in the pLGFS into the adult social care budget as well as a pro rata share of general funding, and passporting the new Children's Social Care Prevention Grant into children's services. This prioritisation, particularly Social Care Grant into adult social care reflects the significant and sustained pressures on adult services. The requirement to deliver £19.8m policy savings to replace one-offs used to balance 2024-25 budget has focussed on reviewing areas of discretionary spending in line with the SKF objective to focus on policy choices and the scope of the Council's ambitions.

B) Best Value

2.19 The Council has a statutory Best Value duty to secure continuous improvement having regard to economy, efficiency and effectiveness. The latest guidance explicitly states that this includes delivering a balanced budget, providing statutory services (including adult social care and children's services), and securing value for money in all spending decisions. Those councils that cannot balance competing statutory duties, set a balanced budget, deliver statutory services, and secure value for money are not meeting their legal obligations under the Local Government Act 1999. The statutory Best Value duty must frame all financial, service and policy decisions and the council must pro-actively evidence the best value considerations, including budget preparation and approval.

C) Requirement to set a balanced budget

2.20 The Local Government Finance Act 1992 requires the Council to consult on and ultimately set a legal budget and Council Tax precept for the forthcoming financial year, 2025-26. Whilst there is no legal requirement to set a balanced MTFP, this is considered good practice with an expectation that the financial strategy is based on a balanced plan in the medium term (albeit based on planning assumptions)

2.21 Setting the Council's revenue and capital budgets for the forthcoming year continues to be incredibly challenging due to the fiscal environment with the government's fiscal rules set out in Autumn Budget 2024 with a stability rule to balance day to day spending (with borrowing only to fund investment); and an investment rule that ensures net public sector debt on a sustainable falling path as proportion of Gross Domestic Product (GDP). These rules need to be met by 2029-30. These fiscal targets are likely to restrict the scope for increased central government funding for local government. The Council's current year's budget was balanced through a significant level of planned savings, income and one-off use of reserves/capital receipts. Delivery of these savings is crucial to delivering a balanced outturn without further draw down from reserves. A similar scenario is predicted for 2025-26 and subsequent years with forecast spending growth exceeding likely funding, requiring further significant annual recurring savings and income to balance the budget. The scope for savings of the required magnitude is increasingly limited unless the statutory obligations are changed.

2.22 What is meant by 'balanced' is not defined in law and relies on the professional judgement of the Chief Financial Officer to ensure that the budget is robust and sustainable. A prudent definition of a balanced budget would be a financial plan based on sound assumptions which shows how planned spending and income equals the available funding for the forthcoming year. Plans can take into account deliverable cost savings and/or local income growth strategies as well as useable reserves.

2.23 The previous government had confirmed that the Statutory Override for the Dedicated Schools Grant (DSG) deficits was extended for a further 3 years from 2023-24 to 2025-26. The current override expires on 31st March 2026. The pLGFS included the government's intentions to set out plans next year for reforms to the SEND system which will include how the government will support authorities to deal with historic and accruing DSG deficits which in turn will inform any future decision on the override. This uncertainty presents a considerable obstacle to providing a medium-term assurance on the Council's financial viability. In accordance with the current Safety Valve agreement, and in compliance with audit requirements, the draft budget includes the Council's contribution to a specific reserve which is intended to progressively offset the accumulated DSG deficit over the lifetime of the agreement, but this reserve would not be sufficient if the override is not renewed after March 2026. This continues to pose a significant risk to the Council's financial sustainability.

2.24 The pLGFS proposes that the current statutory override which disapplies part of International Financial Reporting Standard 9 (IFRS9) is not extended beyond March 2025. IFRS9 requires provision is made in budgets for unrealised gains and losses on pooled investment funds. The override allowed authorities to record the impacts of fair value movements of pooled investment funds in an unusable reserve. Changing the accounting mechanisms so that gains and losses are recognised in the revenue account could have large (and unpredictable) variances at year end impacting on medium term financial planning.

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

- where the increased uncertainty leads to budget overspends of a level which reduce reserves to unacceptably low levels, or

- where an authority demonstrates the characteristics of an insolvent organisation, such as an inability to pay creditors.

2.26 To avoid the risk of an unbalanced budget the Council has to be financially resilient. Good financial management is fundamental in establishing confidence in the budget and ensuring that savings plans are achievable, and the finances can withstand unexpected shocks.

2.27 The draft budget continues to include an assessment of financial risks. The 2025-26 budget also includes a new assessment of the financial resilience of the Council based on the latest CIPFA guidance on building financial resilience. Both of these measures show that the Council has some way to go to improve its financial resilience.

D) Equalities Considerations

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

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

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

E) Treasury Management Strategy

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

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

F) Budget Consultation

2.33 The Council's 2025-26 budget public consultation ran from 13th June to 7th August 2024. It was hosted on the Council's Let's talk Kent website and can still be viewed via this link https://letstalk.kent.gov.uk/budget-consultation-2025-26.

2.34 In total, 2,389 people responded to the questionnaire, which is 8.8% lower than the response rate to last year's budget consultation. Responses were received from Kent residents, KCC staff, and a range of local businesses and organisations. 30% of respondents found out about the consultation via Facebook, and 25% via an email from Let's talk Kent or the Council's engagement and consultation team.

2.35 A supporting document was provided, which set out the background to the consultation including: key facts about Kent; KCC's strategic priorities; the financial challenges the council has had to address in recent years including areas of significant spending growth in particular in providing services for the most vulnerable residents; an overview of how the Council plans to spend the 2024-25 budget and how we are funded; and the 2025-26 financial challenge. The document included information on the council tax referendum principles, the assumed increases for 2025-26, and the impact on council tax bills. The document sets out the financial outlook for the forthcoming year and that difficult decisions will be needed to balance significant forecast spending increases with the forecast resources from council tax and central government settlement.

2.36 The consultation sought views on council tax proposals for both general council tax and the adult social care levy, and asked respondents to indicate their level of support for increases in line with, above (for general council tax only), or below the referendum level, or whether they are opposed to an increase. The consultation sought views on how services should be prioritised, and where savings should be made, by asking for levels of comfortableness with making spending reductions across the Council's different service areas, as well as which of these service areas to prioritise if there was only £1 of investment left to make. The consultation also sought views on some specific approaches to saving the Council money or generating more income and asked for any other suggestions on ways to make savings or increase income.

2.37 A detailed report setting out the responses received from the public consultation is included as a background document to this report along with feedback from engagement with the VCSE sector. An exercise with the KCC management cohort is reported separately from the public consultation.

3.1 The provisional LGFS for 2025-25 was published on 18th December 2024. The pLGFS provided more detail about the funding allocations for individual authorities following the policy statement published on 28th November 2024 which itself built on the Autumn Budget 2024 published on 30th October 2024 setting out departmental spending plans and taxation. As has been the case since 2013-14 the settlement included a core spending power setting out a standard calculation of change in each authority's funding through council tax and general (non-specific) grants.

3.2 Table 3.1 sets out the core spending power for KCC and England for 2025-26 compared to adjusted amount for 2024-25. Where cells are shaded out this reflects either new grants (for which there is no comparison) or where grants have ceased or have been subsumed within broader grants.

Table 3.1	2025-26 Provisional		2024-25 Final	
	Kent £'m	England £'m	Kent £'m	England £'m
Council Tax	**993.9**	**38,311.8**	**935.7**	**36,153.5**
Grants				
Settlement Funding Assessment (incl. RSG)	222.0	16,841.0	215.8	16,562.7
Social Care Grant	137.1	5,924.0	117.0	5,044.0
Market Sustainability & Improvement Fund	27.0	1,050.0	27.0	1,050.0
Improved Better Care & Discharge Funds	61.7	2,639.8	61.7	2,639.8
Recovery Grant	0.0	600.0		
Children's Social Care Prevention Grant	6.2	250.0		
Business Rate Compensation (under-indexation only)	40.5	2,698.9	38.8	2,581.3
New Homes Bonus	1.9	290.0	2.1	290.8
Services Grant			1.3	87.4
Rural Services Delivery Grant			0.0	110.0
Funding Floor/Minimum Funding Guarantee	0.0	121.5	0.0	268.6
Domestic Abuse Safe Accommodation Grant	4.0	160.0	3.2	129.7
Rolled in Grants (inc. Extended Rights to Home to School Transport)			3.6	64.3
Total Grants	**500.5**	**30,453.7**	**470.5**	**28,828.6**
Total Core Spending Power	**1,494.4**	**68,765.5**	**1,406.1**	**64,982.1**

3.3 The overall increase in KCC's core spending power over 2024-25 is 6.28%. This is less than the average of 6.54% for social care authorities which have the flexibility to increase council tax up to 5% (single and upper tiers). The targeting of new grants (particularly Recovery Grant and Children's Social Care Prevention Grants) using deprivation and Council Tax equalisation results in larger increases for some authorities.

3.4 The largest single element of the overall KCC increase (approx. 66% of the total increase) comes from Council Tax. The CSP assumes 6.2% increase in KCC council tax comprising an increase in the household charge up to 5% referendum level and assumed increase in tax base. The next largest elements come through Social Care Grant and Children's Social Care Prevention Grant. KCC does not receive any of the Recovery Grant.

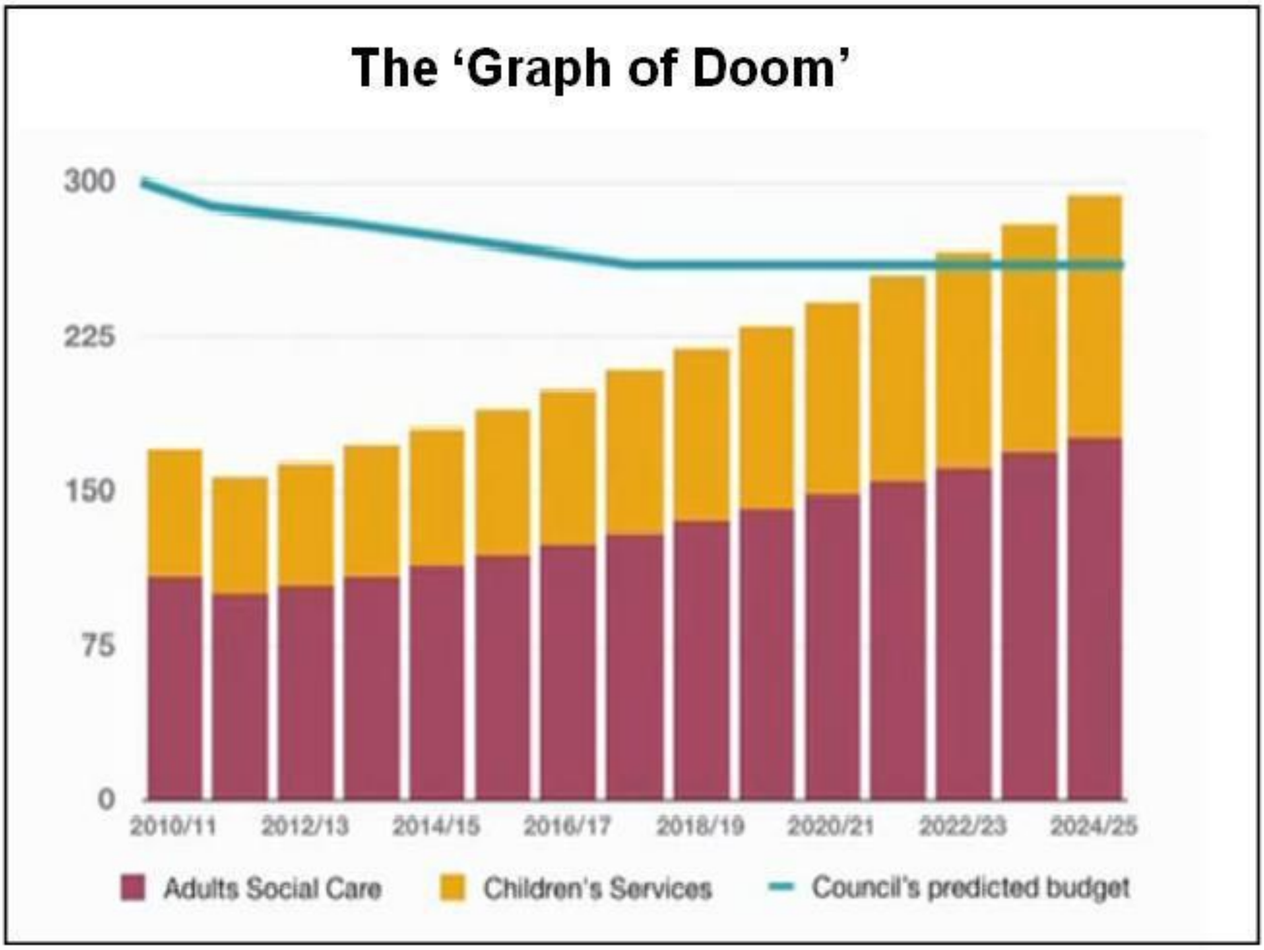
The detail of these new grants was included in the report to Cabinet on 9th January 2025, this report is available as background document and the main grants are set out in appendix K of this report.

3.5 The administration's draft budget includes a proposed increase in Council Tax up to the maximum permitted without a referendum. If agreed the Council Tax precept raised on individual district councils will be based on this rate and the band D equivalent tax base estimate supplied by each district, and thus slightly different to the amount in CSP. The draft budget proposes that all of the increase in Social Care Grant is passported into adult social care (along with the ASC council tax levy and pro rata share of other general funding). The new grant for Children's Social Care Prevention Grant is passported into children's budget with associated increased spending. The increase in the Domestic Abuse Safe Accommodation Grant is proposed to be used to fund the existing core funded community support for domestic abuse victims (pending confirmation of the grant conditions). The changes in other grants are incorporated into the overall draft budget proposals without any specific targeting.

Historical Social Care Spending

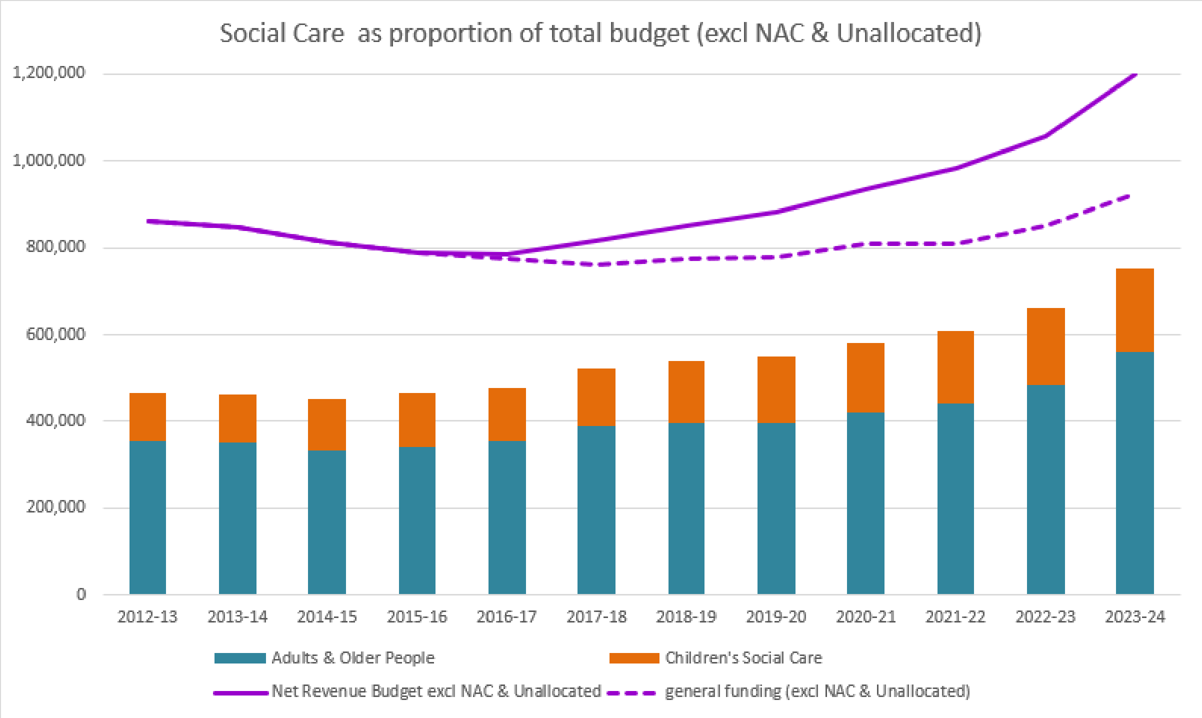
4.1 In the early years of austerity the Barnet "graph of doom" received a lot of attention, partly due to its evident simplicity. The graph showed a prediction of how dramatic the impact would be if spending and adult and children's social care was rising at the same time overall budget of the Council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

Chart 4.1 – Barnet Graph of Doom



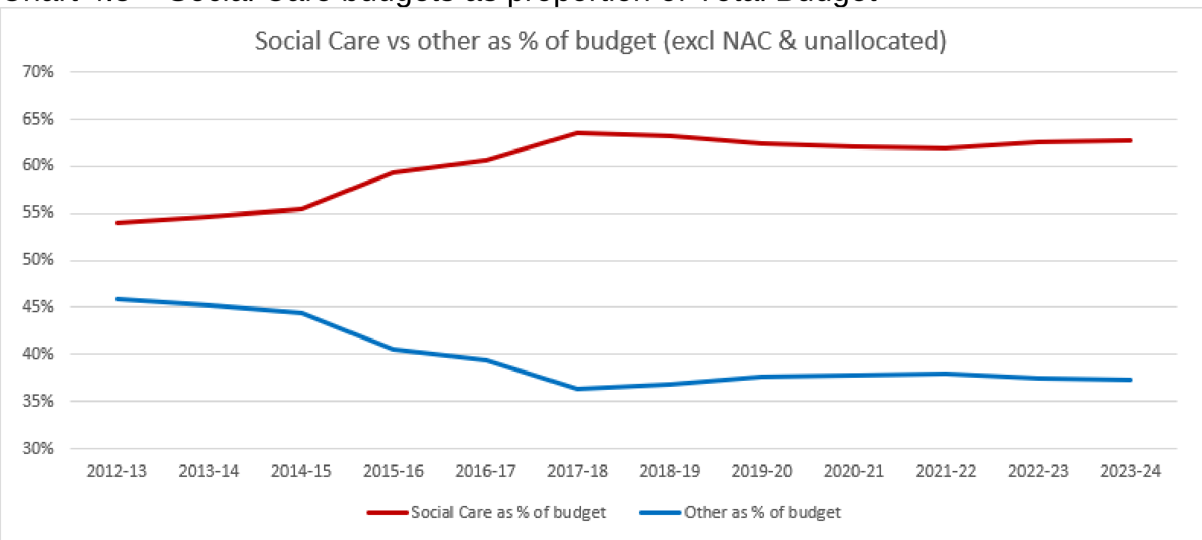
4.2 The reality has been somewhat different, particularly following the change in emphasis from 2016 which allowed councils to raise a specific adult social care Council Tax charge and greater recognition of adult social care in grant settlements since 2016. KCC's budgeted expenditure on adult's and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

Chart 4.2 – KCC Approved Budgets on Social Care



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

Chart 4.3 – Social Care budgets as proportion of Total Budget



Social Care Funding 2025-26

4.4 The vast majority of the Council's funding is not hypothecated for individual services. This includes the general Council Tax precept, the settlement funding assessment (comprising the retained business rate baseline and revenue support grant), business rate compensation grant, New Homes Bonus Grant and assumed level of compensation for changes in employer's national insurance contributions. In total this un-hypothecated funding amounts to nearly £1.1bn of the £1.5bn proposed net budget for 2025-26 (74.3% of total funding).

4.5 Since 2016-17 the Council has had the ability to raise a specific adult social care Council Tax precept, now raising approx. £156m in 2025-26 (10.2% of total funding) and additional social care related grants have been included in the settlement, now amounting to over £230m in 2025-26 (15.5% of CSP). The 2025-26 final draft budget includes an overall increase in funding of £96.6m (6.8%). Of this £20.6m is from the adult social Council Tax precept, £20.1m from the Social Care Grant and £6.2m Children's Social Care Prevention Grant.

4.6 The draft budget includes significant spending increases in adults and children's social care spending. These increases exceed passported funding and pro rata share of general funding as show in table 4.1.

Table 4.1 – Spending and Funding for Adult Social Care

	Total	ASCH	CYPE
	Adults	Adults (26+)	Adults (18-25)
Base Budget 2024-25	£620.3m	£564.5m	£55.7m
Spending growth (note 1)	£78.1m	£76.6m	£1.6m
Savings/Income (note 2)	-£23.0m	-£22.2m	-£0.8m
Net growth in service budgets 2025-26	+£55.1m	+£54.4m	+£0.7m
Est. share of centrally held pay	+£3.8m	+£3.8m	£0.0m
Total Net growth	**+£59.0m**	**+£58.2m**	**+£0.7m**
Passported Council Tax	£20.5m	£18.7m	£1.8m
Passported Social Care Grant	£20.1m	£17.2m	£2.9m
Pro rata share of general funds (note 1)	£12.8m	£11.5m	£1.3m
Total Net Funding	**£53.4m**	**£47.4m**	**£6.0m**
Excess share included in budget	**+£5.5m**	**+£10.8m**	**-£5.2m**

Note 1 = excludes domestic abuse
Note 2 = excludes savings towards £19.8m policy savings target

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

5.2 The DSG is allocated through four blocks: The Schools Block, Central School Services Block, High Needs Block and Early Years Block. All elements of the DSG are calculated based on a national funding formula, however these are calculated using historic funding as a baseline. In addition, the Council receives, and passports fully to schools, other specific grants such as pupil premium funding or the Core Schools Budget Grant for Special Schools & Alternative Provision (relating to 2023 & 2024 teachers pay & pensions increases).

5.3 The table below sets out the latest DSG allocation over the funding blocks for 2025-26.

Table 5.1 - Dedicated Schools Grant 2025-26 and Latest DSG 2024-25

Block	**2025-26 £m**	**2024-25 £m**	**Change £m**
Schools Block (*)	1,384.1	1,275.7	108.5
CSSB	12.2	12.3	-0.1
High Needs Block	345.5	322.7	22.8
Early Years Block	226.1	158.6	67.4
Total	**1,967.9**	**1,769.3**	**198.5**

* includes £72.4m (2023 & 2024 teachers pay & pension grants rolled in) and £33.8m (new monies)

5.4 The early years block is used to fund the free entitlements for under-fives and has been increased in 25-26 for inflationary increases of between 2.7% & 3.6%. Further funding has also been allocated to fund the continual rollout of the extension of the free entitlement for working age parents down to 2 years from April 2024 and, to 9 months from September 2024. The Council is required to plan to pass on at least 96% of the funding to early years providers.

5.5 The primary and secondary pupil funding rate in the Schools Block, used to fund School Budgets, has increased by 2.6% in 25-26 (after 2024-25 grants have been rolled in). The total schools block for Kent (before deductions for academies) has increased by £108.5m (7.8%) to £1.4bn on the comparable figure for 2024-25, of which £33.8m (2.6%) is new monies. Approximately 1.3% of this relates to the full year effect of funding to support the cost of teachers pay award in September 2024, whilst the remaining 1.3% is fund pupil demographic changes and inflationary increases.

5.6 The High Needs Block is funding to support costs of pupils with additional educational needs, across mainstream and special schools & colleges as well as the associated support costs. The allocation of the high needs block for 2025-26 has increased by £22.8m (7%) on the comparable figure for 2024-25.

5.7 The increase in funding for schools is lower than in recent years and whilst the increase in the high needs block is slightly higher than last year it is still significantly lower than in recent years and is required to fund ongoing demand challenges. At the same time Central Government has confirmed the National Living Wage (NLW) will rise by a further 6.7% from April 2025. The School Teachers Review Body (STRB) have not published their formal recommendations on teacher's pay rises, the DfE have set out in their evidence to the STRB that a rise of 2.8% would be acceptable from September 2025, however this will not be fully funded, and schools will be expected to make efficiencies. The continual disparity between funding and staff cost rises will have a financial impact on schools, where the salaries of most support staff track close to NLW, with the most significant impact on schools supporting high numbers of children with special education needs (where there is greater requirement for support staff), including special schools and pupil referral units. Community and Voluntary Controlled maintained schools are required to implement the Personnel Committee recommendations on Kent Scheme pay, whilst other schools (voluntary aided and foundation-maintained schools, academy trusts & free schools) can make their own pay decisions, many still mirror the KCC pay structure to remain competitive in the County.

5.8 A significant financial risk for the Council is the continuing and increasing underlying deficit and accumulated debt on the High Needs Block of Dedicated Schools Grant (DSG), a forecast total of £227m as at 31st March 2025 (excluding contributions from KCC and DfE). Since the introduction of the Children and Families Act 2014, the Council has seen an unprecedented rise in the number of children and young people assessed for Education Health and Care Plans (EHCPs) and the increasing proportion of children being educated in special and independent schools and a smaller proportion educated in mainstream schools. The high needs funding within the DSG has not kept pace, resulting in in-year overspends and an accumulated deficit on the unallocated DSG reserve. Whilst this is recognised as a national problem it has been particularly acute in Kent with numbers significantly higher than the national and nearest neighbours' average.

5.9 Since March 2023, KCC has been part of the Safety Valve Programme where the DfE and the Council are contributing towards the historic deficit on the understanding that plans will be put in place to bring the Council to a breakeven position by 2027-28. As a result of this, the deficit on the High Needs Block has been reduced by contributions to an estimated £96m at the end of 2024-25.

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

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

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

5.12 The Central School Services Block (CSSB) was introduced in 2018-19 to fund councils for their statutory duties relating to maintained schools and academies including for retained statutory duties and ongoing central functions i.e. admissions, and historic commitments including items previously agreed locally such as termination of employment costs. The element of the CSSB that funds ongoing services has increased by 6.2%, this is to help fund rises in school licences. Funding for schools historic pension commitments has been reduced in 2025-26, we are awaiting the outcome of an application to the DfE for continuation of this funding at the previous year's level.

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

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

6.3 The Council currently can, subject to legislative constraints, increase its Council Tax rate through two mechanisms, the Adult Social Care (ASC) precept and general tax rate increases. Each 1% increase in the Council Tax rate generates circa £9.5m per annum in 2025-26, which equates to an extra 31 pence per week for a band D property.

6.4 The Council Tax referendum principles for 2025-26 allow for up to but not exceeding 3% general tax rate increases without a referendum plus an additional Adult Social Care levy of up to 2%. These increases are based on the total County Council share of the household charge for 2024-25 (£1,610.82 for band D household). The administration's draft budget 2025-26 includes a proposed 2.995% increase for the general precept (up to but not exceeding the referendum level) and a further 1.995% increase for the adult social care levy (ASCL). The proposed Council Tax increases and overall charge by individual bands are shown in tables 6.1. The ASCL will no longer been shown separately on council tax bills.

Table 6.1 – Proposed Council Tax Increases by Band

Band	Proportion of Band D Tax Rate	2024-25 (incl. ASCL) £p	2025-26 (incl. increase in ASCL) £p	Increase £p
A	6/9	1,073.88	1,127.46	53.58
B	7/9	1,252.86	1,315.37	65.21
C	8/9	1,431.84	1,503.28	71.44
D	9/9	1,610.82	1,691.19	80.37
E	11/9	1,968.78	2,067.01	98.23
F	13/9	2,326.74	2,442.83	116.09
G	15/9	2,684.70	2,816.65	133.95
H	18/9	3,221.64	3,382.38	160.74

6.5 The County Council's 2024-25 Council Tax charge (including Fire and Rescue Authority to ensure valid like for like comparison) is currently mid-range at 10th highest of the 21 counties in England and 5th of the 7 south east region counties. We will not know the Council's relative position on Council Tax for 2025-26 until all county councils have agreed their precept and Council Tax charge for the forthcoming year.

6.6 The latest Council Tax precept and Council Tax funding levels are based on tax base estimates notified by the 12 district and borough councils as shown in table 6.2. The total tax base increase of 1.22% (slightly lower than the provisional figure of +1.24%) is significantly less than our initial estimate of 1.7% and results in an increase in Council Tax funding of £11.4m (£4.9m less than estimated in the November draft budget). The tax base estimates include changes in number of dwellings, changes in discounts and premiums, assumed collection rates and the introduction of premiums on second homes.

Table 6.2 – Tax base changes and 2025-26 Precept

District	2024-25 Final Band D Equivalent Taxbase	2025-26 Latest Band D Equivalent Taxbase	2025-26 Precept @ £1,691.19 (incl. ASCL) £000s	% change
Ashford	49,832.00	49,332.00	83,429.8	-1.00%
Canterbury	53,348.27	55,053.98	93,106.7	+3.20%
Dartford	41,029.46	41,702.34	70,526.6	+1.64%
Dover	40,874.50	42,119.72	71,232.4	+3.05%
Folkestone & Hythe	40,466.09	41,413.64	70,038.3	+2.34%
Gravesham	35,994.62	35,442.89	59,940.7	-1.53%
Maidstone	68,263.60	68,085.50	115,145.5	-0.26%
Sevenoaks	52,394.75	53,008.33	89,647.2	+1.17%
Swale	50,367.85	50,518.20	85,435.9	+0.30%
Thanet	46,454.06	48,260.89	81,618.3	+3.89%
Tonbridge & Malling	53,477.93	53,849.82	91,070.3	+0.70%
Tunbridge Wells	48,360.90	49,134.60	83,095.9	+1.60%
Total	**580,864.03**	**587,921.91**	**994,287.65**	**+1.22%**

ASCL = Adult Social Care Levy

6.7 The district and borough councils also have to notify us of their estimated collection fund balance for over/under collection in the current year (including any balance brought forward). This must also be reflected in the draft budget as over/under collection has to be taken into account as part of the decision on the Council Tax charge for 2025-26. The draft budget includes a £3.2m collection surplus balance (compared to a £0.6m provisional collection deficit balance), this is £3.8m less than the £7m assumed surplus balance in the November draft and in accordance with established policy and practice the difference from the assumption is drawn from the local taxation equalisation reserve, which avoids any impact on the overall revenue budget and savings/income requirement. Table 6.3 shows the changes in collection fund balances in 2024-25 and 2025-26 for each collection authority.

Table 6.3 – Collection Fund Estimated Balances

District / Borough Council	Collection fund surplus/ (deficit) in 2024-25 Budget	Collection fund surplus/ (deficit) in 2025-26 Draft Budget	Difference
Ashford	-£1,290,972	-£213,723	£1,077,249
Canterbury	£1,091,180	£2,578,646	£1,487,466
Dartford	£1,584,612	£1,509,970	-£74,642
Dover	£487,573	£172,772	-£314,801
Folkestone & Hythe	£1,070,000	-£515,661	-£1,585,661
Gravesham	-£218,780	-£1,424,350	-£1,205,570
Maidstone	-£1,425,915	-£744,024	£681,891
Sevenoaks	-£58,283	£1,625,143	£1,683,426
Swale	-£207,649	-£294,838	-£87,189
Thanet	£568,715	£805,939	£237,224
Tonbridge & Malling	£412,048	-£289,929	-£701,977
Tunbridge Wells	£502,950	£0	-£502,950
Total	**£2,515,480**	**£3,209,945**	**£694,466**

7.1 The administration's updated draft revenue budget and draft capital programme was published on 6th January 2025 for consideration of material changes through the January cycle of Cabinet Committees. As with the earlier draft for the November cycle of Cabinet Committees this was a tailored report for each committee focussing on the key policy considerations within the administration's draft budget proposals for the relevant Cabinet portfolio(s) for each committee. The reports included an appendix with the overall high level three-year revenue plan for the whole council, and separate appendix with the one-year plan for relevant Cabinet portfolio(s)/directorates using the same classification for spending growth and savings/income as the three-year plan.

7.2 This report setting out the full draft to the administration's proposed budget will be considered by Scrutiny Committee on 29th January ahead of being presented to Cabinet on 30th January for formal endorsement. The administration's final draft budget will be considered by County Council on 13th February for approval. The final draft will include any changes arising from final settlement (assuming this is announced in time), final tax base and collection fund notifications, recommendations from Personnel Committee on Kent Scheme pay award for 2025-26 and any other material changes as necessary. No formal proposed amendments were presented to Cabinet from Cabinet Committees and Cabinet Members addressed informal comments raised. As required by the Council's Constitution and Financial Regulations, the final draft budget for County Council approval will be proposed by the Deputy Leader/Cabinet Member for Finance Corporate and Traded Services (under delegated powers from the Leader) and published in a format recommended by the Interim Corporate Director, Finance and agreed by the Leader.

7.3 The administration's final draft capital programme 2025-35 is set out in appendices A and B of this report. Appendix A provides a high-level summary of planned capital spending and financing over the 10 year period. The financing is a combination of government departmental capital grants, anticipated developer contributions and capital receipts, external funding and borrowing. In many cases funding has not been increased for inflation and consequently inflation has had to be absorbed, reducing the real terms values within the programme. The programme is largely unchanged from the January draft other than inclusion of additional grant funded spending and some rephasing, borrowing is unchanged and there are minor changes in funding from receipt and revenue contributions. Appendix B contains planned spending on individual projects and rolling programmes by directorate. Appendix C is not part of the approved programme and is only included for reference, providing information on indicative spending on potential projects in the pipeline where funding has not yet been secured.

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

7.5 The presentation of the administration's updated draft revenue budget 2025-26 and 2025-28 MTFP focuses on the key policy and strategic implications of the proposals. The revenue proposals are summarised in appendices D to G of this report. These appendices show the spending, income and savings changes from the current year's approved budget (2024-25) and the financing requirements. Appendix D provides a high-level summary of the proposed three-year plan for the whole Council, showing the spending growth, savings & income, changes in reserves for core Council funded activity (funding from the pLGFS and local taxation) separately from changes in externally funded activities (largely specific grant funded). There have been significant changes in planned 2025-26 core spending and funding from the November draft as result of the pLGFS, provisional tax base and collection fund balance. The changes are summarised in table 7.1 and reflect the now balanced position for 2025-26.

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

	Initial Draft (Nov 2024)	Latest Draft (Jan 2025)	Change
Spending Growth	+£117.2m	+£150.4m	+£33.2m
Internal base budget adjustment	-£0.8m	-£0.8m	-
Income	-£10.0m	-£23.5m	-£13.5m
FYE of current year and new savings	-£64.0m	-£70.8m	-£6.8m
Removal of one-off and reversal of unachieved savings	+£32.3m	+£32.8m	+£0.5m
Reserves	+£4.1m	+£12.1m	+£8.0m
Funding	-£67.5m	-£100.2m	-£32.7m
Balance (+ve = unresolved)	**+£11.4m**	**£0m**	**-£11.4m**
of which Adult Social Care	+£8.6m	-	-£8.6m
of which Other	+£2.8m	-	-£2.8m

7.6 The increased funding is predominantly additional grants announced in the provisional Local Government Finance Settlement published on 18th December 2024 and now reflected in the updated draft budget along with associated spending. The updated draft does not include the compensation for a freeze in the Business Rate multiplier and additional reliefs, as this was not fully reflected in the pLGFS announcement. The additional grant to fund the additional payroll costs arising from the reduction in employer National Insurance Contributions (NICs) and increased contribution rate announced in the Autumn Budget 2024 have not yet been announced (and will not be reflected in Core Spending Power presentation), at this stage it is assumed the grant will be same as forecast costs (any variances will have to be reflected in the final draft budget for Council approval). The updated draft budget includes provisional Council Tax base and collection fund balance estimates from district council. The changes in funding from the original November draft budget as listed in table 7.2.

Table 7.2 List of Funding changes since November draft

Category	Description	Amount
Grant	Settlement Funding Assessment (net of grants rolled in)	-£4.2m
Grant	Social Care Grant	+£20.1m
Grant	Market Sustainability & Improvement Fund (previously assumed workforce element was time-limited)	+£5.3m
Grant	Children's Social Care Prevention Grant	+£6.2m
Grant	Domestic Abuse (increase on former specific grant)	+£0.8m
Grant	New Homes Bonus Grant (continuing for one more year)	+£1.9m
Grant	Services Grant	-£1.3m
	Sub total grants in pLGFS	*+£28.7m*
Grant	Original Domestic Abuse specific grant	+£3.2m
Grant	Est. Employer NICs compensation	+£9.4m
Council Tax	Provisional tax base estimate (+1.24%)	-£4.9m
Council Tax	Provisional collection fund estimate	-£3.8m
	Total	**£32.6m**

7.7 The increased spending growth is predominantly related to increased grants in the pLGFS but also includes changes from estimates in the November draft arising from the full year effect of latest forecast spending variances from quarter 2 monitoring 2024-25 and latest OBR inflation forecasts. The material changes in spending growth are listed in table 7.3

Table 7.3 – List of significant changes to Spending Growth since November draft

Description	Directorate	Amount	Linked to Funding
Estimate employer NICs	CHB	+£9.4m	Y
Oracle Cloud funded from flexible use of receipts	DCED	+£8.0m	Y
Increase in ASC price uplift to 4%	ASC/CYPE	+£8.0m	Y
Critical adolescence prevention work (from CSPG)	CYPE	+£6.2m	Y
Removal of Domestic Abuse specific grant income	ASC/CED	+£3.2m	Y
Initiatives to reduce residual waste (from EPR)	GET	+£1.3m	Y
Increase social care activity in current year	ASC/CYPE	+£3.8m	
Essential highway maintenance	GET	+£1.8m	
Reduction in capital financing due to slippage	NAC	-£4.0m	
Reduction in Home to School transport spend	CYPE	-£3.2m	
Subsided buses (now funded from BSIP)	GET	-£1.9m	Y
Other minor changes	Various	+£0.6m	
Total		**+£33.2m**	

7.8 The increased savings and income in table 7.1 include the guaranteed income from Extended Producer Responsibilities (EPR), one-off use of capital receipts to fund Oracle Cloud spend, further policy proposals towards the requirement for £19.8m savings to replace one-offs in 2024-25 approved budget, and rephasing of plans to reflect latest delivery plans. The changes in reserves include additional contribution to a specific reserve from balance of EPR income, reduced use of reserves in 2025-26 to reflect timing of policy savings to replace £19.8m one-offs in 2024-25 approved budget, reduced contribution to IT reserves for Oracle cloud spending now funded from flexible use of capital receipts and drawdown from local taxation smoothing reserves to reflect lower Council Tax base and collection fund estimates. More details of reserves contributions and drawdowns are set out in the separate section on reserves.

7.9 Appendix E provides a directorate high level summary of the proposed plan for 2025-26, separately showing spending growth, savings & income, changes in reserves and funding for core Council funded activity (funding from the local government settlement and local taxation) from changes in externally funded activities (largely specific grant funded). Throughout this report the focus is on core funded spending, savings, income and reserves as changes on externally funded spend are financially neutral. Table 7.4 shows the net increases in core funded spending for each directorate as a result of spending growth, and savings/income. The adult social care Council Tax levy and social care grants are passported into social care spending in ASCH and CYPE. In total these passporting amounts are £40.6m into adults services and £6.2m into children's. The increases across Adult Social Care and Integrated Children's Services exceed these passported amounts and pro rata share of general funding increases reflecting the priority for New Models of Care.

Table 7.4 – Year on Year changes in net budget by directorate

	ASCH	CYPE	GET	CED & DCED	NAC & CHB	Total
Approved Base Budget 2024-25	£585.9m	£430.0m	£201.7m	£111.5m	£100.4m	£1,429.5m
Base Adjustment	+£0.3m	-£0.4m	-£0.4m	-£0.3m	-	-£0.8m
Spending Growth	+£80.3m	+£40.3m	+£14.3m	+£9.2m	+£6.3m	+£150.4m
FYE of current and new savings	-£32.6m	-£21.0m	-£0.7m	-£13.9m	-£2.7m	-£70.8m
Income	-£6.2m	-£0.1m	-£15.6m	-£0.2m	-£1.3m	-£23.5m
Removal of one-off and unachieved savings	+£14.9m	-	+£1.6m	+£0.2m	+£16.1m	+£32.8m
Reserves	+£0.6m	-	+£0.7m	+£0.2m	+£10.6m	+£12.1m
Net Budget 2025-26	£643.2m	£448.7m	£201.6m	£106.8m	£129.4m	£1,529.7m
Net Change	+£57.3m	+£18.7m	-£0.2m	-£4.7m	+£29.0m	+£100.2m
Net Change (%)	+9.8%	+4.4%	-0.1%	-4.2%	+28.9%	+7.0%

7.10 Appendix F provides a full list of individual spending, savings & income, and reserves items. This appendix shows the spending forecasts, savings and income proposals, and changes in reserves for all the three years 2025-28. New savings and income for later years are included to highlight the areas that will need to deliver the forecast level of recurring savings in 2026-27 and 2027-28 although inevitably these savings proposals will need to be developed in more detail and be subject to consultation and scrutiny as part of development of future revenue budgets as the full detail for the subsequent years is not essential for the approval of 2025-26 budget and the MTFP at this stage amounts are considered to be indicative for planning purposes.

7.11 The final draft budget will need to include the impact of the Personnel Committee recommendations on Kent Scheme pay for 2025-26, the draft budget at this stage includes an overall estimate for the changes to the Council's pay strategy agreed by full Council in May 2024 and estimated provision for pay award pending the outcome of the pay bargaining process.

7.12 The County Council agreed the Members' Allowances Scheme for 2021-2025 on 4th November 2021. This included agreement to an updated annual indexation formula linked to national and Kent scheme pay awards. A new or extended scheme will need to be agreed for 2025-26. The Member Remuneration Panel is currently working on recommendations for 2025-26 but will not report before the start of the next financial year. At this stage the draft budget includes an estimated provision, and the estimate for employer National Insurance Contributions includes impact on member allowances. Any variance from these estimates once the 2025-26 scheme is approved will need to be managed in the short term as a reported budget variance.

7.13 The high-level equation for changes in planned revenue spending for 2025-26 (growth and savings), income and net budget, together with the balancing changes in funding is shown in table 7.5 below. This summarises how the requirement to set a balanced budget will be met. To improve transparency the spending, savings and reserves from core Council funds are shown separately from externally funded changes (consistent with the revised presentation of appendices D and E).

Table 7.5 – Net Year on Year Change in Spending and Funding

Change in Net Spending	Core Funded	External Funded	**Change in Net Funding**	Core Funded
Base adjustment	-£0.8m	+£0.8m	Council Tax (incl. collection fund)	+£59.3m
Estimated additional spending	+£150.4m	+£45.2m	Increase in social care Grants	+£26.3m
Savings (new and FYE of existing plans)	-£70.8m	-	Increase in SFA (net of grants rolled in)	+£2.7m
Income (new and FYE of existing plans)	-£23.5m	-	Net Increase in other grants in pLGFS	+£1.1m
Assumed changes in specific government grants		-£28.6m	Domestic Abuse Grant	+£3.2m
Removal of one-off and unachieved savings	+£32.8m	+£3.3m	Est employer NICs compensation	+£9.4m
Proposed net change to in year reserves	+£31.8m	-£11.4m	Retained business rates pool and collection fund	-£1.8m
Removal of previous year contributions & drawdown	-£19.7m	-£9.4m		
Total Change in Net Spending	**+£100.2m**	**£0.0m**	**Total Change in Net Funding**	**+£100.2m**

7.14 The Council continues to operate its policy of full cost recovery through fees and charges that can be determined locally, other than where Cabinet/County Council has agreed to provide services at a subsidy or concession e.g. Kent Travel Saver. Under this policy fees and charges are subject to an annual uplift with periodic review to ensure that uplifts ensure full cost recovery continues to apply. The uplifts and full cost reviews are reflected in the 2025-26 budget proposals and form part of the budget recovery plan within Securing Kent's Future.

7.15 In addition to the spending pressures in core Council services, pressures arising from Special Education Needs & Disabilities (SEND) impact upon both the ring-fenced Dedicated Schools Grant (DSG) and the General Fund revenue budget. Pressures on DSG are being addressed primarily through the Safety Valve mechanism, whereby the Department for

Education provides a substantial contribution (up to £140m), in return for improvements to the SEND system and a contribution (£82.3m) from the Council. SEND pressures on the General Fund are reflected primarily through the number of requests to assess, produce and then annually review Education & Health Care Plans (EHCP) and the associated increased SEND home to school transport costs.

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

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

Spending Estimates

8.1 The most significant spending growth derives from demand and cost drivers. In 2024-25 £85.3m out of £209.6m (40.7%) of core funded spending growth was through demand and cost drivers. The other major components of spending growth were contractual and negotiated price increase (23.7% of core funded growth) and base budget changes for full year effect of previous budget variances (15%). The demand and cost drivers were included in the 2024-25 budget to replace previous calculations for demography. The demand and cost drivers were developed jointly with performance analytics and finance in response to the significant variances that arose in 2022-23 budgets.

8.2 The draft 2025-26 budget has an even greater proportion of core funded spending growth (47.3%) although the overall amount (£71.2m) is less. This is partly due to significantly lower base budget changes reflecting the relative success of the revised approach resulting in fewer spending variances within 2024-25 budget monitoring. Table 1 shows comparisons between demand and cost drivers in 2024-27 and 2025-28 MTFP by main service/directorate.

Table 8.1 – Comparison of Demand and Cost Drivers 2024-27 to 2025-28

	2025-28 Draft MTFP			**2024-27 Final MTFP**		
	2025-26	2026-27	2027-28	2024-25	2025-26	2026-27
Adults & Older Persons - ASCH	£42.2m	£42.2m	£42.2m	£54.0m	£54.0m	£54.0m
Adults & Older Persons – CYPE	£2.5m	£2.5m	£2.5m	£3.4m	£3.4m	£3.4m
Children’s Social Care – CYPE	£10.3m	£10.2m	£10.2m	£8.9m	£10.4m	£10.2m
Home to School Transport – CYPE	£15.1m	£13.6m	£13.6m	£17.9m	£15.1m	£13.6m
Waste Disposal & Recycling GET	£1.1m	£1.1m	£1.0m	£1.0m	£1.0m	£1.0m
Total	£71.2m	£69.7m	£69.6m	£85.3m	£83.8m	£82.3m
% of Core Funded Growth	47.3%	61.6%	60.3%	40.7%	56.9%	62.2%

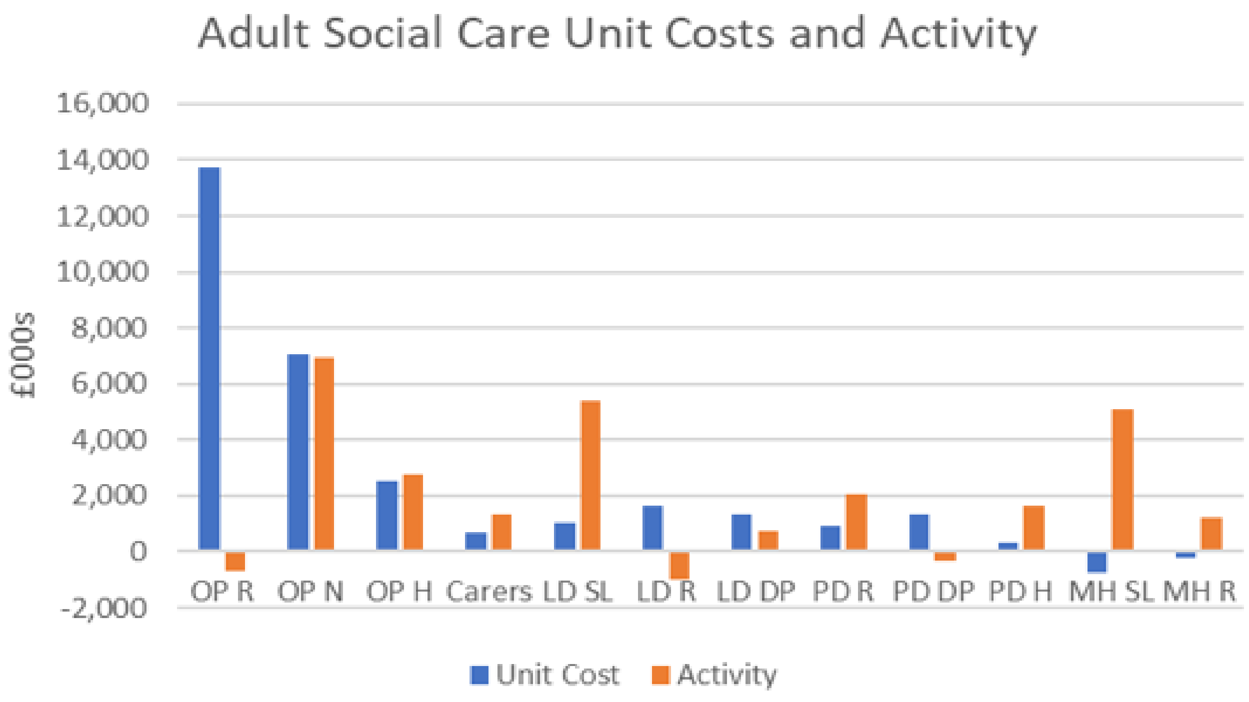
8.3 The % of spending growth for demand and cost drivers will always be a proportionately larger share of growth in the latter two years of the plan as there are no base budget changes in these later years and projections for price uplifts also tend to be lower as rate of inflation is forecast to fall. The calculation of demand and cost drivers for later years currently produces the same amount in each year as the current year as it is based upon the same most recent performance/activity data. As the forecasts become more refined it is intended to be able to input alternative performance/activity variables to reflect different scenarios in different years. It is intended that this should be introduced alongside the restoration of multi settlements. The latter two years of the 2025-28 plan is still indicative for illustrative purposes in the absence of multi-year settlements so alternative scenarios would not add much value at this stage. The forecasts for home to school transport could not be updated for updated for this version of the draft plan as the impact of activity changes from the start of the school year in September 2024 are still being evaluated.

8.4 The demand and cost drivers for adults and older persons include separate calculations for increased costs and increased demand. The demand drivers take account of predicted changes in number/needs of new clients including those disabled clients transitioning from children's services to adults, and those transferring from continuing health care and those transferring from self-funders as personal wealth is depleted below the qualification threshold. Demand drivers include forecasts for new assessments and annual review. This includes those in homecare or community care placements where complexity is increasing as evidenced by average hours per week.

8.5 The cost driver element for adults and older persons reflects that cost of packages for new clients in recent years have been significantly higher that existing clients. This is largely in older persons residential and nursing care and includes an element of complexity although this cannot be separated out in the same way through average hours per week for home care and community care packages. The higher cost for new packages also reflects placement decisions and availability.

8.6 The calculation of demand and cost drivers is determined for individual client groups and different care settings including older persons (residential [R)], nursing [N], home care [H)]), learning disability (supported living [SL], residential [R], direct payments [DP]), physical disability (residential [R], direct payment [DP], home care [H]), mental health (supported living [SL], residential [R]). The breakdown for each client group/setting for 2024-25 cost drivers is shown in chart 8.1. The breakdown of 2025-26 in a similar way can only be done following budget approval and the allocation of budgets to key services. A separate sensitivity analysis of actual changes in costs and activity for the 2024-25 amounts can only be completed after year end when a full year of data is available. Performance monitoring reports are considered on a regular basis by ASCH management team to monitor progress. Generally, the observed trends are not significantly different to the forecast trends when the budget was set. The vast majority of budget variances in adult social care in 2024-25 are from savings delivery (see subsequent section in this sensitivity analysis).

Chart 8.1 – Adult Social Unit Cost and Activity Demand and Cost Drivers 2024-25



8.7 The demand and cost drivers for children's social care include separate calculations for increased costs and increased demand. The demand drivers take account of increases in child population and increasing complexity of need. The overall proportion of children in care is fairly static. The cost drivers reflect the rising cost of and availability of placements between different settings such as Foster care, residential, etc. over and above contractual fee uplifts., As with adult social care are the cost drivers influenced by complex market factors. The demand and cost drivers are calculated separately for disabled and non-disabled children. In year budget monitoring shows that budget estimates for demand and cost drivers for non-disabled children were robust with only very small variance (less than 0.1% variance on budget of over £100m). The budget estimates for disabled children in care show a much larger variance (20%). Work continues to better predict spending drivers in this area.

8.8 The demand and cost drivers for home to school transport include impact of rising school age population, the proportion of the school age population eligible for transport assistance, cost factors such as journey distance and vehicle occupancy and market availability. Such has been the increased demand for SEND home to school transport that this itself creates a market availability pressure pushing up unit costs through tender prices over and above expected increase due to rising labour, fuel and vehicle maintenance costs. In year budget monitoring is showing significant underspend on home to school transport, this is not as a result of lower numbers within the demand calculation but lower cost increases and changed pattern of transport packages including higher numbers of Personal Transport Budgets (PTBs). These changing patterns are still under evaluation and consequently the demand and cost driver estimate for 2025-26 and 2026-27 is unchanged from 2024-27 MTFP at this stage.

8.9 The demand driver for waste recycling and disposal cost driver is based on forecast growth in the number of households as a reasonable proxy for increases in tonnage. Waste recycling and disposal costs are complex to forecast due to influence outside the Council's direct control such as behaviour patterns towards segregating waste for kerbside collection, market prices for non-residual waste, collection patterns, etc. The most significant variances on waste recycling and disposal costs in the current year arise from policy choices around number and location of Household Waste Recycling Centres (HWRCs) and contract retenders.

Savings and Income Estimates

8.10 Savings and income delivery plans have been subject to significant additional rigour in the current year. The most significant savings (28 out of 111 individual plans) amounting to a total of £56.7m out of a total planned savings on core funded activities for 2024-25 of £88.9m are subject to the most rigour through regular budget monitoring and progress updates to Strategic Reset Programme Board. Delivery plans are categorised into the following traffic light system:

- Blue – delivered
- Green – key milestones on track
- Amber – key milestones not on track but remedial strategies have been identified
- Dark Amber – key milestone not on track and remedial strategies yet to be identified
- Red – savings now considered unachievable in the current year

8.11 A further 15 out of 111 savings plans (amounting to £5.9m out of total planned savings of £88.9m) are deemed less significant corporately but still material enough to require enhanced directorate monitoring through business plans. The remaining 68 out 111 savings plans (£26.2m out of £88.9m total planned savings) are monitored through the normal monthly finance monitoring with managers and quarterly reports to Cabinet.

8.12 The savings monitoring report to Cabinet includes all savings in the budget plan together with any that have been rolled forward from under delivered savings in previous years. The report also identifies separately any savings that have been over delivered as well as the traffic light rating for the overall savings in the budget plan (including those rolled forward). The draft budget plan for 2025-26 identifies separately the negative amounts for full year effect of current savings/new savings & income in the budget plan from the positive amount needed for realignment of budgets to reflect under delivered savings not being rolled forward and removal of one-offs. This distinction has not been necessary in previous budget presentation as the amounts under delivered and not rolled forward have been insignificant.

8.13 The delivery of savings and income with Adult Social Care are of the most significant concern. Out of total planned saving of £55m (including roll forward) over 50% (£29.6m) are now rated red with a further 13% (£7.4m) rated amber or dark amber in the latest Quarter 3 monitoring report. This represents a deterioration from quarter 2 where £25.8m of ASCH savings were deemed red, and £9.4m amber or dark amber. The draft budget is based on the quarter 2 monitoring in terms of £14m savings deemed irrecoverable savings not being rolled forward.

Funding Scenarios

Source	Current Basis	Sensitivity over medium term		
		Most Likely	Best Case	Worst Case
Council Tax Base	The current working assumption is 1.5% annual increase due to new dwellings and changes in discounts, exemptions. Current collection assumption is average of 98%.	Tax base continues to grow at a largely steady state albeit with some local differences	Local collection authorities maximise collection. 100% collection would increase KCC share of Council by net c. +£10m through tax base with no collection surplus	Local collection authorities reinstate discretionary empty property discounts & premiums and/or revert to default schemes for working age CTRS. Maximum exposure to KCC share of council tax c. -£30m
Council Tax Rate	The current working assumption is that council tax referendum limits	Referendum levels remain at 5% for foreseeable future	Referendum limits are increased or removed together. Each additional 1% amounts to c. +£9.5m for KCC	Referendum limits are reduced to more common 3%. Exposure risk to KCC c.-£19m
Retained Business Rates	The current arrangements allow KCC to retain 9% of business rate growth. BR taxbase is volatile and budget assumes no growth with only increase from annual index linked uplifts	Business rates retention remains at 9% with relatively low or static changes in tax base	Business Rate retention is increased stimulating business rate growth. Doubling of retained business rate growth would amount to c.+£10m for KCC share	Major business closure in the county lead to share of business rates reducing below safety net threshold. Current threshold would allow -£15m before safety would apply (note being in a pool means safety net is not currently applicable)
Govt SFA	Funding baselines are based on relative needs and resources formula. The methodology for this was established in 2006/07 and the	Any reform is broadly neutral for a diverse county like Kent	A 10% improved distribution from reforms would increase KCC allocation by c. +£22m	A 10% reduced distribution from reforms would increase KCC allocation by c. -£22m

	parameters in the calculations have not been updated since 2013-14			
Govt social care grants	The 2025-25 provisional settlement includes £232m in social grants. These have been progressively increasing since 2016-17 and now represent 15% of the Council's net budget. These grants are allocated on same outdated RNF as the funding baseline.	Grants are transferred into reformed funding system at current levels with relative needs updated. KCC is likely to benefit from a small increase from updating	The RNF and area cost adjustment take better account of councils serving large, diverse and dispersed population. The tax equalisation element is more beneficial. Changes in this direction would increase county council share	The RNF is based more reliant on measures of deprivation and tax equalisation element is increased. Changes in this direction would reduce county council share as more funding is targeted to poorer urban areas

Proposed Revised Draft 2025-26 Revenue Budget – key numbers

£1,529.7m	Assumed net revenue budget for 2025-26. This represents a £100.2m increase on the final approved budget for 2024-25 of £1,429.5m.
£150.4m	Additional estimated core funded spending growth – see paragraph 9.1 below for more detail.
-£61.5m	Assumed net savings, income and future cost increase avoidance. Of this £70.8m relates to proposed new and full year effect of existing savings, £23.5m additional income generation (mainly fees and charges), offset by £32.8m from the removal/rephasing of undelivered savings in previous budgets and temporary savings from prior years – see paragraph 9.2 for more detail.
£12.1m	Estimated net impact on the budget of changes in the use of reserves including new contributions and removing previous years drawdown and contributions – see section 12 for more detail.
£997.5m	Estimated to be raised from Council Tax precept. An increase of £59.3m on 2024-25. £11.4m is due to a 1.22% estimated increase in the tax base due to additional dwellings, changes in discounts and exemptions and assumed collection rates. £47.3m is from the estimated increase in the household charge up to but not exceeding 5% (including £18.9m from the adult social care levy).
£30.0m	Net increases as announced in the provisional LGFS. This comprises of the following changes: • £20.1m expected increase in Social Care Grant • £6.2m new Children's Social Care Prevention Grant • £6.2m expected increase in the Settlement Funding Assessment (Revenue Support Grant and Business Rate baseline grant funding) • -£3.6m reduction in grants now rolled into the Settlement Funding Assessment e.g. Extended Rights to Free Travel • -£1.3m reduction in funding from the cessation of the Services Grant • £0.8m increase in the Domestic Abuse Safe Accommodation grant • -£0.2m continuation of New Homes Bonus Grant but at a lower value than 2024-25 • £1.7m expected net increase in business rates compensation

Revenue spending: a reminder of what it is

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

9.1 The additional estimated core funded spending growth (i.e. excluding changes arising from external funding) of £150.4m for 2025-26 is summarised in appendices D and E and set out in more detail in appendix F. It has been subdivided into the following categories:

Net base budget changes £10.3m	Changes to reflect full year effect of variations in the current year's monitoring forecast compared to approved budget. These adjustments are necessary to ensure the draft budget for the next financial year is based on a robust and sustainable basis.
Demand and future cost increase drivers £71.2m	Forecast estimates for future non-inflationary cost and demand increases such as additional care hours, increased journey lengths, etc. across a range of services including adult social care, integrated children's services, home to school transport and waste tonnage.
Price uplifts £41.4m	Contractual and negotiated price increases on contracted services, including full year effect of planned mid-year uplifts in current year and forecast future price uplifts.
Pay £21.6m	Additional net cost of estimated pay award and transition to new pay structure, and estimated change in employer's national insurance contributions. Lowest pay rate increased to £12.71/hour. Also allows for increases in agency rates, non kent scheme pay and apprenticeship levy.
Service Strategies & Improvements £17.3m	Other estimated spending increases to deliver strategic priorities and/or service improvements and outcomes including financing the capital programme.
Government & Legislative -£14.7m	Additional spending to meet compliance with legislative and regulatory changes, including the change in treatment of KCC's contribution to the Safety Valve agreement with the Department for Education (now shown in reserves)

9.2 The proposed savings and income proposals of £61.5m net for 2025-26 (comprising of £94.4m of additional savings/income partly offset by £32.8m removal of one-offs and reversal/rephasing of unachieved savings from previous budgets) are summarised in appendices D and E and set out in more detail in appendix F. They have been subdivided into the following categories:

Policy Savings £8.5m (net saving)	£16.7m savings arising from proposed changes in Council policies including full year effect of 2024-25 savings and new proposals for 2025-26 (full year effect in later years shown in summary). Partly offset by £8.1m for removal of one-off savings and removal/rephasing of unachieved savings)
Transformation - Future Cost Avoidance £30.8m (net saving)	£37.6m savings aimed at avoiding future cost increases in adult social care and home to school transport. Partly offset by £6.7m removal/rephasing of unachieved savings in this category for 2024-25 in adult social care
Transformation – Service Transformation £3.6m (net saving)	Savings arising from service transformation initiatives within integrated children's services and across the wider council as part of Securing Kent's Future objective to transform the operating model of the Council.
Efficiency Savings -£0.6m (net growth)	£3.5m savings aimed at achieving improved or the same outcomes at less cost including full year effect of 2024-25 savings and new proposals for 2025-26 (full year effect in later years shown in summary). More than offset by £4.0m removal/rephasing of unachieved savings in this category for previous years in adult social care.
Financing Savings -£1.0 (net growth)	£9.5m saving from flexible use of capital receipts to support 2025-26 revenue budget and review of amounts set aside for debt repayment (MRP) based on asset life. More than offset by £10.5m removal of previous use of capital receipts and reduced investment income returns.
Income Generation £20.1m (net income)	£23.5m from increases in fees and charges for council services from applying existing policies on fee uplifts (including contributions from other bodies) and new income generation proposals. Existing policies include increases in client contributions in line with estimated 2025-26 benefits and other personal income increases and increases in contributions to Kent Travel Saver and 16+ pass linked to fare increases. Also includes the guaranteed New Extended Producer Responsibility (EPR) income in 2025-26, estimated increased income from Better Care Fund and additional income from company dividends. Partly offset by £3.4m removal of one-offs in 2024-25 budget.

Proposed Draft 2025-35 Capital Programme – key numbers

£1,419m	Total planned capital spending over the ten years 2025-26 to 2034-35
£766m	Confirmed or indicative government grants to fund capital expenditure
£366m	Total proposed borrowing to fund the programme
£287m	Funding from other sources (capital receipts, developer contributions, external funding and revenue)

10.1 The ten-year Capital Programme 2024-34 was approved by County Council in February 2024. This took into account the need to set a realistic and deliverable programme and avoid the significant over-programming and subsequent underspending against capital that has been a feature for several years. The ten-year horizon allows for a longer-term plan for capital investment, taking into consideration an updated assessment of the capital financing requirements and the consequent impact on the revenue budget and borrowing strategy.

10.2 The capital programme is under significant pressure due to the backlog of maintenance on highways and buildings. These backlogs cannot be addressed within the current financial constraints, and with the existing asset base. The current ten-year capital programme does not include any additional borrowing therefore avoiding increased pressure on the revenue budget through increased financing costs. The current approach of no new borrowing will be reviewed and considered in advance of the 2026-27 budget. In the short-term however, this approach does not come without increased risks.

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

10.4 Appendix A of this report sets out a summary of the administration’s final draft 2025-35 programme and associated financing requirements for each year. The summary provides a high-level overview for the whole Council. The individual directorate pages in appendix B provide more detail of rolling programmes and individual projects.

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

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

11.1 The Council's treasury management takes account of the medium term interest rate forecasts from Link Group, the Council's appointed treasury advisors. Link estimate that Bank Rate (currently at 4.75%) has likely peaked and expect both short term and long term rates to decline over the medium term.

11.2 The most pertinent internal factor, and the key driver of the treasury strategy, is the Council's capital expenditure and financing plans, which determines the Council's borrowing requirement. The capital financing requirement is not forecast to grow substantially over the medium term. Most of this existing borrowing requirement has already been met through external borrowing, though debt balances themselves are expected to decline over the medium term, as existing loans mature and are not replaced. The Council is expected to have ample capacity to continue supporting internal borrowing over the medium term to meet the residual borrowing requirement not fulfilled by external debt. Given that interest rates are forecast to decline and that the Council does not necessarily require new external debt at this stage, officers are not recommending that new external borrowing is undertaken in 2025/26. The proposed strategy retains the flexibility to depart from this central expectation should circumstances change during the next financial year.

11.3 The investment strategy has been reviewed and is judged to remain fit for purpose. The Council will keep the current split between internally managed, highly liquid and high-quality cash instruments (approximately two thirds of overall cash under management) and the strategic pooled fund's portfolio (circa one third). All other limits and indicators have been reviewed to ensure their continued appropriateness.

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

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

12.3 There are two main types of reserves:

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

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

12.5 There remains a significant risk to reserves from the forecast overspend for 2024-25 is not balanced. The level of reserves held is a matter of judgment which takes into account the reasons why reserves are maintained and the Council's potential financial exposure to risks. A Reserves Policy is included as Appendix G to this report. An assessment of financial resilience is included as Appendix H including use of reserves, and a budget risk register at Appendix I.

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

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

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

12.9 Reserves are therefore held for the following purposes:

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

12.10 All earmarked reserves are held for a specific purpose. General reserve is held for unforeseen circumstances and to manage risk. A summary of the movement on each category of reserves is published annually, to accompany the annual Statement of Accounts.

12.11 The administration's final draft budget for 2025-26 includes an assumed net impact on the MTFP from the use of reserves of +£12.1m in 2025-26 and of +£32.3m over the medium term 2025-26 to 2027-28 on the core funded budget. The externally funded element includes a net drawdown of -£20.8m in 2025-26 and net contribution of +£24.6m over the medium term 2025-26 to 2027-28. The movement in reserves includes new contributions, drawdowns and removing previous year's drawdowns and contributions. These changes include the following main changes:

Increased/new contributions (core budget) +£42.4m

- £15.4m general reserves including £11.1m repayment of the remaining 50% of the amount drawn down to balance the 2022-23 budget and £4.3m for the additional annual contribution to reflect the increase in net revenue budget to maintain general reserves at 5%.
- £14.6m DSG reserve for the planned 2025-26 Council contribution to the safety valve programme.
- £12.0m establishment of new corporate reserves from Extended Producer Responsibility (EPR) income pending further details of additional requirements under the new arrangements and £0.4m annual contribution to re-establish highways equipment and machinery renewals reserve.

Drawdowns from reserves (core budget) -£10.7m

- -£8.8m net drawdown smoothing reserves for lower than expected Council tax base and collection fund balance
- -£1.8m from budget stabilisation reserve to smooth timing of delivery of policy savings to replace £19.8 one-offs to balance 2024-25 budget.

- -£0.2m from IT reserve to fund upgrade of streetlighting Control Management System from 3G.

Removal of Prior Year Drawdown and Contributions (core budget) -£19.7m

- -£8.0m reflecting one year holiday for contribution to IT reserve to fund Oracle cloud programme which for 2025-26 will be funded from flexible use of reserve.
- -£26.5m removal of other previous year contributions to reserves (including general, local tax equalisation and budget stabilisation reserves).
- +£14.9m removal of previous year drawdowns from reserves (smoothing reserves as part of one-offs to balance 2024-25, local tax equalisation reserves to smooth collection fund balances, temporary funding for Kent Support and Assistance Service (KSAS) and It reserves).

Appendices and background documents

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Background documents

Below are click-throughs to reports, more information, etc.
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KCC's Budget webpage	1
KCC's Corporate Risk Register, Cabinet 9 January 2025 (item 7)	2
KCC's Risk Management Strategy, Policy and Programme (Governance and Audit Committee 19 March 2024)	3
KCC's approved 2024-25 Budget	4
2025-26 Budget Consultation (Let's Talk Kent) inc. the Budget Consultation report	5
Revenue and Capital 2024-25 Budget Monitoring Report – Quarter 3	6
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Initial Draft 2025-26 Budget Report (Policy and Resources Cabinet Committee 27 November 2024 – Item 5)	9
Revised Draft 2025-26 Budget Report (Policy and Resources Cabinet Committee 15 January 2025 – Item 5)	10
Member Budget Dashboards (access restricted)	11
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