

Assessment of Financial Resilience

Financial resilience describes the ability of the authority to remain viable, stable and effective in the medium to long term in the face of pressures from growing demand, tightening funding and an increasingly complex and unpredictable financial environment.

This appendix sets out the key 'symptoms' of financial stress identified by CIPFA and assesses the current position of the County Council against each indicator. This assessment includes a score out of 10, where with a score of 1 indicates a low level of financial resilience and 10 indicates a high level of financial resilience. In addition, a scope for improvement assessment is provided.

Overall, the prognosis is that there has been a recent deterioration in resilience which needs to be reversed in particular on the delivery of savings and managing spending within approved budgets.

Symptom	KCC Assessment
Running down reserves / a rapid decline in reserves Score = 5/10 Scope for Improvement = Moderate	<p><u>Evidence</u></p> <p>In the years leading up to and including 2021-22, the Council's level of revenue reserves (as indicated in the table at the end of this appendix) had initially been stable and then increased more rapidly, largely as a result of additional funding for / underspends arising from Covid.</p> <p>In 2022-23 there was an overall reduction in usable revenue reserves to £391m (£37m general, £271m earmarked, £47m Covid-19 and £36m in new partnership reserve from the excess safety valve contributions). The reductions included £47m draw down from general reserves and earmarked reserves to balance 2022-23 outturn.</p> <p>In 2023-24 there was a further reduction in total usable reserves to £358m (£43m general, £268m earmarked, £10m Covid-19 and £36m Safety Valve partnership reserve). The small increase in the general reserve reflected the overall increase in 2023-24 budget to maintain the reserve as % of net revenue but did not include any movement to restore the reserve to 5% of net revenue following the draw down in 2022-23. 2023-24 included a review of reserves to ensure balances in individual categories remained appropriate. This included transfer of £48m from other earmarked reserves into the smoothing category which was partially drawn on by £12m to balance the 2023-24 outturn.</p> <p>In 2024-25 there was a further reduction in the total useable reserves to £334m (£79m general, £219m earmarked (inc Public Health), £36m Safety Valve partnership reserve). The general reserve increased significantly through a combination of budgeted contributions (£16m), the transfer of some earmarked reserves now deemed useable (£39m) less the drawdown of £20m to balance the 2024-25 outturn. The draft 2026-27 includes provision for replenishment of this drawdown.</p> <p>The quarter 3 revenue budget monitoring for 2025-26 shows further forecast overspends (£43.5m), primarily in adult social care, reduced by further flexible use of capital receipts to £36.5m. In response, firmer spending controls have been introduced across the Council for the remainder of this</p>

	<p>financial year to try and reduce the amount of overspend. If the overspend cannot be eliminated, it would require a draw down from reserves at year end which would further reduce the Council's financial resilience. The draft 2026-29 plan does not include any replenishment at this stage although will need to be considered once the 2025-26 outturn is confirmed.</p> <p><u>Conclusions</u></p> <p>Three successive years of drawdowns from reserves to balance overspends (with a fourth year likely) represents a significant cause for concern, with its impact on financial resilience.</p> <p>The Council's reserves were previously deemed as adequate in the short term by the S151 officer pending those restoration plans being delivered in future budgets. In particular, the general reserve needs to be restored to 5% of net revenue within the 2026-29 MTFP. The section 25 assurance report to accompany the draft 2026-27 budget will include an updated assessment on the adequacy of reserves</p> <p>A small amount of smoothing within the annual revenue budget to reflect timing differences between spending and savings plans has been considered acceptable provided these are replaced (and where appropriate replenished in future years) through a balanced MTFP. The draft 2026-27 budget does not include any such smoothing but does include £16m use of earmarked reserves which are no longer needed for their original purpose (these need to be replaced in subsequent years but not replenished).</p>
<p>A failure to plan and deliver savings in service provision to ensure the council lives within its resources</p> <p>Score = 5/10</p> <p>Scope for Improvement = High</p>	<p><u>Evidence</u></p> <p>The council has planned (and largely delivered/is forecast to deliver) just over £1bn of savings and income since 2011-12 (up to 2025-26). The council has delivered a balanced outturn with a small surplus each year since 2000-01 up to 2021-22 (22 years) including throughout the years when government funding was reducing and spending demands were still increasing. This demonstrated that in the past savings were sustainable.</p> <p>The 2022-23 outturn was the first year in 23 years that the authority ended the year with a significant overspend (£44.4m before rollover). This overspend was partly due to under delivery of savings and partly due to unbudgeted costs.</p> <p>The approved budget for 2023-24 included £54.8m of savings and income (4.6% of net budget) to balance spending growth (£178.9m) and increase in funding (£124.1m).</p> <p>The 2023-24 outturn showed an overspend of £9.6m before rollovers. This was significantly lower than had been forecast earlier in the year. As in 2022-23 the 2023-24 overspend arose from a combination of unbudgeted costs and under delivery/rephasing of savings.</p> <p>The approved budget for 2024-25 included £88.9m of savings and income (6.8% of 2023-24 net budget) to balance spending growth (£209.6m), a net change in use of reserves (-£6.8m) and increased funding (£113.9m).</p>

	<p>The 2024-25 outturn showed an overspend of £19.6m before rollovers, which was broadly in line with earlier forecasts. Spending controls first introduced in 2023-24 have remained in place throughout 2024-25 and these have contributed to mitigating the level of the overspend. Adult Social Care accounts for the most significant overspend, of which approximately 40% relates to the non-delivery of agreed savings, however some of these have been identified as achievable in future years.</p> <p>The approved budget for 2025-26 includes £98.9m of savings and income (6.9% of 2024-25 net budget) to balance spending growth (£150.4m), removal of undelivered/temporary savings from 2024-25 (£38.0m), net change in use of reserves (£12.4m) and increased funding (£101.8m). The increased spending growth included demand (activity) and cost drivers as well as price uplifts (linked to inflation forecasts) and full year effect of 2024-25.</p> <p>Savings planning and monitoring continues to be enhanced with greater emphasis on more detailed monitoring of progress on the most significant savings. Enhanced monitoring will not in itself ensure improved delivery performance, especially in the short-term.</p> <p><u>Conclusions</u></p> <p>The significant increase in the savings requirement over the last four years is cause for serious concern and is unsustainable. This savings requirement is driven by ever increasing gap between forecast spending growth and increase in available resources from core government grants and local taxation. This gap needs to be resolved either from reducing spending expectations and / or increased funding if resilience is to be improved.</p> <p>The quarter 3 budget monitoring report for 2025-26 shows just over 80% of budgeted savings are forecast to be achieved this year, which represents an improvement on 2024-25 where 64% of budgeted savings were achieved. Whilst this improvement is in the right direction, there is still some concern over capacity within the organisation and that savings are put forward with over optimistic timescales (or inadequate resources to ensure delivery) and in some instances were not sustainable. This combination is weakening financial resilience. We have provided training to all managers setting out the planning and governance requirements for approval of savings in budget plans and the likely timescales with need for adequate planning lead times.</p>
Shortening medium term financial planning horizons perhaps from three or four	<p><u>Evidence</u></p> <p>The council has traditionally produced a three-year medium term financial plan (MTFP). This plan sets out forecast resources from central government and local taxation with spending forecasts balanced by savings, income generation and use of smoothing reserves. Generally funding forecasts have</p>

<p>years to two or even one</p> <p>Score = 7/10</p> <p>Scope for Improvement = Moderate</p>	<p>been robust and tax yields have remained buoyant. Spending forecasts for later years of the plan have tended to be underestimated.</p> <p>High-level three-year plans were produced in recent years although experience has proved that these have been less robust and susceptible to the un-forecast spending trends experienced in these years. Funding forecasts have continued to be speculative in the absence of multiyear settlements. Council tax base estimates have proved to be extremely reliable although business rates have been more volatile.</p> <p>The provisional settlement for 2026-27, published on 17th December 2025, included indicative grant allocations for 2027-28 and 2028-29, and marked a welcome return to a multi-year funding announcement. This information has enabled us to plan our grant funding with more certainty over the medium term.</p> <p><u>Conclusions</u> Medium term financial plans are still considered to be reasonable even if spending forecasts for the later years are less reliable, as a broad indicator of direction of travel rather than a detailed plan. Plans should be less speculative now that multi-year settlements have been re-introduced.</p> <p>Draft budget proposals need to be made available for scrutiny and savings planning earlier (even if these have to be based on less up to date forecasts). The preplanning of savings needs to recognise leading times of 6 to 9 months from initial concept to final approval.</p>
<p>A lack of firm objectives for savings – greater “still to be found” gaps in savings plans</p> <p>Score = 5/10</p> <p>Scope for Improvement = Good</p>	<p>It has been common that in later years of the plan there have been balancing “savings still to be found” and those savings that were identified have often lacked detailed plans, especially in later years and plans were held and maintained locally within directorates and services.</p> <p>Even where plans are detailed there have been evidence that some savings have subsequently not been implemented following further scrutiny. Greater emphasis needs to be placed on identifying consequences, risks, sensitivities, opportunities and actions in the early planning stages before plans are presented for scrutiny.</p> <p>In a change from previous practice the plans for 2027-28 and 2028-29 do not include assumed council tax increases. This results in a larger “budget gap” i.e. the difference between planned spending and the indicative local government finance settlement. This difference would need to be resolved when plans are updated from either additional savings/income or council tax.</p> <p><u>Conclusions</u> Changes have been introduced to maintain a comprehensive central database of all savings plans over the three years which contain information about impacts, risks, dependencies, sensitivities as well as forecast financials, timescales and staffing. This database is backed up with detailed delivery plans where appropriate.</p>

<p>A growing tendency for directorates to have unplanned overspends and/or carry forward undelivered savings into the following year</p> <p>Score = 4/10</p> <p>Scope for Improvement = High</p>	<p><u>Evidence</u></p> <p>In recent history the Council have had to manage its budget through periods of significant uncertainty, from the Covid-19 pandemic which commenced in 2020-21, with further instability in 2022-23 arising from global and national economic turbulence. 2022-23 was the first year the Council had an unplanned overspend in its revenue budget in over 20 years.</p> <p>The 2023-24 budget included unprecedented levels of growth including the full year impact of 2022-23 overspends, historically high levels of inflation and other cost driver growth as best could be forecast at the time. This still proved insufficient and further unplanned overspends were reported in 2023-24 due to a combination of unbudgeted growth and under delivery of savings.</p> <p>The 2024-25 budget had even higher levels of growth compared to 2023-24. This included the full year impact of overspending in 2023-24, historically high levels of inflation and other cost driver growth. Like 2023-24 this still proved insufficient and further unplanned overspends were reported in 2024-25 due to a combination of unbudgeted growth and under delivery of savings.</p> <p>The 2025-26 budget is similar to 2024-25 in that it continues to have higher levels of spending growth. This included the full year impact of overspending in 2024-25, continuation of higher levels of inflation, demand and cost drivers.</p> <p>The quarter 3 forecast for 2025-26 shows further unplanned overspend arising primarily in Adult Social Care. Again these arise from a combination of unbudgeted growth (both in costs of services and demand) and under delivery or rephasing of savings, albeit at a lower percentage than 2024-25. Budget plans did not include alternative mitigations or any contingency to allow for variations from the original plan.</p> <p><u>Conclusions</u></p> <p>Failure to deliver to budgets is becoming a significant concern. Failure to deliver budget has multiple impacts in that it either requires “right-sizing” in future budgets (increasing spending growth), roll forward of savings (increasing the in-year savings requirement in future years to an extent that there may be inadequate capacity) and is a drain on reserves which need to be replenished if medium to longer term financial resilience for the Council is to be retained.</p>
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Table: Useable Revenue Reserves Balances 2015-16 to 2024-25

	2015-16 £000s	2016-17 £000s	2017-18 £000s	2018-19 £000s	2019-20 £000s	2020-21 £000s	2021-22 £000s	2022-23 £000s	2023-24 £000s	2024-25 £000s
General	-36,404	-36,671	-36,903	-37,054	-37,183	-37,075	-56,188	-36,918	-43,030	-78,562
Earmarked	-163,914	-159,357	-155,319	-180,424	-190,656	-261,165	-259,933	-254,219	-251,339	-202,631
Covid	0	0	0	0	-37,307	-88,209	-75,122	-47,100	-10,000	0
Public Health	-1,988	-3,825	-3,634	-6,036	-5,877	-11,126	-16,817	-16,899	-16,984	-16,720
Safety Valve	0	0	0	0	0	0	0	-36,263	-36,263	-36,263
Totals	-202,306	-199,852	-195,856	-223,514	-271,023	-397,575	-408,060	-391,398	-357,616	-334,176