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To Policy & Resources Committee 8th July 2025

Subject **Medium Term Financial Plan Update**

Classification: **Unrestricted**

Summary:

This paper sets out:

- **the purpose of the Medium-Term Financial Plan (MTFP)**
- **the proposed process and timetable to update and revise the current plan**
- **the latest announcements and consultation on the government funding settlement.**

The current plan represents the previous Administration's priorities, based on a number of assumptions on funding levels (including council tax increases), spending forecasts in line with current policies, and savings/income necessary for a balanced plan. The plan for revenue spending (day to day services) was broadly balanced over the three- year period. The savings for the latter two years were not worked up in the same level of detail as 2025-26 and the plan for 2026-27 and 2027-28 was identified as "illustrative for planning purposes".

The capital programme covers spending on asset investment and is set out over a longer planning horizon over 10 years. The programme includes rolling annual programmes, (such as the modernisation of assets, which occur every year) and specific individual projects which are often phased over a number of years. Only those projects that are fully funded are included in the capital programme (funding principally coming from government departmental grants, external sources including developer contributions, affordable borrowing over the lifetime of the assets, revenue contributions and receipts from sale of surplus assets).

Recommendations:

Policy and Resources Committee is asked to NOTE and COMMENT on the proposed process and timetable to update and revise the MTFP.

1. Purpose of Medium-Term Financial Planning

1.1 Having a thorough understanding of the financial outlook and the associated impact on the Council's ability to achieve its statutory obligations and strategic objectives is an essential starting position for future financial planning and sustainability.

1.2 The aim of a medium-term financial plan (MTFP) is to pull together in one place all known factors affecting the financial standing and sustainability of the Council over the medium term. It should be considered alongside the annual County Council budget meeting and the annual statement of accounts. This information is available on the finance and budget section on the Council's website kent.gov - finance and budget. The

MTFP needs to balance the financial implications of the Council's objectives and policies against resource constraints, to provide the basis for future decision making.

1.3 The information in the plan is compiled by the Council's finance team but needs to be owned by those responsible for decision making. Difficult decisions will need to be made to meet the statutory obligations and strategic ambitions of the Council, given the likely funding constraints. The MTFP should be the foundation upon which decisions are made to ensure resources are used effectively.

1.4 The plan for revenue spending (covering the provision of day-to-day services) sets out a high-level, Council-wide view over three years. It sets out forecast changes in spending and the principal factors driving spending (for example, annual contractual price uplifts, forecast demands due to changes in population and use of services, legislation, financing requirements for capital programme) and other drivers affecting costs such as market sustainability.

1.5 The three-year plan includes Council wide funding projections (including the future council tax base and household charges which together form the tax precept, retained business rates, and local government finance settlement) and expected changes in contributions to and drawdowns from reserves. The plan is balanced through existing planned savings and other income, as well as new savings which need to be developed and agreed to achieve the balanced position. Further work is needed in adult social care, if the current objective of containing spending within the specific resources from council tax and government grants plus a pro rata share of general resources is to be maintained.

1.6 The three-year whole Council revenue plan and one year directorate revenue plans[1] are shown as "net spend" (that is, total spending offset by income and specific grants). Net spend is effectively the spend over which the council has direct control. Net spend is funded from local taxation and a range of general/service grants from the Ministry of Housing, Communities and Local Government's (MHCLG) annual Local Government Finance Settlement. The three-year plan includes a separate analysis for wholly externally funded activities. Individual key service plans are one year only (2025-26) and include separate detail showing gross spend (split between staffing and non-staffing), income and specific grants, and resultant net spend.

1.7 The MTFP does not just encompass current day to day revenue spending but also includes capital investments through the 10-year capital programme[2]. The Council has a substantial asset base, and it is important these assets are used in a way to maximise value to the council including regular rationalisation and seeking improved returns. The capital investment strategy sets out the investments of the Council as required by statutory guidance. The asset management plan represents an inventory of assets, their utilisation and the ongoing maintenance and investment requirements. The capital programme represents the medium-term plan for investment within affordability and capacity constraints.

1.8 It is recognised that forecasts become more uncertain the further out into the future they go. This uncertainty makes it important to have a plan for the future, with a clear understanding of the assumptions and key risks associated with the forecasts. A separate

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[1] Appendices D & E to the County Council report/sections 6 & 7 of the budget book
[2] Appendices A & B to the Council report/sections 3 and 4 of the budget book

sensitivity analysis provides an assessment of the accuracy of forecasts and alternative funding scenarios.

2. Key Features of Medium-Term Financial Planning

Stakeholder Consultation

2.1 Early consultation with key stakeholders helps to refine priorities. It is important that residents and businesses understand that resources are limited and that decisions have to be made between the relative priority of different services and the balance between free or subsidised services, paid for services and taxation levels.

2.2 KCC has undertaken an annual consultation on the overall budget strategy early in each year's budget cycle. This has focussed on the broad areas of service prioritisation and local taxation, without going into the granular detail of individual savings proposals. In the past, the Council has used a variety of quantitative and qualitative approaches, including face-to-face market engagement exercises, although recent consultations have relied on low-cost digital means through social media campaigns and on-line surveys.

Service Planning

2.3 Local government exists to provide services to residents and customers. Effective medium-term forecasts need to be based on clear service strategies that reflect the implications for future demand and resources. KCC's incremental approach to budget planning relies on service managers making an assessment of the resources required to maintain current policies, as the initial starting point.

2.4 Many of the Council's services are impacted by demographic changes and the MTFP has to take into account the forecast impact of an increasing population and changing age profile, as well other changes that are key drivers for service demand. In many cases, future forecasts are based on the continuation of recent trends. These demographic factors impact on revenue plans and capital programme (for example, in planning for school places).

2.5 Council services are sensitive to many external influences and must be sufficiently adaptable to changing demands of the communities they serve. Whilst it important to keep plans up to date, the budget planning cycle currently only includes two updates to medium term plan assumptions, an initial update towards the start of the cycle and a final update at the end of the cycle. There is no intermediate monitoring of MTFP assumptions.

Service Provision

2.6 The Council's services are provided through a range of different delivery vehicles ranging from in-house provision to wholly outsourced provision. The majority of the council's spending is commissioned through external contracts. These contracts are of varying duration and generally include contractual price uplift clauses. There may also be the need to build in forecast service volume changes and allow for potential termination clauses and the cost impact of retendering. Each of these are separate and individual cost drivers affecting the Council's ability to manage spending pressures in the short to medium term.

Funding

2.7 Revenue spending is funded from a combination of external income, central government grants and local taxation. The most significant sources of income are charges for services users (the most significant being adult social care client charges), contributions from health and other public bodies, investment income, company dividends and leases/lettings of council buildings. Grants are either specific grants from the main government departments (Department for Education, Department for Transport, Department for Health & Social Care, Home Office, etc.) or are grants included in the annual MHCLG Local Government Finance Settlement.

2.8 Information on the core grants in Local Government Finance Settlement is provided in appendix K to the Council report/section 13 of the budget book. The potential changes to both the quantum of future grant settlement and the distribution to individual authorities are outlined in section 4 of this report. The current three-year plan is based on an assumed overall neutral impact for these. That is, the Council will receive the same cash as 2025-26 in individual grant allocations (other than those grant that currently have an inflationary uplift). This assumption will be reviewed when the Government publishes its consultation on funding reforms.

2.9 Council tax is the most material source of funding towards the net revenue budget requirement (accounting for 65% of net revenue). Council tax is levied on all non-domestic dwellings. Dwellings have been assigned into 8 different bands (with the highest band H paying 3 times the amount of the lowest band A). The Council does not determine either the banding for individual dwelling or the differential weightings for each band. The annual council tax precept for 2025-26 is a combination of:

- the tax base (the total number of dwellings liable for council tax after adjustments for disabled occupancy, exemptions, discounts and assumed collection rates)
- the estimate determined by collection authorities (district and borough councils)
- the household charge approved annually by the County Council.

The household charge is set in accordance the referendum principles approved annually by Parliament as part of the local government finance settlement[3] The forecasts for future year's council tax income in the MTFP are based on KCC estimates of future year's tax base growth and assumed referendum levels. The forecasts for future years council tax income in the MTFP is currently based on KCC estimates of future year's tax base growth and assumed referendum levels.

2.10 Capital spending is funded by a combination of external and internal sources. External sources include government departmental grants, contributions from housing developers towards local infrastructure (section 106 contributions) and other external sources (often bids to organisations such as Arts Council, Heritage Lottery Fund, etc). Internal sources include borrowing (this can include external borrowing from Public Works Loans Board or banks but in recent years KCC has serviced capital borrowing requirements with internal borrowing), proceeds from the sale of surplus assets, revenue contributions to capital, use of renewals reserves and recycling from repayments on previous capital loans. Government departmental grants are the most material source of capital funding. There is also a separate schedule of projects in the pipeline where funding has not yet been secured, which is not part of the capital programme, but is part of the overall medium-term financial plan and is called “Potential Capital Projects”.

Savings and Income

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[3] gov.uk - Referendum Principles.

2.11 Since the Covid-19 pandemic, KCC like other Councils has had to plan for a rapid growth in spending through a combination of higher prices and increased demand. The spending growth has been in excess of the funding available from central government and local taxation. This has meant that the legal duty to set a balanced budget has only been met through a combination of transformation, efficiency, financing and policy savings, as well as increased income.

2.12 Progress on delivering savings plans of this magnitude has not always gone to plan and subsequent medium-term planning has had to be realigned. This realignment is shown in the removal/rephasing of previously planned savings and removal of temporary savings and income.

Assessment of Financial Resilience

2.13 The assessment of the financial resilience of the Council is an important part of the medium-term planning process. This is a function undertaken by the Chief Financial Officer (CFO) and finance staff on behalf of the Council[4]. Their judgement is reported in a Section 25 assurance report to the County Council budget meeting, where all councillors must have due regard to the contents when considering the proposed budget.

2.14 There "four pillars" of resilience upon which the CFO and finance team should focus on in a resilient organisation – getting routine financial management right; benchmarking; savings delivery plans; managing reserves. These four pillars are reflected in the core work of the finance team.

Budget Risks

2.15 A budget risk register is included in the MFFP[5]. This identifies and quantifies the likelihood and potential impact of the most significant budget risks which could affect delivery of the MTFP. The level of risks is a significant factor in assessing the adequacy of the council's reserves.

Treasury Management Strategy

2.16 The Treasury Management Strategy[6] the management of the Council's cash flows, borrowing and investments together with the associated risks. The Council has borrowed and invested substantial sums and thus is exposed to financial risks including losses on invested funds and revenue consequences of exposure to changing interest rates. Most cash inflows are predictable with set dates or the receipt of government grants and tax precepts from collection authorities. These generally precede the dates for major outflows. Regular bi-annual reports of treasury management performance are made to Governance and Audit Committee and full Council.

3. Updating and Revising the Current Plan

3.1 It is proposed that the existing three-year revenue plan will be updated by the end of July. The current plan was developed before the proposals for devolution and local

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4 A range of tools are available to the CFO in making this judgement, appendix I of the Council budget report/section 11 of the budget book demonstrates one of these tools through self-assessment against the key symptoms of financial stress identified by Chartered Institute of Public Finance and Accountancy (CIPFA) in their publication "building financial resilience".

5 (appendix J to Council budget report/section 12 of the budget book)

6 (appendix M to Council budget report/section 15 of the budget book) government reorganisation were announced by central Government and at this stage it is anticipated that a three year plan will still be required for continuing KCC up to 2028-29. Local government reorganisation will not in itself change the most significant financial pressures on council services such as adult social care, special educational needs and children's services. It is a risk that, in terms of capacity, that will be considered as part of budget setting. The updated 2026-28 plan will form the basis for revised 2026-29 plan to be developed and agreed over the following months leading up to publication of draft budget and MTFP proposals for scrutiny, prior to final update ahead of approval by full County Council in February 2026. The government has announced its intention to restore multi-year settlements for local government although it's unlikely these will be available for the July update. The July update will include the following:

a) unavoidable price increase estimates
b) costs drivers for spending growth based on recent trends and progress on transformation programmes. The multi-year calculations will also be more refined than current assumptions
c) any other cost increases kept to a minimum
d) consideration of an assumption that some spending can be absorbed or avoided
e) revised savings targets required to achieve a balanced plan with details to be worked up in the subsequent months in conjunction with the new Administration's priorities.

3.2 As part of revising the MTFP we will look to enhance access to supporting financial information, provide opportunity to challenge of spending growth predictions, explore alternative funding scenarios, put a greater focus on efficiencies and productivity savings, and align policy savings with the Administration's priorities. This will require an open approach towards identifying savings options alongside a more disciplined approach towards considering the scope of "statutory services" (for example, by being specific about which piece of legislation is being cited as underpinning any statutory piece of activity) and reconsideration of minimum statutory requirements.

3.3 It is proposed that the update to the Capital Programme follows the governance process set out in the current approved capital strategy, with the following steps undertaken between June and December:

- Invite business cases for new projects (bids) for consideration in the budget setting process.
- Review of business cases by the Capital Officer Group (COG) to take options forward to Corporate Management Team (CMT) and Corporate Board.
- Review projects in the current 10-year capital programme and refresh of business cases for any projects that have been in the budget for 2 years or more which have not yet started.
- Any implications of changes in borrowing in the capital programme to be fed into the revenue MTFP (i.e. borrowing costs).

3.4 It is acknowledged that the new Administration is currently producing its new strategic statement, but this has not yet been finalised. So, it is sensible at this point in time to plan the budget on the basis of an incremental rollover of existing budgets and service plans and to then review once any strategic priorities have been agreed.

4. Spending Review and Funding Reforms

Spending Review

4.1 The Chancellor of the Exchequer published the Spending Review 2025 on 11th June 2025. This set out the Government's spending plans up to 2029-30, including individual departmental plans, providing more detail than previous budget statements. Overall public spending is still planned to be managed within the fiscal rules set out in the Autumn 2024 Budget. These include the stability rule to balance day-to-day spending with government revenues (taxation), and the investment rule to reduce the accumulated government debt as a proportion of economic output (gross domestic product – GDP).

4.2 The Spending Review includes the Government's plans for local government finance settlement as well as a recommitment to simplify local government funding arrangements by consolidating funding across government departments into the settlement and to reform the system to ensure funding in targeted to places and services where it is most needed and allocated in a way to empower local leaders to deliver against local priorities. This included a commitment to multi-year settlement and more up-to-date assessment of needs from 2026-27.

4.3 The local government spending plans include an average annual 2.6% real terms (£9.9bn in cash terms terms) increase in core spending power over the three years 2026-27 to 2028-29. Core spending power (CSP) includes council tax and the general, social care and other grants in the local government finance settlement. Approx 60% of this CSP increase is planned to come from council tax increases up to the referendum levels (3% general plus 2% adult social care) leaving some of the increase to come through additional grants in the settlement. At this stage there is not sufficient detail to determine whether these grant increases will come through the general settlement grant for all authorities, or whether it will be targeted either for specific services e.g. social care or targeted via measures of deprivation/relative tax base.

4.4 The Spending Review states there will be an increase of over £4bn in funding for adult social care, although how much of this will come from the NHS contribution through Better Care Fund and how much is within the local government finance plans is not provided. Similarly at this stage there is insufficient detail over how much increases for children's social care reform would come through departmental grants from Department for Education and how much is already factored into local government finance settlement. The Spending Review does not include any further detail on reforms to tackle Special Education needs deficits and further detail will not be released until autumn. The Spending Review has no specific detail on Public Health spending plans although any funding would have to come from the non-NHS element of the Department for Health and Social Care settlement (which is increasing by 2.7% in real terms).

4.5 Until we have more detail on the government's funding reform plans and which grants will increase it is difficult to predict whether the grant settlement will be better or worse that the current assumptions in the medium-term financial plan. The council tax referendum levels are the maximum increases allowed without holding a formal ballot, although the increases for individual authorities remain a local democratic decision.

Fair Funding 2.0

4.6 The government launched consultation on substantial reforms to the funding arrangements for the local government sector on 20th June 2025. The consultation runs until 15th August. The consultation seeks views on updating and simplifying the funding arrangements through redesign of the relative needs formula (RNF) used in the existing settlement funding assessment (SFA) and social care grants within the MHCLG local government finance settlement. The consultation proposes fewer service specific relative needs elements with the existing RNF for adult social care, children and young people services and fire and rescue retained (albeit redesigned and updated) and new RNF for highway maintenance, home to school transport and temporary accommodation. Many of the smaller RNFs are proposed to be abolished and replaced with a simpler foundation formula RNF.

4.7 The simplification is proposed through rolling in a number of the separate grants within the MHCLG settlement into the new and updated SFA calculation as well as rolling in a number of specific grants from other government departments. The proposals include changes to area cost adjustment (ACA) as well as updating and reforming SFA. The consultation also confirms that the government intends to include an element of council tax equalisation "the objective of equalisation is to make funding available in such a way as to enable all local authorities to provide the same level of service to their residents" but does not include any exemplifications of precisely how this equalisation will apply.

4.8 The consultation confirms that the reforms will include a full reset of the business rate baseline within the formula to reflect revaluations as well as recalculation of relative spending needs. The consultation seeks views on transitional support arrangements to smooth the impact of changes in funding.

4.9 The current override and Special Educational Needs and Disabilities (SEND) deficit will be extended for a further two years to the end of 2027-28. More detail on reforms to the funding for SEND will not be published until later in the year.

5. Conclusions

5.1 Robust medium term financial planning is one of four key elements in public sector financial management (the others being execution, monitoring and reporting). The medium-term plan is more than the financial forecasts for the future and is the full suite of appendices published in the papers for full County Council budget meeting and included in the budget book. The plan should be considered alongside the annual statement of accounts.

5.2 The medium-term financial plan must be owned by those responsible for decision making and should be the foundation upon which decisions are made to ensure resources are used effectively.

5.3 The medium-term financial plan includes spending on day-to-day services (revenue spend) and investment in assets (capital spend).

5.4 The further into the future the forecasts become more uncertain and unpredictable. It is this uncertainty and unpredictability that make medium term financial planning essential alongside an ability to be agile to adapt to changing circumstances.

5.5 A sound plan is based on identifying the resources necessary to fulfil current policies as a starting point before then considering changes necessary to achieve a balanced and affordable plan.

5.6 The current plan will be updated on the existing approach by the end of July which will then form the basis to develop new revised plan reflecting the Administration's priorities whilst ensuring the Council can continue to fulfil its statutory obligations

6. Contact details

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