Appendix A

Key Budget Assumptions

1.1	Current plan includes high-level assumptions for 2025-26 and 2026-27	The 2024-27 medium term financial plan (MTFP), presented to County Council in February 2024, was based on assumptions regarding the funding settlement, spending growth, savings and income, and contributions/drawdowns from reserves. These included a combination of corporate and directorate assumptions. At the time the plan was prepared the later years (2025-26 and 2026-27) it represented a high-level balanced position, and it was acknowledged that the full detail of some elements e.g. £19.8m of policy savings necessary to replace the use of one-offs to balance 2024-25 budget, would be developed for subsequent updates.
1.2	Initial update as at 30th September 2024 in advance of Chancellor's Autumn Budget 2024	The plans have been updated based on the latest available information as at end of September 2024. The timetable for updating the plan and publishing draft 2025-26 budget proposals for scrutiny was agreed before the announcement that Chancellor of the Exchequer's Autumn Budget would be on 30th October 2024. This date is too late to include the impact in the draft budget for scrutiny and any consequences will have to be included in the final draft budget in January. The Chancellor's Autumn statement is unlikely to have a significant impact on KCC spending or savings/income plans for 2025-26. It is more likely to impact on the funding settlement and the need to balance the budget from reserves and one-off measures.
1.3	Corporate assumptions for Business Rates, Council Tax and funding settlement	On Council Tax income, the plans for each of the three MTFP years assume an increase of 5% (3% general referendum limit and 2% adult social care levy), alongside a taxbase increase of 1.5% plus an additional assumption from the introduction, from 1 April 2025, of 100% premiums on 2nd Homes. There are no assumed impacts from changes to discounts or premiums. On Business Rates, the plan assumes no growth in the taxbase. We have assumed that Government Grants which attracted an inflationary uplift in 2024-25 will continue to receive an inflationary uplift in each year, and we have based these increases on the Bank of England's forecasts.
1.4	Corporate assumptions for spending growth	Inflation is based on May 2024 Bank of England CPI forecasts Demand and cost drivers based on same methodology as 2024-25 assuming current trends continue. Pay costs are based on transition to the new pay strategy approved for April 2025 plus assumed pay award (which is subject to bargaining with the recognised trade unions) and maintaining the link to the Foundation Living wage for the lowest pay rate.

1.5	Corporate assumptions for reserves	Assumes general reserve is restored to 5% of net revenue. No assumed replenishment of reserves drawn down to balance 2023-24 outturn. Treatment of safety valve contributions is consistent with the latest external audit advice, which was received in April 2024, after the final 2024-25 budgeted position was reported to Cabinet on 21st March 2024. The advice in March was to show these contributions as spending growth within the government and legislative category. The latest advice from our external auditors is to show these as contributions to reserves rather than spending increases. The impact of this latest advice means that our core funded spending growth in 2025-26 of £117.2m has been reduced by £15.1m to remove the 2024-25 contribution, and our contributions to reserves for 2025-26 includes the safety valve planned contribution £14.6m. Had this advice been received in time for the final 2024-27 plan, the core funded spending growth for 2025-26 forecast would have been £132.2m (as opposed to the £147.3 in the published plan) and contributions to reserves would have been £33.1m (as opposed to £18.5m in the published plan). To compare like with like, the movement between the original published plan for 2025-26 and this latest draft needs to be based on these revised calculations taking account of the latest guidance e.g. core funded spending growth has reduced from £132.2m to £117.2m. Priority over medium term needs to be given to restoring reserves closer to average for similar authorities as % of net revenue and to better reflect enhanced risks.
1.6	£19.8m policy savings	The 2024-25 budget was balanced by three one-offs (£9.1m from reserves, £7.7m from capital receipts and £2.0m from New Homes Bonus grant) which was acknowledged at the time must be replaced by sustainable and ongoing savings/income in subsequent years. The administration’s draft budget includes £5.7m of additional policy proposals as part of this replacement impacting in 2025-26. These proposals are set out in detail in the papers for the Children’s Young People & Education Cabinet Committee, Growth, Economic Development & Communities Cabinet Committee, and Policy & Resources Cabinet Committee. Some of the policy options which were originally flagged for 2025-26 are now recommended not to be pursued until 2026-27 for contractual and legal reasons. The savings proposed for 2025-26 relate to removing subsidies from partner organisations where there is no statutory requirement or to secure full cost recovery through charges on discretionary services.

		This leaves a balance of £14.1m which is still to be agreed. At this stage this has been shown in the draft plan as a temporary loan from reserves in 2025-26 which must be replaced with sustainable and ongoing savings/income in 2026-27 to replace the use of reserves. The loan must be repaid, which will require further savings or alternative solutions, which at this stage is shown as an unresolved balance in the plan for 2026-27. Potential further savings are still being assessed and we will still be exploring all avenues to reduce the amount needed to be loaned from reserves in 2025-26.
1.7	Adult Social Care	The Adult Social care budget in recent years has included significant transformation, efficiency and policy savings, as well as income generation from client charges and health. The 2023-24 ASC directorate budget included £22.3m of new savings and income, and the 2024-25 ASC directorate budget included a further £53.2m of savings and income. Delivery of savings plans of this magnitude has proved to be challenging and some savings need to be rephased into subsequent years, whilst others have been deemed irrecoverable. This has contributed to an in-year overspend and, in the case of irrecoverable savings, require the base budget to be increased in subsequent years. Rollovers increase the in-year savings that need to be achieved in subsequent years. Savings of this magnitude are necessary to balance the significant year on increases in costs for and demands on adult social care services. These costs largely arise from annual increases in the fees paid to providers for care services for all clients, increased costs for the fees for new clients compared to average fees for existing clients (partly due to complexity and partly due to availability of placements), increasing numbers of clients or increases in hours per week to meet client needs. These costs have been increasing significantly in excess of the specific funding available through social care grants in the local government finance settlement and the adult social care council tax precept, as well as a pro rata share of general grants in the settlement and general council tax precept. In recent years the pace of growth and under delivery of savings has meant adult social care has accounted for an increasing share of the council's overall budget. The challenge is whether, over the medium term, spending on adult social care can be contained within the available specific, and share of general, funding available. Targets have been set for each year of the MTFP based on this principle. This is shown as a savings target in the 2025-26 budget plan. The targets for subsequent years are reflected as an adult social care "challenge" (reflecting the unpredictability of forecasts into later years of the

		plan). The 2025-26 ASCH draft budget shows a net total of savings and income proposals of £24.0m. This comprises of £38.7m new savings and income proposals, netted off by realignments to reflect delays or reductions to previous years' savings. A further £12.9m of savings from 2024-25 are forecast to be rolled forward for delivery in 2025-26. This forecast roll forward together with the £38.7m of new savings and income for 2025-26 described above would mean that the adult social care directorate would need to find over £50m of savings and income in a single year. At this stage the forecast irrecoverable savings from 2024-25 of £8.65m are shown as the adult social care challenge for 2025-26, whilst further options to recover the original savings plans and / or identify other alternatives are explored.