From: John Betts, Interim Corporate Director, Finance

To: County Council

Subject: Section 25 Assurance Statement

Classification: Unrestricted

Summary:

This report sets out an assessment of the robustness of the financial estimates for the proposed budget for 2025-26, the medium-term financial plan (MTFP), and the adequacy of reserves. It covers the Administration's proposal and all amendments to this proposal. It includes an evaluation of the background to budget preparations for 2025-26, including the impact of the forecast position for 2024-25, the evaluation of the most significant budget variances and necessary changes in spending forecasts and savings income plans identified under "*Securing Kent's Future – Budget Recovery Strategy*" (SKF).

It is acknowledged that setting a balanced budget for 2025-26 has been challenging, due to the ongoing and escalating cost pressures the Council faces, alongside insufficient funding in the local government finance settlement. Together, these mean that the Council can only set a balanced budget with further and significant savings.

The combination of drawdowns and transfers at the end of 2023-24 and the use of reserves to balance the 2024-25 budget, have reduced the level of reserves, which now pose a more significant risk to the Council's medium to long term sustainability than levels of capital debt. It is important the rebuilding of reserves has formed a key aspect of the 2025-26 budget and subsequent MTFP,

Setting a robust revenue budget for 2025-26 means reflecting:

- forecast future cost increases from price uplifts and other cost/demand drivers affecting spending in the forthcoming year
- provision for Kent Scheme pay award 2025-26
- the full year, recurring effect of higher than budgeted costs and demand in the current year
- building in the impact of the under delivery and rephasing of savings plans
- rebuilding reserves, including replenishment of previous drawdowns for overspends
- the revenue consequences of the borrowing required for the capital programme.

These cost increases amount to a significant additional revenue spending requirement on core funded activities of £151.2m (10.6%) of net revenue budget in 2024-25). This is more than the government forecast increase in core spending power of 6.3%[1].

To safeguard the Council's financial resilience and sustainability, it is essential that for 2025-26 there is a relentless focus on financial management, cost avoidance, demand management, timely delivery of the agreed savings, with all the necessary key decisions taken in a timely manner. This is the only way to strengthen the Council's financial resilience and sustainability.

Provided the measures set out in the draft budget and medium-term plan are implemented, including:

- the delivery of the proposed revenue savings and income
- resisting future spending growth
- minimising the level of borrowing for the capital programme
- implementing the proposed council tax increases and precepts maintaining general reserves between minimum to acceptable range of 5% to 10%

then the Council will continue to demonstrate financial sustainability, although there remains considerable uncertainty over the medium to long term.

Recommendation:

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

Background and Introduction

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

- the balanced budget requirement (England, Scotland and Wales) (sections 32, 43 and 93 of the Local Government Finance Act 1992)

[1] This excludes the grant for employer national insurance cost increases, on the grounds this is an additional burden placed by central government policy

- the legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs (section 151 of the Local Government Act 1972); and
- Best Value responsibilities (section 3 of Local Government Act 1999)

The report includes an evaluation of the background to budget preparations for 2025-26, including the forecast for 2024-25, the evaluation of the most significant budget variances and necessary changes in spending forecasts and savings income plans identified under "*Securing Kent's Future – Budget Recovery Strategy*" (SKF).

It is acknowledged that setting a balanced budget for 2025-26 has been challenging, due to the ongoing increases in costs the Council continues to face and insufficient funding in the local government finance settlement to fully fund these inescapable cost pressures. Together these mean that the Council can only set a balanced budget using significant savings and additional income.

Assessment Criteria

In carrying out the assessment there has been consideration of:

The Council's governance and control environment, including:

- The Constitution and the Financial Regulations that govern and control the financial position of the Council.
- The financial control environment, alongside Internal Audit findings.
- The Council's Annual Governance Statement (AGS).

External guidance and advice:

- Including the Chartered Institute of Public Finance and Accountancy (CIPFA) standards and guidance/bulletins.
- External audit reporting.

The Council's risk management, including:

- the Corporate Risk Register
- The risks facing the Council in running its day-to-day operations which could impact on the robustness of estimates, as well as the need to deliver legacy savings.

The Council's financial health:

- The 2024/25 forecast outturn and controls in place to mitigate and strengthen the control environment through existing spending controls
- The robustness of budget proposals being considered
- The Council's business and medium-term financial plans beyond 2025/26 and the ability to manage change to control future costs
- The Council's capital programme.
- The effectiveness of the Council's treasury management

Upcoming proposals or events surrounding the local government structure and funding nationally and locally.

Commentary

The Financial Regulations of the Authority have been updated over the past year and provide an appropriate framework for financial control, alongside the well established financial procedures established in the Constitution itself (in Section 13). The Annual Governance Statement (AGS) was considered by Governance & Audit committee in December 2024 and pointed to continued positive trends around improving trends around governance structures, clearer accountabilities and recommendation tracking. There are still areas for improvement around areas such as savings delivery and that is dealt with elsewhere in this statement. The Head of Internal Audit is required to provide an annual opinion to inform the AGS and an opinion has been provided, indicating that adequate assurance could be provided, as detailed in the Annual Internal Audit Report. All this indicates that there are good foundations in place regarding the Council's overall financial governance and financial control environment.

In producing this statement, consideration has been given to external guidance and advice. Specifically, including the Chartered Institute of Public Finance and Accountancy (CIPFA) standards, such as a positive compliance assessment against CIPFA's Financial Management Code of Practice, which was considered in October 2024. The External Auditors indicated in December 2024 their intention to issue an unqualified opinion on the Council's financial statements and as part of that identified the high quality of the financial statements and accompanying supporting working papers. It identified the need to identify and build into financial plans all significant financial pressures and to balance this with achievable savings. This statement takes that into account, in that the budget reflects both spending pressures and the delivery of savings plan in the risk sections below.

The Council has a well-established approach towards risk management and key risks (including those with financial implications) are captured and mitigating actions are in place to minimise those risks. In addition, the corporate risk register specifically identifies a number of key financial risks around the future financial and operating environment for Local Government; the affordability of the capital programme and its impacts on assets, performance and statutory duties; and, the risk of any significant failure to bring any forecast budget overspend under control within the assumed budget level. These all have specific mitigating actions and controls. The 2025-26 budget includes additional contributions to rebuild the amount of reserves, using a slightly broader measure to include those earmarked reserves that are not held for tightly defined specific purposes, alongside general reserves, to between a 5% to 10%, a range considered the minimal that is acceptable to improve resilience and provide some capacity for investing in essential improvements to improve value for money.

The Council's financial standing has improved, relative to its peers, in terms of the provision of reserves, but this still remains on the edge of an acceptable minimum (acknowledging that the 2025-26 budget goes some way to restoring the level of general reserves). The 2024-25 forecast outturn remains an issue for concern, but the implications for the 2025-26 budget are built into either higher growth estimates or a reprofiling of spending plans into 2025-26 (where they have only been partially delivered in 2024-25). The financial control environment continues to be managed through existing spending controls, either through reviews of requisitions prior to Purchase Orders being raised or service specific controls (such as the review of sourcing packages of social care).

Analysis of Risks
Taking into account the contextual financial situation outlines above, the key risks associated with the proposed budget and how they can be managed are outlined below, so that Members are clear on the risks associated with these budget proposals when making their budget decision. A fuller assessment of financial resilience is included in Appendix I of the budget report together with a register of budget risks in Appendix J. It is worth noting that the maximum exposure from these budget risks is now higher than the total usable revenue reserves, due to a combination of recent reductions in the council's reserves and increased risks. The risk register includes revenue and capital risks, and it is highly unlikely that the maximum exposure would occur in the forthcoming year.

Although the council's draft revenue budget for 2025-26 includes one-off use of reserves, there are also planned contributions to reserves, so the draft budget does assume a modest increase in reserves in 2025-26. However, the risk remains of further unplanned drawdowns in 2024-25 and beyond, should the forecast overspend for 2024-25 materialise and savings/income planned for 2025-26and 2025-28 MTFP not be delivered in full. The main risks are as follows and are explored in more detail below:

- Delivery of the Savings Plans / Income Targets
- Impact of Forecast Overspend
- Spending Pressures
- Sustainability of key markets, especially social care
- Dedicated Schools Grant Deficit
- National Funding Position & Local Government Funding Reform
- Impact on the Medium Term Financial Strategy
- Tax Collection Rates
- Local Government reorganisation

Risk 1 – Delivery of the Savings Plans / Income Targets

The proposed 2025-26 draft budget requires the delivery of a package of net £61.5m of planned savings and income on core funded services. This comprises £72.6m of savings from full year effect of existing savings plans and new plans, £23.5m of increased income partially offset by £34.6m removal of one-offs and reversals/rephasing on unachieved savings from previous years' budgets. The net £61.5m savings expected from core funded activities (grant funding in the core spending power for local government in the provisional spending power, council tax and retained business rates) are shown separately from the £29.0m external income from specific governmental departmental grants.

The planned budget reductions need to be fully implemented to ensure the Council's 2025-26 budget remains balanced and sustainable into the future. The Council does not have the capacity within its reserves to fund the impact of delays to difficult policy decisions by Members, nor a failure to deliver on savings within services. that impact on the reduction or cessation of services. In an environment of rapidly increasing cost/demand pressures, together with market and workforce challenges, delivery of the savings will be more challenging than ever.

To mitigate this risk:

- Key policy changes associated with major savings proposals in 2025-26 have been identified;
- Corporate Directors, Directors and Portfolio Holders must ensure that processes are in place to ensure that the planned savings are delivered to the required timetable;
- If the planned savings are not delivered, Corporate Directors, Directors and Portfolio Holders must identify alternative ways of balancing the Service and/or Directorate budgets; and
- Monitoring of the delivery of the planned savings will include the monitoring of project delivery milestones to ensure decisions are taken in a timely manner and implementation timescales are met.

Risk 2 - Impact of Forecast Overspend

The latest budget monitoring for 2024-25 as at the end of Quarter 3, was reported to Cabinet on 30th January 2025. This showed a forecast overspend of £23m. The most significant forecast overspend is in adult social care and continues to be older persons residential and nursing care.

The level of forecast overspend for 2024-25 poses a significant risk to the council's reserves and financial sustainability. This assurance statement is based on the presumption that the overall 2024-25 revenue outturn does not deteriorate further.

To mitigate the risks and pressures noted above:

- The Council is maintaining its spending controls to reduce and minimise discretionary spending for the remainder of the current year
- The impact of forecast service overspends has been considered when developing budget allocations for 2025-26

Risk 3 – Spending Pressures

Setting a robust revenue budget for 2025-26 means the budgets with forecast overspends in 2024-25 need to reflect the full year effect of higher than budgeted costs and demand in the current year, as well as under delivery and rephasing of savings plans and the revenue consequences of the borrowing required for the capital programme. It is critical that budgets are not simply increased to reflect increased spending, without a rigorous approach to demand and financial management. So, the proposed 2025-26 budget also includes estimates for future demand and price, based on a rigorous assessment of current and forecast trends. The budget includes sensitivity analysis of the budgeted spending growth in 2024-25 and 2025-26 for the key demand and cost drivers.

These cost increases amount to a significant additional revenue spending requirement on core funded activities of £151.2m (10.6%). This is significantly more than the 6.3% increase in funding.

This mix of revising budgets for known variances and forecast spending growth is a robust approach and provides a sound basis for financial planning. However, there inevitably remains considerable uncertainty about these forecasts, given the precarious economic position, both nationally and internationally. So, although the risk has been mitigated through the allocations in this budget resolution, the risk cannot be completely removed. To mitigate this risk:

- Increases in spending pressures through price increases and other cost drivers have been updated to reflect the latest forecasts and trends.
- Growth based on future estimates will be held in a way that ensures it is separately identifiable so that it can be revised once the actual incidence has been evidenced.
- Enhanced budget monitoring arrangements are implemented as soon as any areas of overspending begin to emerge.
- Other provisions will be held centrally and allocated during the year.

Risk 4 – Market Sustainability

Commissioned providers of key council services have been under substantial sustainability pressures for several years, particularly in adult social care. These pressures include imposed increases in costs through National Living/National Minimum wage (and for 2025-26 unfunded increases in employer National Insurance), labour supply shortages and recommendations from inspections. The risk to the council arises from provider closures with the need to reprocure services from a depleted market, potentially increasing costs (alongside potentially changing services for vulnerable clients). This has been mitigated as far as possible by providing above average inflation allocations to adult social care budgets.

Risk 5 – Dedicated Schools Grant Deficit

For several years, the single greatest financial risk to the Council was the substantial and growing deficit on High Needs spending from the Dedicated Schools Grant (DSG). This risk has been substantially mitigated by a Safety Valve agreement with Department for Education (DfE), which includes £140m of DfE funding, contingent on keeping spend to an agreed trajectory, alongside £82m of Council funding (over a 5 year period). Currently, the Council is off track to meet the cumulative deficit targets set by DfE, largely because of the delayed opening of two special schools that DfE is building. There is a risk that if the Council strays further off trajectory then DfE may withhold their future contributions and the deficit will be larger than currently planned. This underscores the continued importance of implementing local SEND reforms, so that scarce resources can be most effectively targeted to those who most need it, rather than being spent on having to repay historic and accumulating deficits.

To mitigate this risk, formal regular monitoring and reporting of the local deficit recovery action plan, highlighting any corrective action, remains critical to ensure the deficit is being tackled effectively. Members will need to support changes to SEND policy and services that help delivery this financial sustainability.

There is currently a statutory override in place, which means that DSG deficits do not have to be covered from the General Fund i.e. they are not cash backed up to 31 March 2026. The Provisional Settlement announcement by the current Government has delayed any update on the override until proposed reforms of the SEND system are announced. A lack of clarity regarding an extension of the override, and/or clarity on the reforms and future funding of SEND, creates considerable financial risk

If the override is not continued and the existing debt crystallises in the financial year 2025-26, the Council would have insufficient reserves to cover the deficit (c£77m). This would likely be the case for the majority of upper tier authorities in England. If the override is not extended, but reforms are sufficient to resolve the ongoing in-year overspends, then the Authority would still be faced with a considerable deficit to be funded. If the statutory override is extended then there would be no need to consider a Section 114 notice or seek Exceptional Financial Support from Government.

At this stage it is assumed that the final scenario is the one which will materialise, As such, this statement is drafted on the presumption that Government will find a solution towards dealing with (and accounting for) the accumulated deficit prior to the end of 2025-26, when the current statutory override is due to end. That is a considerable financial risk, and if a resolution to this is not forthcoming (in the financial year 2025-26) then the financial position of the Council would need to be reconsidered.

Risk 6– National Funding Position & Local Government Funding Reform

The 2025-26 financial settlement was, once again, a one-year settlement. This makes is difficult to make any medium or long term plans with any degree of certainty. However, the Government has promised multi-year settlements for 2026-27, which will be helpful. The distribution of resources within the settlement is a matter of concern. The Council received none of the new £600m Recovery Grant and below average for the additional social care and children's prevention grants.

The provisional settlement also deferred any fundamental changes on how the relative need to spend and the level of Government support needed by authorities is calculated. However, there was an announcement that a new review of local government funding would be launched. The results of this review may result in the level of our government funding increasing or decreasing, compared to 2025-26 levels. This places greater importance on the need to maintain reserves to manage this volatility risk.

To mitigate the risks associated with a lack of long-term certainty we continue to produce a medium term financial plan alongside the annual budget and a ten year capital strategy. To mitigate the considerable risk of ongoing reduced funding from Government, we need to rebuild a higher level of overall reserves (see also the section on reserves below). The budget includes a sensitivity analysis setting possible alternative funding scenarios..

Risk 7 – Impact on the Medium-Term Financial Strategy

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

In the medium to longer term the Council needs a sustainable plan, where spending growth is more closely aligned to Council priorities and available funding, as the scope for savings without significant changes to legislative requirements is limited.

The commitment of Members to meet the financial challenges ahead and take the decisions needed to ensure the finances of the authority remain robust into the future is welcomed.

Risk 8 – Tax Collection Rates

As the largest element of the Council's funding, there is a risk that less council tax or business rates is collected by the district councils in Kent than anticipated, which could adversely affect the County Council's financial standing and its ability to deliver vital services. There is currently sufficient smoothing reserves to cover the disappointing increase in the overall taxbase as well as the below average estimate of the in-year Collection Fund surplus. However, if this becomes a sustained pattern, then the availability of resources within the medium-term financial plan will need to be revised downwards.

Risk 9 – Local Government reorganisation

In December the Government published its White Paper on English Devolution. Reforms in the White Paper could have a significant impact on the County Council, the District Councils and the neighbouring unitary authority, irrespective of the Government's decision on the national Devolution Priority Programme. Any future local government reorganisation involving the County Council will need to ensure that the assessment and due diligence of such a process places a strong focus on financial stability for as long as the authority continue to exist, alongside the financial resilience of all successor authorities. At this stage it is too soon to assess the impact on the Council's reserves, rather this will be kept under continued review.

Reserves

The administration's final draft budget for 2025-26 includes an assumed net impact on the MTFP from the use of reserves of +£12.6m 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 impact of -£20.8m in 2025-26 and net impact 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.

This includes £15.8m contribution towards general reserves, including £11.1m repayment of the remaining 50% of the amount drawn down to balance the 2022-23 budget and £4.7m for the additional annual contribution to reflect the increase in net revenue budget to maintain general reserves at 5%. It also includes £14.6m DSG reserve for the planned 2025-26 Council contribution to the safety valve programme and £12.0m for the establishment of new corporate reserves from Extended Producer Responsibility (EPR) income.

There are also drawdowns from reserves (-£10.6m) and the removal of Prior Year Drawdown and Contributions (-£19.7m), but overall there is still a net increase in contribution to reserves to improve the overall financial resilience of the Authority.

As a result of the above, I have also undertaken a risk analysis of the adequacy of financial reserves, taking account the financial risks above. This resolution makes provision for this level of reserves. I am therefore of the view that this budget does provide for an adequate level of reserves.

Conclusions
The external auditor’s latest assessment of the arrangements in place to assure value for money highlighted considerable improvements that have already been implemented in improving economy, efficiency and effectiveness, whilst noting that the Council needs to focus on the drivers of its forecast overspends (including High Needs spend), if it is to protect its reserves position in future years. This budget addresses those concerns and this assessment identifies appropriate mitigations.

So, to safeguard the Council’s financial resilience and sustainability, in 2025-26 there will need to be a relentless focus on financial management, cost avoidance, demand management and the delivery of the agreed savings, with all the necessary key decisions taken in a timely manner, and that there are no additional spending requests that would add to costs over and above budgeted levels, or repurposing of budget variances, without following due governance processes.

The budget information used in preparing this budget resolution has undergone extensive scrutiny by Corporate Directors, Directors and their staff, alongside staff within the Finance Service and the Corporate Management Team collectively. In addition, there has been close working with Members in preparing this budget resolution.

This revenue budget has been prepared on realistic assumptions in an uncertain environment and as such it represents a robust, albeit challenging, budget.

Provided all the measures set out in the draft budget and medium term plan are implemented, including:

- the delivery of the proposed revenue savings and income
- resisting future spending growth
- minimising the level of borrowing for the capital programme
- implementing council tax increases and precepts

then the Council will continue to demonstrate financial sustainability over the medium term (defined here as over the following two years), although there remains considerable uncertainty over the longer term.