

From: Peter Oakford, Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services

To: Cabinet 11th July 2024

Subject: **Medium Term Financial Plan (MTFP) Update**

Classification: **Unrestricted**

Summary:

This paper sets out the proposed process and timetable for updating the Medium Term Financial Plan (MTFP) presented to full Council on 19th February 2024 including consultation, scrutiny and final approval by full Council in February 2025. The proposed timetable and process was developed before the announcement of UK general election, although it was acknowledged that this would occur at some stage during the process, and the plan remains sufficiently adaptable.

The current 2024-27 plan shows a balanced three-year position based on forecast spending growth, funding, and savings/income estimates for each year. The forecasts are based on best intelligence and have varying levels of details. The savings plans include £39.7m in 2025-26 and £38.5m in 2026-27 from Securing Kent's Future (SKF) objective 2 to put spending on adult social care, children in care and home to school transport onto a sustainable trajectory; £19.8m of policy savings in 2025-26 to replace one-offs to balance 2024-25 (although at the time the plan was presented it was accepted full details were still to be developed) and £13.4m from other SKF objectives where plans are not yet fully developed.

Recommendations:

Cabinet is asked to NOTE and COMMENT on the proposed process and timetable to update the MTFP.

Cabinet should also note the following, from the 2024-25 full Council budget recommendations:

- i further potential economic volatility and the uncertain financial outlook for later years in the absence of a multi-year settlement from government from 2025-26 onwards as well as uncertain impact of the delayed social care reforms and reforms to local government funding arrangements;
- ii that the planned use of reserves still ensures sufficient reserves are available in the short term with no immediate concerns triggering a S114 notice provided the use of these reserves is replaced with sustainable savings over the medium term; and
- iii the rate of recent drawdown from reserves and increase in risk is cause for serious concern and reserves need to be strengthened, particularly general reserve and the draft budget includes a strategy to restore the general reserve to 5% by 2025-26. Further unplanned drawdowns would weaken resilience and should only be considered as a last resort with an agreed strategy to replenish reserves at earliest opportunity (even if that means restricting spend into 2024-25 below the levels assumed in budget plan).

1. Existing 2024-27 Plan

1.1 Table 1 summarises the existing plan for core funded activities (that is, excluding services funded from external sources). This shows a gap of £82.7m between forecast funding and spending (£81.4m including externally funded) in 2025-26, this gap equates to 5.8% of net budget for 2024-25 and will need to be closed through savings and income. A significant proportion of the savings will need to come from the objectives outlined in Securing Kent's Future (SKF).

Table 1 – Summary of 2024-27 Plan

	2024-25		2025-26		2026-27	
Spending Growth		£209.6m		£147.3m		£132.2m
Cost Drivers	£85.3m		£83.8m		£82.3m	
Prices	£49.6m		£30.5m		£22.6m	
Other	£74.7m		£33.0m		£27.3m	
Funding		£113.9m		£64.6m		£69.6m
Council Tax	£58.9m		£61.4m		£65.5m	
Government Grants	£53.4m		-£0.6m		£3.2m	
Business Rates/Other	£1.6m		£3.8m		£0.9m	
Saving/Income		£88.9m		£88.6m		£51.8m
Adults/Children Transformation	£36.5m		£39.7m		£38.5m	
Plans under development			£33.2m		£1.5m	
Other new plans	£14.7m		£14.4m		£2.8m	
Multi-year/Income	£26.7m		£9.2m		£8.7m	
Financing	£11.0m		-£7.9m		£0.3m	
Net Change in Reserves		-£6.8m		+£5.9m		-£10.8m
Balance		£0.0m		£0.0m		£0.0m

1.2 There are a number of features worth noting within spending growth:

- a) Cost drivers in adults and children's are currently forecast to increase at a fairly constant level year on year, partly offset by transformation savings. Planned growth and savings would mean these services continue to account for an increasing share of the budget from 66% in 2023-24 to 71% in 2026-27.
- b) Prices growth is forecast to decline in line with inflation forecasts (the rate of inflation has been declining steadily in recent months), but the risk remains that there could be economic shocks causing further volatility.
- c) The "Other" category includes base budget changes in 2024-25 to reflect the full year effect of forecast 2023-24 variances and pay provision in all years. The pay provision needs to be updated to include the new pay strategy for annual pay award and pay progression/transition agreed by the County Council in May 2024.

1.3 There is little to go on, in terms of the national government's assumptions around the ongoing funding of local authorities. Our assumptions are currently as follows:

- a) Council Tax referendum threshold to remain at 5% (3% general +2% adult social care precept);
- b) Council Tax base growth of 1.5% (this has been historical level);

- c) Revenue Support Grant and business rates (including top-ups and compensation) increase in line with inflation;
- d) Other grants remain flat cash¹; and
- e) No business rate growth other than inflation.

1.4 Any reduction in assumptions about growth and any increases in assumptions around funding, reduce the overall need for savings. Conversely any increased spending growth, under delivery of existing savings plan or reduced funding would require additional savings/income to balance the budget. The assumptions in the existing plan are prudent and reflect the most likely scenario.

2. Updating the Existing Plan

2.1 The existing plan will be updated by the end of July. This update will include the following:

- a) identify unavoidable price increase estimates but apply greater scrutiny and challenge as part of the budget development process;
- b) identify costs drivers for spending growth based on recent trends;
- c) not include any other cost increases; and
- d) consider building in an assumption that some spending will be absorbed or avoided.

2.2 Following the July update directorates will be issued with revised targets to balance each year 2025-26 to 2027-28. The allocation of targets will be based on a combination of the Council's strategic objectives, benchmarking of current spend against outcomes and best value, and an assessment of the capacity to deliver further savings over and above those already in the plan. The overall target will be set at a level that is higher than that required to achieve a balanced budget to allow scope for policy choices, capacity to deal with subsequent changes from existing assumptions, and scope to improve reserve balances at the earliest opportunity. Options to deliver revised targets will be completed by end of September ahead of proposed scrutiny of the budget proposals in November.

2.3 It is proposed that scrutiny in November focuses on the policy choices within the budget proposals relevant to each Committee, rather than the overall assumptions on which budget proposals are based. This will mean each Committee receiving a tailored report with an overall budget plan as background information, rather than the standard report that has been published in recent years.

2.4 We will be building on presentation of information through the BI dashboards introduced last year. These were generally well received, although there were areas for further improvement identified during last year's scrutiny process. We will review whether the dashboards will still need to be supplemented with the very large appendices produced in previous year's budget reports.

2.5 All key decisions will need to be completed before the pre-election period for County Council elections, which begins on 15 March 2025. The planned date for full Council approval of the 2025-26 budget is 13 February 2025. A more detailed timetable is included as appendix A to this report.

¹ other than workforce element of market sustainability which as announced is only two-off in 2023-24 and 2024-25

3. Budget Consultation

3.1 Consultation on the overall budget strategy was launched on 13 June 2004 <https://letstalk.kent.gov.uk/budget-consultation-2025-26>. The consultation is open for 8 weeks until 7 August 2024. The consultation has been launched a month earlier than recent years to enable budget submissions required by end of September to reflect responses. The consultation has been presented in a more accessible format with enhanced graphics.

3.2 The consultation includes a high-level summary, an interactive quiz (designed to help respondents understand more about the Council's funding and spending priorities), an accompanying consultation document (setting out key facts, strategic priorities and financial challenge), questionnaire and equality impact assessment. The consultation seeks views on Council Tax, spending priorities and areas for further savings/income. The consultation has been publicised through press release, social media and in KCC public access buildings.

3.3 Consultation and engagement events are planned to be held with staff, and voluntary and business sector representatives. Separate detailed service consultations will be necessary over the coming months as the budget consultation relates to the overall strategy rather than individual proposals within the budget.

4. Contact details

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