From : David Shipton, Acting Section 151 Officer

To : County Council 12th February 2026

Subject : Section 25 Assurance Statement

Classification : Unrestricted

Summary:

This report sets out an assessment of the robustness of the financial estimates for the proposed capital programme 2026-36, revenue budget for 2026/27 and the medium-term financial plan (MTFP) 2026-29, and the adequacy of reserves. This report applies to both the Administration's budget proposals and all amendments to this proposal. It includes an evaluation of the background to budget preparations for 2026/27, including the impact of the forecast position for 2025/26, multi-year settlement from government and macro-economic environment.

It is acknowledged that setting a balanced budget for 2026/27 has been especially challenging, due to a combination of exceptional and unique circumstances and the ongoing and escalating cost pressures the Council faces in excess of funding available from central Government and local taxation. Together, these mean that the Council can only set a balanced budget with a revised more affordable approach to spending growth, further and significant savings, and an acceptable level of one-off measures which must be replaced with sustainable solutions in 2027/28. This approach does not come without significant risks with the risk on adult social care now considered to be on a par with the risk on special education needs (SEND) spend as the highest risks. The decision to raise the council tax household charge below the level permitted without a referendum poses a long-term financial risk as a result of the council tax income forgone.

The use of reserves to balance previous budgets have reduced the level of these to a minimum level and any further unplanned drawdowns would pose a significant and existential risk to the Council's medium to long term sustainability. The levels of reserves continue to pose a bigger risk than levels of capital debt. It is important the rebuilding of reserves (especially general reserves) is a key aspect of the 2026/27 budget and 2026-29 MTFP.

Setting a robust revenue budget for 2026/27 means reflecting:

- affordable forecast future cost increase provisions covering price uplifts and other cost/demand drivers affecting spending in the forthcoming year. Some of these are lower than previous years
- provision for Kent Scheme pay award 2026/27
- 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 £178.0m (11.6%) of net revenue budget 2025/26. This is more than the government forecast increase in core spending power of 8.3% and the increase in proposed budget for 2026/27 of 7.6% based on the proposed local decision on council tax.

To safeguard the Council's financial resilience and sustainability there must continue to be a relentless focus on financial management, cost avoidance, demand management and the delivery of the agreed savings in all parts of the Council. The necessary key decisions must be taken in a timely manner, with no additional spending requests that would add to costs over and above budgeted levels. 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 increase 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 31A, 42A and 93 of the Local Government Finance Act 1992)

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

The report includes an evaluation of the background to budget preparations for 2026/27, including the forecast for 2025/26 and the evaluation of the most significant budget variances, changes in the national funding arrangements for local authorities, and necessary changes in spending forecasts, savings/income plans and contributions/drawdowns from reserves to meet the requirement for a balanced budget.

It is acknowledged that setting a balanced budget for 2026/27 has been especially challenging due to a combination of exceptional and unique circumstances as well as the continuing trend of increases in costs of and demands for council services and insufficient funding in the local government finance settlement to fully fund these inescapable cost pressures. This trend of higher spending increases than funding available from central Government and local taxation has been a feature of budget plans for a number of years. Together these mean that the Council can only set a balanced budget through significant savings and additional income, a new approach to planning for demand and cost increases in adult social care, and one-off measures from flexible use of capital receipts and use of reserves.

Assessment Criteria

In carrying out the assessment there has been consideration of:

The macroeconomic context within which the council operates and medium-term economic outlook, including:

- The Government's fiscal rules and spending plans
- Inflation forecast
- Local authority borrowing

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:

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

The Council's risk management, including:

- 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 management and resilience:

- The 2025/26 forecast outturn and controls in place to mitigate and strengthen the control environment through spending controls

- The robustness of budget proposals being considered
- The Council's business and medium-term financial plans beyond 2026/27 and the ability to manage change to control future costs
- The Council's capital programme.
- The effectiveness of the Council's treasury management

The restoration of multi-year funding settlement and reforms to grant settlement and business rate retention

- Full reset of business rate baseline using reformed and updated assessment of spending needs
- The consolidation of grants and phased introduction of transfers into Revenue Support Grant

The Exceptional Financial Support arrangements

Upcoming proposals for local government reorganisation.

Commentary

Macroeconomic Context

The Government has set itself two fiscal rules, a stability rule (spending on day-to-day services to be brought into balance by 2029/30), and investment rule (Public Sector Net Financial liabilities [PSNFL] to be falling as proportion of the whole economy [GDP] by 2029-30). The Autumn Budget 2025 included the latest Office for Budget Responsibility (OBR) forecasts for the targets. These show that the stability rule is on target to be met one-year early (a forecast surplus of £21.7bn in 2029/30 with a 59% probability) and the investment rule to be met by 2029/30 (PSNFL peaking at 83.7% in 2028/29 with a 52% probability).

Total public spending (total managed expenditure – TME) is forecast to peak at 45% of GDP in 2025/26 and then gradually reduce to 44.3% by 2029/30. Within this Government departmental spending is forecast to peak at 21.2% of GDP in 2027/28 and then gradually reduce to 20.6% by 2029/30. Annually managed expenditure (AME) is forecast to peak at 23.9% of GDP in 2025/26 and then remaining largely stable at around 23.6% of GDP thereafter. This context means that local authority spending is likely to be at best broadly neutral in real terms over the forecast period.

Inflation (Consumer Price Index – CPI) is forecast to peak at 3.9% in quarter 3 of 2025 falling to 3.6% in quarter 4 with further reductions forecast throughout 2026 before reaching the 2% target in 2027 (remaining at this level throughout the remainder of the forecast period). Inflation provisions within the draft budget proposals are based on these November 2025 OBR forecasts.

The OBR has identified the significant increase in local authority borrowing with an additional £43bn borrowed between 2022/23 and 2024/25. This borrowing has come from central Government Public Works Loans Board (£12bn), reducing local authority liquid financial assets (£10bn), with the remainder largely from commercial lenders.

The OBR forecasts this higher level of local authority borrowing will persist into 2025/26 (a further £16.4bn) with further increases reducing gradually thereafter. The OBR has identified that the borrowing arises from a combination of funding SEND deficits (£1.8bn in 2024/25 rising to each year to £4.9bn in 2027/28, with SEND deficits absorbed in central Government spending thereafter), supporting net current spending (£6.1bn in 2024/25, rising to £7.2bn in 2025/26 before reducing substantially thereafter) and funding capital spending (£7.5bn in 2024/25 reducing to £6.1bn in 2027/28 and rising thereafter).

The Council's capital strategy is based on no additional borrowing over and above that already identified in capital programme (with financing costs already included in the revenue medium-term financial plan) and wherever possible to reduce debt levels. The biggest risk in this regard is the level of the SEND deficit which currently impacts on cash balances available for investment, rather than borrowing.

Governance & Control

The Annual Governance Statement (AGS) for 2024/25 was considered by Governance & Audit committee in October 2025. The AGS identified that despite a challenging operating environment internal controls and governance arrangements have been strengthened but the relentless focus on continuous improvement in recent years must persist to keep pace with the challenges the authority faces.

A number of particular aspects are highlighted:

- Long running improvements to governance have been completed successfully notwithstanding a change in national government that has brought forward an agenda for devolution and local government reorganisation
- Financial controls have remained in place and budget planning arrangements strengthened although financial pressures and risks around delivery of savings persist and will continue to be a dominant feature.
- Demand and cost pressures on statutory services mean the Council must continue to deliver a range of innovative, efficient services and savings programmes to offset some of these pressures
- Political and officer capacity is directed towards the focus on securing the Council's financial position
- Considerable work has been put into preparing induction programme for newly elected councillors and further training is being developed and delivered
- The grip on improvement needs to be maintained and strengthened to maintain progress and provide continued assurance

The Head of Internal Audit is required to provide an annual opinion to inform the AGS and an opinion has been provided, confirming adequate assurance in relation to corporate governance, risk management and internal control arrangements. Internal audit noted continued upward trajectory of substantial and high assurances in audit opinions, although there was also a worsening in the number of limited assurance opinions. Internal audit also noted an improvement in the number of recommendations that have been fully implemented.

In summary the internal evaluation demonstrates that good foundations are in place regarding the Council's overall financial governance and financial control environment.

External Guidance and Advice

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 and guidance on preparation of Section 25 assurance.

The External Auditors, Grant Thornton UK LLP, presented their annual report to the Governance and Audit Committee on 24th September 2025 and 30th October 2025. This report discharges the auditor's responsibilities in accordance with the Local Audit and Accountability Act 2014 and National Audit Office Code of Practice. The report identified significant weaknesses in regard to financial sustainability of the Council. This included two areas of most significant weakness in the control of Adult Social Care spend and Dedicated School Grant high needs block element of SEND. The auditors noted that overspends were continuing in these areas in 2025/26 despite significant work to transform adult social care and the continuation of statutory override on DSG deficits. The auditors recommended that the Council explore further options for increased efficiency in Adult Social care and ensure that DSG management plan is sufficient to address the legacy deficit and in-year overspends. Grant Thornton also recommended improvements are needed to savings plans, ensuring these are realistic, timely and lessons are learnt.

The proposals in the draft budget include a revised emphasis on efficiency in adult social care. This revised approach is summarised under risk 2 later in this report focussing on an affordable approach to annual fee uplifts for existing contracts and tighter management of the cost of and demand for new placements. This also addresses the review of savings where Adult Social care has accounted for nearly all of previous under delivery and the budget includes more realistic plans for retendering social care contracts. The risks associated with this approach are highlighted noting that risks on adult social care are now highlighted as highest risk on a par with SEND risks. Progress on SEND deficit depends on government reforms in forthcoming White Paper although as identified in risk 6 local councils are expected to manage the system effectively. The proposed mitigations of this risk include more robust 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.

Grant Thornton noted improvements to governance and in particular the improved performance in implementing internal audit recommendations but highlighted the importance of recruiting a suitably qualified Head of Internal Audit, the high priority on training for members of the Governance & Audit Committee, implementation of new decision-making application, and improvements to contract management. Grant Thornton made no recommendations on improving Value for Money and has given unqualified assurance to the Council's accounts noting the high standard the Council has maintained in terms of the quality of the accounts and associated working papers.

Risk Management

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 risk around future financial and operating environment for Local Government has been reviewed and updated to take into the impact of multi-year settlement published on 17th December 2025 (the first time the impact of updates and reforms were available at individual council level).

The 2026/27 budget includes a drawdown from earmarked reserves that are no longer necessary for their original purpose and further use of flexibility to use capital receipts. These one-off measures need to be replaced in subsequent years and are feasible following the re-introduction of a multi-year settlement which includes the phasing in of reforms to Revenue Support Grant over the three-year period of the settlement.

The £20.2m drawdown from general reserve to balance 2024/25 outturn is replenished in the 2026/27 budget but there is no provision at this stage for any replenishment which may be needed should a further drawdown be necessary to balance 2025/26 final outturn. It has been normal practice that replenishment is only included in future budget plans once the final outturn is known i.e. any replenishment for 2025/26 final outturn drawdown would be included in 2027/28 once the final amount is known. The 2026/27 budget and medium-term plan includes further contributions to general reserve to improve resilience to within the 5% to 10% range considered acceptable to provide adequate resilience and some capacity for investing in essential improvements to improve value for money. This strategy to hold between 5% to 10% is a mitigation against heightened risks.

Financial Management and Resilience
The Council's financial standing has improved, relative to its peers, in terms of the level of usable reserves as a percentage of net revenue. However, general reserves continue to remain on the edge of an acceptable minimum (acknowledging that the 2026/27 budget goes some way to restoring the level of these).

The 2025/26 forecast outturn remains a cause for significant concern. The full year implications for the 2026/27 budget from the quarter 2 forecast are built into the spending growth estimates and reprofiling of savings plans (through roll forward of rephased plans from current year and realignment of those savings now deemed irrecoverable). However, any remaining overspend in the 2025/26 final outturn would have to be balanced from reserves which would further weaken the Council's financial resilience.

The financial control environment continues to be managed through stringent spending controls in the current year. These include stopping discretionary spending; limiting statutory spending to the minimum legal requirements; freezing of all recruitment other than in approved exceptional cases; limiting staff training to internal courses; ceasing attendance at external conferences or events; all internal meetings to be held at KCC owned facilities; and ceasing travel other than for direct service delivery.

The annual budget represents a robust plan for forecast spending, savings, income and changes reserves. As such it is a plan and as with any plan there are likely to be variances. However, a well structured budget should represent the most likely scenario for balanced spending within the year necessary to comply with the council's statutory functions and Best Value obligations, this includes not planning for overspends or underspends. Planning for overspends would result in additional strain on reserves. Planning for underspends which whilst having the benefit of increasing capacity for reserves carries additional risks such as the council failing to meet statutory obligations or failing to meet strategic objectives.

Monitoring of the council's resilience will continue including updating previous analysis of reserves to debt ratio, benchmark comparisons on spending and use of CIPFA resilience index.

Multi-Year Settlement

The 2026-29 settlement represents the first multi-year local government settlement since 2016 providing additional certainty over medium term financial planning. The settlement includes reforms to the methodology for, and updating of the data used to redistribute retained business rates and allocate additional central Government funding according to relative needs and resources. The settlement sets out the impact of the changes for individual local authorities. This level of detail was not available either in support of the consultation on reforms in the summer, or in the policy statement published in November.

The 2026-29 settlement includes the first major reset to the business rate retention arrangements since these were introduced in 2013/14. This reset includes redistribution of 50% of the estimated business rates for 2026/27 including previously locally retained growth, compensations for caps on the multiplier, and business rate pooling based on the new spending assessment. The reset takes full effect from 2026/27.

The Fair Funding allocation (FFA) and includes revised business rate baseline and Revenue Support Grant (RSG). Local authorities can decide how the FFA is to be spent according to local priorities. The RSG includes the consolidation of previously separate grant streams. The vast majority of consolidated funding within RSG is allocated according to the new relative needs and resources formula but with changes from previous distribution phased in over the three-year muti year period.

KCC's FFA in the provisional settlement increases by £50.5m (9.7%) in 2026/27 compared to legacy grant settlement for 2025/26. Further increases of £43.5m (7.6%) and £46.0m (7.5%) are shown in the indicative allocations for subsequent years. The majority of the increase in 2026/27 arises from the reset of business rates, with the majority of the increases in subsequent years from the phased introduction of RSG reforms. The grant settlement alone is not sufficient to fully fund forecast increases in spending in 2026/27 or subsequent years.

Exceptional Financial Support

The Government has announced a continuation of the Exceptional Financial Support (EFS) framework for 2026/27. Under the framework councils can make a request for financial assistance towards financial pressures that they consider to be unmanageable and to enable them to set a balanced budget. These would usually arise due to any of the following circumstances:

- specific revenue pressure that a council cannot manage over a single year
- support to manage upfront costs and investment associated with transformation programmes critical to long-term financial sustainability
- an unmanageable budget gap due to demand for one or multiple services areas
- significantly increasing

- unmanageable financial pressures resulting from errors or failures in relation to local financial management and governance

EFS initially comes in the form of capitalisation, allowing councils to set a balanced budget including an assumption of capitalised expenditure (only later confirmed through a statutory capitalisation direction should conditions set by the Secretary of State be fulfilled). Capitalisation permits revenue costs to be treated as capital costs. This is a relaxation of the accounting convention that revenue costs should be met from revenue resources.

EFS can also include requests for council tax flexibility where a council is facing significant local financial difficulty and considers additional sustainable increase in funding as critical to managing financial risk. The Government would not agree to requests for additional council tax flexibilities from councils where council tax charges are already more than the average. KCC band D charge is already marginally above the comparable average for county councils (see appendix H of the draft budget report).

The Government expects EFS should only be considered once all available local options have been explored to close a budget gap without the need for a capitalisation direction. For example, the Government would not expect councils to request support where there is scope to drawdown from reserves to close a budget gap. Although not explicitly stated in the guidance it is also presumed this would also mean councils should take-up the existing flexibility on council tax and increase charges up to maximum without a referendum before applying for EFS.

Local Government Reorganisation
There is no provision within the medium-term plan for any set-up or transitional costs of Local Government Reorganisation incurred prior to the establishment of shadow authorities or vesting of new authorities. This is based on an expectation that any initial costs would be met within existing budgets and where this is not possible costs would be met from additional borrowing (including borrowing from long-term reserves) which would be repaid from the savings arising for the new authorities. This is consistent with the pay-back assumptions in business cases, and it would not be prudent to budget for additional costs ahead of government formal consultation on the preferred structure of new authorities in Kent.

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 J of the budget report together with a register of budget risks in Appendix K. 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.

The draft revenue budget for 2026/27 includes one-off use of earmarked reserves which together with a technical change to the treatment of contributions to DSG deficit (which are longer held in a separate reserve) results in a reduction in earmarked reserves. However, the earmarked reserves are still considered to be adequate. The budget and medium-term plan includes additional contributions to the general reserve consistent with the 5% to 10% target range.

However, there is a risk that reserves may be inadequate in the future should further unplanned drawdowns in 2025/26 and beyond be necessary. In the short-term this could arise should the forecast overspend for 2025/26 remains at the current level and/or savings/income planned for 2026/27 and 2026-29 MTFP are not delivered in full, or spending growth is not managed within the forecast provisions. A substantial risk remains over the medium term from the SEND deficit as well as any other unforeseeable circumstances. In light of these risks it is imperative that any changes to the draft budget proposals, including amendments, should not rely on further use of reserves and funding shortfalls identified in the indicative plans for 2027/28 and 2028/29 are resolved through managing down spending growth, identification and delivery of further savings/income, or additional funding from government settlement and decisions on local taxation.

The main risks are as follows and are explored in more detail below:
Short term

- Impact of forecast revenue overspend
- Spending pressures especially but not exclusively on social care services
- Sustainability of key markets, especially social care
- Delivery of the savings plans / income targets
- Council tax

Medium term

- Dedicated Schools Grant deficit
- Impact on the Medium-Term Financial Strategy
- Tax collection rates
- Local government reorganisation

Risk 1 - Impact of Forecast Overspend
The latest budget monitoring for 2025/26 was reported to Cabinet on 29th January 2026. This showed a forecast revenue overspend of £36.5m, a reduction of £10m compared to the quarter 2 forecast of £46.5m. This assumes an additional £7m use of capital receipts to be used to for transformation projects so much of the improvement is not due to reduction in pressures that have caused the overspend. The most significant forecast overspend is in adult social care most notably on older persons residential and nursing care. There are forecast overspends in other areas e.g. children's social care which are cause for concern, but these are offset by underspends and other one-off measures elsewhere within that directorate.

The level of forecast overspend for 2025/26 poses a significant risk to the council's reserves and financial sustainability. This assurance statement is based on the presumption that the overall 2025/26 revenue outturn shows further improvement in the final 2025/26 outturn. Without improvement there is a risk that the general reserve available in 2026/27 would be below the recommended 5% to 10% target range.

To mitigate the overspend risks and pressures noted above:

- The Council has introduced more stringent its spending controls to reduce and minimise spending for the remainder of the current year

- The full-year impact of forecast service overspends has been reflected in the draft 2026/27 budget.

Capital spending continues to show a forecast net underspend. This comprises of real variances (the majority of which are expected to be offset from external funding). These forecast real variances are more than offset by a rephasing variance on a number of projects reflecting slippage against the original approved capital programme. Overall capital spending does not pose a significant risk although the programme itself continues to pose a risk due to inadequate funding and consequential deterioration in condition of infrastructure assets.

Risk 2 – Spending Pressures
Setting a robust revenue budget for 2026/27 means the budgets with forecast overspends in 2025/26 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. The full-year effect of recurring underspends is also reflected to ensure a balanced approach.

The proposed 2026/27 budget also includes estimates for future demand and price, based on a combination of current trends and forecasts for future costs and demand at affordable levels. These forecasts do not come without risks, particularly in demand led areas of spending such as adult's and children's social care, waste disposal and recycling, and home to school/public transport.

The most significant risks are within the forecast spending growth in adult social care. The draft budget includes proposals to limit the annual fee uplift paid to contracted providers for existing placements based on a differential approach which not only reflects inflationary and other cost pressures on providers but also takes into account the sustained investment in recent years that has resulted in higher fees compared to other councils. The demand and cost driver forecasts for new client placements in adult social care also reflect an affordable approach which will require a more rigorous approach to managing placements including review of previous "self-funded" costs; successful retendering of framework contracts for new placements; and ongoing focus on assessment of eligible need through only meeting statutory local authority duties. This approach is necessary to ensure adult social care spending is sustainable, but the inherent risk means this is now on a par with special needs spending as the most significant budget risks.

There are also risks within the budget proposals for children's social care which include adjustments to base budget for full year effect of current year variances, forecast price uplifts, cost and demand increases for new client placements but also include significant transformation/efficiency/policy savings and increased income from health/other local authorities.

The budget includes sensitivity analysis of the budgeted spending growth in 2025/26 and 2026/27 for the key demand and cost drivers (see appendix I of the draft budget report).

These cost increases amount to a significant additional revenue spending requirement on core funded activities of £178.0m (11.6%). This is significantly more than the 7.6% increase in funding from central Government and local taxation.

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. So, although the risk has been mitigated through the allocations in this budget resolution, the risk cannot be completely removed. To further mitigate this risk:

- 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 together with in-year management corrective action to compensate.

Risk 3 – 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); workforce supply challenges and shortages; complexity of need increasing person care costs; regulatory and compliance requirements; inflation on non-staff costs; increased complaints; oversee worker restrictions; and Employment Rights Bill. The risk to the Council arises from provider fragility closures with the need to reprocure services from a depleted market, potentially increasing costs (alongside potentially changing services for vulnerable clients). These have been mitigated as far as possible in previous budgets through above inflationary increases (although this has resulted in fee levels above those for comparable councils) and further mitigation will be addressed through working more closely with those providers that can meet client needs within affordable levels through framework contracts.

Risk 4 – Delivery of the Savings Plans / Income Targets
The proposed 2026/27 draft budget requires the delivery of a package of gross £87.6m of planned savings and income on core funded services. This comprises of £62.0m for full year effect of existing savings plans and new plans, £13.6m of increased income partially and £12.0m forecast roll forward of prior year undelivered savings. The net savings of £47.6m exclude the roll forward but include £28.0m removal of one-offs and reversal of unachieved/irrecoverable savings from previous years' budgets. Additional income from specific government departmental grants not included within the core spending power is shown separately along with associated spending.

The planned budget reductions need to be fully implemented to ensure the Council's 2026/27 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:

- o Key policy changes associated with major savings proposals in 2026/27 have been identified and been subject to scrutiny;
- o 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 including where necessary key decisions are planned and taken in accordance with governance arrangements;
- o 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
- o 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 5 – Council Tax
The draft budget includes a proposed 3.99% increase in household council tax charges for 2026/27. This is less than the council tax flexibility which allows increases up to 5% without requiring a referendum. This decision principally creates a long-term financial risk as it is effectively irreversible as under the current regulations it is not permissible to have higher council tax increases in subsequent years above the prescribed level to offset previous lower increases without a referendum or ministerial approval of higher permitted levels. The impact of this decision is £10.1m of tax revenue (1%) foregone in 2026/27. The medium-term impact increases every year as any future increases would yield (0.05%) less tax revenue i.e. the impact in 2027/28 would be £10.6m if council tax in that year were increased by the maximum permitted (rising further to £11.1m in 2028/29). This is a cumulative impact of £31.8m over the MTFP period. Council tax revenue foregone would increase by more if future increases are below the maximum level.

As well as the main financial risk to tax revenues the decision to proceed with less than maximum permitted increase without a referendum poses potential reputational risks. This could include where proposals in the budget may not be universally well received e.g. unpopular savings/income where the impact on individuals is greater than the tax they would have paid; or fee uplifts; or to restore services that have been cut in previous budgets.

The decision on council tax could also rebound should the budget not be delivered and there are further in-year overspends especially if this results in drawdowns from reserves placing the Council in a financially insecure position. As already outlined in considering applications for Exceptional Financial Support (EFS) the government expects Councils to have taken all reasonable steps locally to manage financial pressures. If EFS is not available and the Council's reserve are reduced to an inadequate level, then the only option would be a Section 114 notice.

The council tax decision does not alter the allocation of grants included in the local government finance settlement even though it means the Council's budget is increasing less than the core spending power. It is not possible to say whether the decision will impact on other departmental grants that are not included in the settlement or how the decision will be viewed by other partners e.g. health authorities, other local authorities etc.

Risk 6 – 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). There has been a technical change necessary to show the £11.1m local authority contribution for 2026/27 as part of spending growth (under the government and legislative category) rather than contribution to reserves (with previous contribution shown under removal of reserve contributions).

Currently, the Council is off track to meet either the in-year deficit reductions or the cumulative deficit targets set by DfE, Initially, this was caused by the delay to the establishment of two new special schools that DfE was building. This has been compounded by a combination of rising prices, continual demand for more specialist provision and increased demand for financial support in mainstream schools. The accumulated deficit at the end of 2025/26 is forecast to be £136.5m, with an in-year deficit for the year of £67.8m. These deficits are after the DfE and local authority Safety Valve contributions.

The Government has not confirmed whether future Safety Valve contributions will continue in line with the original agreement. This combined with being off target for the deficit reductions poses a significant risk that could materialise when the current statutory override (this precludes councils from funding DSG deficits form the general fund) expires in March 2028. The Government has announced that a Schools White Paper will be published in the new year setting out substantial plans to reform special educational needs provision to deliver a system which supports children and families and is financially sustainable. As part of these plans the Government intends that funding for SEND after March 2028 will be managed within the overall government departmental spending resource, albeit there is limited information how this will work other than an expectation that that local authorities would not have to top-up future SEND costs from the general fund as long as they can demonstrate they are taking steps to manage the system effectively.

The government also acknowledged as part of the Local Government Finance Settlement that some of the deficits accruing while the override is in place may not be manageable within local resources alone and assistance arrangements during this period will be included within the White Paper reforms. Local authorities have been advised that they do not need to plan on having to meet deficits in full but future support will not be unlimited.

In the meantime, councils have been advised to continue to work to keep deficits as low as possible. This highlights 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.

The statutory override mitigates the risk for SEND deficits in the short-term. However, to further mitigate the risks 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.

If councils are expected to make further contributions to address SEND deficits this would likely be the case for the majority of upper tier authorities in England and would pose a substantial sustainability risk for many councils. At this stage the assurance in this statement is on the presumption that the Government will find a solution towards dealing with (and accounting for) the accumulated deficit at the end of March 2028 when the current statutory override is due to end.

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 plans are not balanced within the additional funding from central Government in the multi-year settlement. This is currently presented as the funding gap although this includes no assumptions on future council tax levels. This is only acceptable on the understanding that Members will agree the necessary spending reductions (either from resisting growth or from savings), income generation or consideration of future council tax levels. Balancing the medium-term shortfalls from reserves would in all likelihood leave the Council with inadequate reserves. If these solutions are not identified and agreed as part of developing 2027/28 budget the Authority may 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 sufficient in the smoothing reserve to cover the disappointing increase in the estimated council taxbase based on presumption that collection rates in the tax base estimate improve closer to the average of other councils in the future. 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 2024 the Government published its White Paper on English Devolution. Reforms to the structure of local government will have a significant impact on the County Council, the District Councils and the neighbouring unitary authority, subject to the Government's decision on future structure expected later this year. Any future local government reorganisation involving the County Council will need to ensure that the assessment and due diligence places a strong focus on financial stability for as long as the current authority continues to exist, alongside the financial resilience of all successor authorities. At this stage it is too soon to assess the impact of reorganisation on the Council's reserves although this will be kept under continued review.

Reserves

The draft budget includes an assumed net impact on the MTFP from the change in the use of reserves of -£13.5m in 2026/27 and of +£0.5m over the medium term 2026-29 on the core funded budget. The externally funded element includes a net impact of +£7.7m in 2026/27 and net impact of +£12.5m over the medium term 2026-29. The movement in reserves includes new contributions, drawdowns and removing previous year's drawdowns and contributions.

The planned total contributions to reserves of £48.8m includes £39.4m contribution to general reserves in 2026/27 (comprising £20.2m repayment of the amount drawn down to balance the 2024/25 outturn, £16.8m additional contribution towards the 5% to 10% target and £2.3m repayment of the drawdown in 2025/26 budget to balance the phasing of delivery of policy savings). The 2026/27 budget also includes £8.0m reinstatement of contributions to smoothing & major projects reserves to replace the use of capital receipts flexibility to fund Oracle Cloud project spending in 2025/26 that previously were planned to be funded from reserves. There are further indicative contributions to general reserves of £48.8m over 2027/28 and 2028/29 towards the 5% to 10% target.

The planned total drawdown of £29.8m from reserves in 2026/27 includes £16.0m from earmarked reserves considered no longer necessary for their original purpose, £8.0m from earmarked EPR reserve as revenue contribution to capital spending primarily on a waste transfer station, and £5.8m from local taxation equalisation reserve for lower than anticipated council taxbase estimate (on the presumption future collection rates improve). The impact on the MTFP from reserves also includes -£43.7m removal of previous contributions and +£11.2m removal of previous drawdowns.

Overall, the budget includes a net increase in reserves on the core budget in 2026/27 +£19.0m i.e. excluding removal of prior year's contributions and drawdowns. Within this there is an increase in general reserve and reduction in earmarked reserves. This net increase improves the overall financial resilience of the Authority although resilience will be reduced by any drawdown from general reserve to balance 2025/26 outturn.

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 for 2026/27 and over the medium-term.

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 (most significantly adult social care and 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 2026/27 there will continue to 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. It is likely this will require the retention of some spending controls.

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 and agreement by Members in preparing this draft budget

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

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.