

Financial Update

	Sctn	Page
Summary	1	2
2024-25 Budget Consultation	2	3
Revenue Budget Strategy	3	4
2024-25 Draft Budget Process and Timetable	4	6
Appendices		

Relevant Director	Corporate Director Finance, Zena Cooke
-------------------	--

Report author(s)	Head of Finance Policy Planning and Strategy, Dave Shipton
------------------	--

Circulated to

Classification	Unrestricted
----------------	--------------

Contact details

Head of Finance Policy, Planning and Strategy Dave Shipton 03000 419 418 dave.shipton@kent.gov.uk

Corporate Director of Finance Zena Cooke 03000 419 205 zena.cooke@kent.gov.uk

<p>Budget consultation launched 13th July 2023</p>	<p>Consultation is open for 8 weeks until 6th September 2023 and can be found at www.kent.gov.uk/budget. The consultation seeks views on what services should be prioritised, and extent to which council tax should be increased to protect them. The consultation focuses on the big six spending areas related to people and place and the areas for savings to balance the budget.</p>
<p>Budget strategy moving away from incremental approach</p>	<p>Incremental budgeting adds/subtracts on the current year's budget for known and forecast changes, including changes in prices, demands and local policy objectives. Incremental budgeting works if changes can be robustly forecast but has inherent flaws in challenging the basis of current budgets, and is highly susceptible to volatility from external factors.</p>
<p>Outcomes based approach better aligns resources to council priorities</p>	<p>The outcomes approach for 2024-25 (with indicative illustrative allocations for 2025-26 and 2026-27 for planning purposes) allocates the forecast available resources via a combination of unavoidable increases (largely contractual prices), existing savings and income plans with the balance allocated on outcome priorities.</p> <p>For 2024-25 the outcomes approach is based on the big six spending areas related to people and place and effectively means that adults and children's services receive the increases from targeted government grants and social care council tax levy, highways is to be prioritised from any available resources after allowing for unavoidable increases and savings for other services based on the existing updated medium-term financial plan (MTFP).</p>
<p>Early scrutiny of the Administration's draft budget in November</p>	<p>Earlier launch of budget consultation, development of Outcomes based budgeting, and the announcement of settlement principles for 2024-25 allows the budget timetable to be planned to be brought forward to enable budget scrutiny in November. This frees up time in January for key decisions to be agreed in principle pending County Council agreement of the budget in February, allowing earlier implementation.</p>

2.1 Consultation on the 2024-25 budget was launched on 13th July 2023. The consultation is open for 8 weeks until 6th September 2023 and can be found at www.kent.gov.uk/budget. The launch included a media release, social media advertising, as well as poster/postcards in KCC facilities.

2.2 A supporting document sets out the background to the consultation including key facts about Kent, KCC's strategic priorities, the financial challenges the council has had to address in recent years, the 2022-23 budget outturn, and the 2023-24 budget. The document includes information on the council tax referendum principles together with the expected levels for 2024-25 and impact on council tax bills. The document sets out the financial outlook for the forthcoming year and the difficult decisions that will be needed to balance significant forecast spending increases with the forecast resources from council tax and central government settlement.

2.3 The supporting document focuses on the six main spending areas which account for over 80% of revenue spending (excluding non-attributable costs):

- Care and support for vulnerable adults (32%)
- Care and preventative services for vulnerable and disabled children (17%)
- Older persons social care (15%)
- Public transport including home to school transport (8%)
- Waste recycling and disposal (7%)
- Highways management and maintenance (4%)

2.4 The consultation questionnaire seeks views on both the general council tax and the adult social care levy, and whether increases up to the referendum level are supported, increases should be less than referendum level, or any increase is opposed. The consultation seeks views on spending priorities within the big six areas, and whether current spending is too little, too much or about right. The questionnaire seeks views if spending has to be reduced in one of the big six areas which should it be. The questions on council tax and spending priorities include free text boxes including scope to comment on the other spending areas not within the big six. The questionnaire seeks views on other areas where the Council should be looking to save money.

2.5 The web page includes a short quiz about the Council's budget, this is aimed at helping to improve understanding about how the council is funded, spending on selected services (including social care, support services, waste recycling & disposal, home to school transport, street lighting), and the spending pressures from inflation and demand. The web page includes an introductory video from Peter Oakford - Cabinet Member for Finance, a timeline culminating in the County Council budget meeting in February 2024, and equality impact assessment.

3.1 KCC's revenue budget strategy has been based incremental budgeting for a long time. Incremental budgeting starts with the current year's budget and then adds/subtracts for known and forecast changes. These changes include the full year effect of current year forecast variances as well as future forecasts for pay/prices, service demands (largely driven by demography), service improvements and government legislation. These spending forecasts are then balanced against available funding by spending reductions through savings and income.

3.2 Incremental budgeting is relatively simple to understand and is appropriate if the primary cost drivers do not change from year to year, or changes can be robustly forecast. However, there are also some problems with incremental budgeting as it tends to reinforce current practices and can lead to budget slack due to the inbuilt incentive to over-estimate incremental changes or failure to challenge the basis of current budgets. It is also highly susceptible to volatility from external factors.

3.3 For 2023-24 the first step towards an alternative Outcomes Based Budget strategy was taken. This sought to better align spending decisions with strategic priorities. This started with setting "resource envelopes" from forecast resources in the local government finance settlement (un-ringfenced grants and local taxation) pro rata to historical increases and the most significant/most urgent financial priorities within Framing Kent's Future. The resource envelopes were issued in July and Directorates were then asked to come up with proposals/options to contain spending within these envelopes by the end of September.

3.4 This was only ever intended as a first step towards an Outcomes Based approach. In the end such was the scale of the economic consequences of global and national circumstances that the envelopes would never have been sufficient. This was recognised both by central government (with additional funding for local government prioritised in the November Autumn Budget statement) and within the council where the 2023-24 budget was largely balanced through the traditional incremental approach. However, this should not mean that the Outcomes Based route should not be further developed.

3.5 Outcomes based budgeting challenges the orthodoxy of incremental budgeting as it seeks to measure the difference that council spending is expected to make to the quality of life for local residents and communities. For 2024-25 budget and MTFP we have set resource envelopes for each of the next three years covering 2024-25 and indicative allocations for 2025-26 and 2026-27. The envelopes for 2024-25 are more predictable with the announcement of guiding principles within the 2023-24 settlement which confirmed increases in social care grants and council tax referendum principles for 2024-25.

3.6 The resource envelopes allocate the forecast available resources after taking account of corporate issues such as maintaining adequate and prudent reserves, and provisions for Kent scheme pay award and debt charges to fund capital programme. The resource envelopes for social care (adults and children's) need to ensure that additional resources from targeted government grants and specific council tax levy are passported in full.

3.7 Initially for 2024-25 the outcomes approach focusses on the allocation of the net growth in resources with fuller roll-out in later years challenging base budget as well as growth. Envelopes have been set on an Outcomes Based approach for the “big six” spending areas:

- social care for older persons
- social care for vulnerable adults
- integrated children’s services (including disability services)
- public transport (including home to school transport)
- waste recycling and disposal
- highways

3.8 The Outcomes Based approach for the big six is based on a combination of unavoidable spending increases (largely contractual price increases) and savings from existing incremental MTFP, and the balance of resources allocated according to outcomes. Effectively this replaces the previous incremental demographic demand growth and service improvements with an Outcomes basis. The envelopes for remaining spending outside the big six are set from the remaining resources based on historical spend and existing incremental MTFP growth and savings/income.

3.9 This approach is part of a transition towards Outcomes based budgeting ensuring a greater outcomes focus on the most significant spending areas. This is not to say that other services are not necessarily a priority and cannot be added to the outcomes based approach in later years. As the approach is developed increasingly future years envelopes will be based on finance and performance outcomes metrics. These metrics will need to be developed and agreed.

3.10 The core objectives of the revenue strategy are largely unchanged by an Outcome Based approach. The core budget objectives are as follows:

- Maintain a balanced budget and medium-term financial plan with net expenditure (after income and specific grants) not exceeding available funding from un-ringfenced grants and local taxation
- Set a council tax that does not exceed the government referendum limits
- Ensure the council is financially sustainable minimising the risk that the council could cease to be responsible for its financial and other affairs through government intervention or appointment of commissioners
- Maintain an adequate and prudent level of reserves commensurate with risks
- Maintain and improve the council’s overall financial resilience through sustainability of reserves, levels of external borrowing and debt costs, balance of income compared to spend, proportion of council budget spent on social care
- Prudent management of cashflow and liquidity through Treasury Strategy which balances risks and returns on financial investments and low interest costs and certainty on borrowing
- Full cost recovery on charges for discretionary services other than where Cabinet agrees to provide services at a subsidy and/or concession
- Prudent capital investment programme
- Aligns resources to the council’s strategic vision and priorities whilst allowing the council to fulfil statutory obligations

4.1 Table 1 shows a summary of the updated resource assumptions for 2024-25 to 2026-27.

Table 1 – Resource Assumptions

	Indicative for planning purposes		
	2024-25	2025-26	2026-27
Forecast funding from local taxation and government settlement	+£92.7m	+£62.9m	+£65.4m
Net contributions to reserves and one-off adjustments	-£29.1m	+£8.3m	+£13.5m
Corporate provisions	-£17.1m	-£26.4m	-£26.4m
Balance for Envelopes	£46.5m	+£44.8m	+£52.5m
Allocated for incremental growth	+£42.5m	+£15.5m	+£18.0m
Allocated for existing savings/income	-£26.4m	-£33.5m	-£3.7m
Allocated for outcomes	+£30.4m	+£62.8m	+£38.2m
Total envelopes allocated	£46.5m	£44.8m	£52.5m

4.2 Table 2 shows the current 2023-24 budget, adjusted 2024-25 MTFP and 2024-25 resource envelope allocations. Overall, there is a small reduction in the overall available resources compared to the adjusted MTFP due to revised funding assumptions and changes in the assumptions for contributions to reserves and corporate provisions.

Table 2 – 2024-25 Resource Envelopes

	2023-24 Budget	2024-25 Adj. MTFP change	2024-25 Resource Envelope
Older People	£179.6m	+£9.7m	+£9.0m
Vulnerable Adults	£379.4m	+£32.6m	+£26.0m
Integrated Children's Services	£208.7m	+£2.9m	+£3.7m
Public Transport	£93.9m	+£3.9m	+£3.9m
Waste Recycling & Disposal	£88.2m	+£0.9m	+£0.7m
Highways	£42.4m	-£0.3m	+£4.8m
Other	£207.4m	-£2.3m	-£2.3m
Non Attributable	£116.0m	+£0.7m	+£0.7m
Total	£1,315.6m	+£48.1m	+£46.5m

4.3 The Outcomes Based approach which ensures passporting to adults and children's results in less resources for older persons and vulnerable adults than under the previous incremental approach, and slightly more for children's. The other main change allocates an additional £5m to highways to reflect Cabinet's outcome priority to improve the condition of the roads within the resources available.

4.4 The combination of an earlier launch of budget consultation, the transition to an Outcomes based approach, and the prior announcement of the guiding principles for the 2024-25 local government finance settlement allows the budget timetable for 2024-25 revenue budget and 2024-27 MTFP to be planned to be brought forward.

4.5 The planned timetable includes the development of templates and dashboards to enable greater scrutiny of budget proposals including detailed assessment of impacts, risks, dependencies and sensitivities.

The draft timetable for 2024-25 is shown in table 3.

Table 3 – Draft Budget Timetable

End of May	Resource Envelopes allocated to directorates for big 6 and other spending areas
12 th June	Budget Templates issued to capture additional information to include in budget dashboards
End of July	Directorates to provide initial submission of all templates outlining options to deliver budgets with resource envelopes
August/September	Review, refine and update submissions
October	Finalise the Administration's draft budget for publication at the end of the month
November	Cabinet committee scrutiny
December	Final refinement, update and review reflecting feedback from scrutiny, provisional settlement and tax base estimates
January	Scrutiny of key decisions subject to final budget approval Cabinet to endorse final draft budget for County Council
19 th February	County Council budget meeting to approve budget and council tax