

Strategic Context

The setting of the budget is a decision reserved for Full Council. The Council's Budget and Policy Framework requires that a draft budget is issued for consultation with the Cabinet and Scrutiny Committees to allow for their comments to be considered before the final budget proposals are made to Full Council.

The overall strategy for the budget is to ensure that the Council continues to plan for revenue and capital budgets which are affordable, reflect the Council's strategic priorities, allow the Council to fulfil its statutory responsibilities and continue to maintain and improve the Council's financial resilience. This is consistent with the objectives set out in Securing Kent's Future – Budget Recovery Strategy. However, these aims are not always an easy combination and involves some difficult decisions about service levels and provision both for the forthcoming year and over the medium term. In reaching this balance it is essential that the Council has regard to bearing down on future spending growth (price uplifts, other non-inflation related cost increases, and demand increases), delivering efficiency & transformation savings, generating income to offset cost of services, and agreeing changes in policies to reduce current recurring spending and/or avoid future spending while making the necessary investments to support service improvement. In this context it is worth clarifying that savings relate to reducing current recurring spend whereas bearing down on future growth is cost avoidance, both amount to the same end outcome of reducing future spending from what it would otherwise have needed to be without action and intervention. The draft budget should be assessed against these aims recognising that the draft is based on assumptions which could subsequently change.

The Council is under a legal duty to set a balanced and sustainable budget within the resources available from local taxation and central government grants and to maintain adequate reserves. A MTFP covering the entirety of the resources available to the Council is the best way that resource prioritisation and allocation decisions can be considered and agreed in a way that provides a stable and considered approach to service delivery and takes into account relevant risks and uncertainty. At this stage the later years of MTFP is set out as a high-level plan showing the forecast strategic trajectory for changes in funding, spending, savings and income, and reserves with a focus for scrutiny on the detail for 2025-26 together with any full year impacts in subsequent years.

This first draft budget has been prepared in advance of the government's Autumn Budget and Spending Review 2024 (announced 30th October 2024) and in the absence of provisional local government finance settlement or detailed spending plans inherited from the previous government. This draft budget is based on an assumed grant settlement and council tax referendum limits. This means that funding forecasts for the forthcoming year are speculative, consequently planning has to be sufficiently flexible to respond accordingly. Even so, it is likely that 2025-26 and medium term to 2027-28 are likely to continue to be exceptionally challenging and will require real terms reductions if forecast spending continues to grow at a faster rate than available resources. The lack of a settlement does not prevent scrutiny of spending and savings plans at this stage and it likely that any changes in the settlement following the Autumn Budget 2024 will impact on one-off measures and reserves in the final draft budget rather than materially changing spending and savings plans.

As the Council develops its detailed proposals it must continue to keep under review those key financial assumptions which underpin the Council's MTFP particularly in the context of

wider public spending and geo-economic factors. Over the previous decade the Council had to become ever more dependent on locally raised sources of income through Council Tax and retained business rates, and it is only in recent years that additional central government funding has been made available to local authorities, primarily to address spending pressures in social care (albeit at a time when the national public sector deficit has been increasing). However, there is no certainty that this additional central government funding will be baselined for future years until the local government finance settlement is announced and multi-year settlements are reintroduced.

The administration's draft budget for 2025-26 (core funded) includes £117.2m (8.2% of 2024-25 approved budget) of forecast spending growth, funding is assumed to increase by £67.5m (4.7%). The £49.8m difference needs to be closed from savings, income and changes in reserves. At this stage the difference is not fully closed largely due to outstanding issues in adult social care which are still being resolved. Spending growth and savings/income are net and include new amounts for 2025-26 as well as some partially offsetting reversals of one-offs and realignment of current/previous plans. The vast majority of the spending growth (gross) is on adult social care (£67.3m, 10.8% increase), children's social care (£16.2m, 7.2% increase) and home to school transport (£16.9m, 17.7% increase). Spending pressures on these services are common across all upper tier councils. These services currently account for 71.0% of the 2024-25 budget (excluding non-attributable costs), the net increase in the 2025-26 draft budget for these services after savings and income (including assumed share of centrally held amounts, excluding unresolved issues) accounts for 83.3% of the overall net increase, as these three services continue to account for an ever increasing share of the Council's budget.

In the Council's submission to HM Treasury in advance of the Autumn 2024 budget we highlighted that this trend of spending growth exceeding the available funding from local taxation and central government cannot continue. We urged that either funding needs to increase to better reflect spending demands or the statutory requirements on councils need to be reduced as otherwise councils' role would be reduced to solely providing care services with no scope to provide community services which help make local places vibrant for residents and businesses. Council tax increases on their own cannot be expected to solve the shortfalls in funding.

In accordance with Financial Regulations, a medium-term capital programme and financing plan is prepared on an annual basis. Where capital estimates are included, funding must be secured and approved prior to any expenditure being incurred.

Setting the annual budget is one of the most significant decisions the County Council takes each year. It sets the County Council's share of council tax and the overall resource framework in which the Council operates. The administration's budget is the financial expression of the Council's strategic priorities. The budget gives delegated authority to manage the budget to Corporate Directors and Directors within the parameters set out in the Council's Constitution and Financial Regulations. Corporate Directors and Directors are accountable for spending decisions within delegated powers reporting to the Chief Executive, and these are monitored through the Council's budget monitoring arrangements regularly reported to Cabinet. The draft budget is developed, scrutinised and ultimately approved in compliance with the following six key considerations:

A) Strategic Priorities – Strategic Statement

In 2022, KCC published [Framing Kent's Future](#) (FKF) the council's high-level strategic statement. It sets out the challenges and opportunities Kent is faced with and the actions the Council will prioritise to address them over the next four years, focussing on four key priorities. Since this strategy was approved there has been a significant shift in the financial and operating landscape.

KCC's Budget Recovery Strategy, [Securing Kent's Future](#), was agreed at a Cabinet meeting on 5th October 2023. This updated the Council's ambitions in light of the changed landscape and given the significance of adults and children's social care within the Council's budget, and that spending growth pressures on the Council's budget overwhelming (but not exclusively) come from social care, that the priority of delivering New Models of Care and Support within FKF must take precedence over the other priorities.

The 2024-25 budget was based on the revised strategic ambitions set out in Securing Kent's Future (SKF) approved by Cabinet in October 2023 which recognised the necessity of the ambition to deliver New Models of Care and Support which must take precedence over the other priorities. This creates an expectation that council services across all directorates must collectively prioritise delivering the new models of care and support objective as a collective enterprise. All of the net growth in the 2024-25 budget went into adult social care, children's care and home to school transport consistent with the revised prioritisation of the Council's strategic objectives.

This does not mean that the other objectives of Levelling Up Kent, Infrastructure for Communities, and Environmental Step Change are not still important and all work on these must stop. However, the scope of these other three objectives will have to be scaled back in terms of additional investment and funding, and management time and capacity that can reasonably be given to them. It also does not mean that we can ignore unavoidable spending in other areas of council activity but policy ambitions in these areas may have to be limited.

The administration's draft budget for 2025-26 continues to prioritise the objectives set out in SKF. All of the adult social care council tax precept is passed into social care spending (along with an appropriate share of the general precept and other general sources of funding). Other spending increases focus on unavoidable costs and all local choices are clearly linked to the Council's strategic objectives. All areas of discretionary spending have been explored for savings again linked to the Council's strategic objectives.

B) Best Value

The Council has statutory Best Value duty to secure continuous improvement having regard to economy, efficiency and effectiveness. The latest guidance explicitly states that this covers delivering a balanced budget, providing statutory services, including adult social care and children's services, and securing value for money in all spending decisions. Those councils that cannot balance competing statutory duties, set a balanced budget, deliver statutory services, and secure value for money are not meeting their legal obligations under the Local Government Act 1999. The statutory Best Value duty must frame all financial, service and policy decisions and the council must pro-actively evidence the best value considerations, including budget preparation and approval.

C) Requirement to set a balanced budget

The Local Government Finance Act 1992 requires the Council to consult on and ultimately set a legal budget and Council Tax precept for the forthcoming financial year, 2025-26. This requirement applies to the final draft budget presented for County Council approval. It does not apply to interim drafts. Whilst there is no legal requirement to set a balanced MTFP, this is considered good practice with an expectation that the financial strategy is based on a balanced plan in the medium term (albeit based in planning assumptions)

Setting the Council's revenue and capital budgets for the forthcoming year will be incredibly challenging due to the fiscal environment with the government's stated objective to adhere to limit the annual budget deficit (borrowing) and for overall debt both to be falling as percentage of GDP. These fiscal targets are likely to restrict the scope for increased central government funding for local government. The current year's budget was balanced through a significant level of planned savings, income and one-off use of reserves/capital receipts. Delivery of these savings is crucial to delivering a balanced outturn without further draw down from reserves. A similar scenario is predicted for 2025-26 and subsequent years with forecast spending growth exceeding the likely funding requiring further significant annual recurring savings and income to balance the budget. The scope for savings of the required magnitude is increasingly limited unless the statutory obligations are changed...

What is meant by 'balanced' is not defined in law and relies on the professional judgement of the Chief Financial Officer to ensure that the budget is robust and sustainable. A prudent definition of a balanced budget would be a financial plan based on sound assumptions which shows how planned spending and income equals the available funding for the forthcoming year. Plans can take into account deliverable cost savings and/or local income growth strategies as well as useable reserves.

The previous government had confirmed that the Statutory Override for the Dedicated Schools Grant deficits was extended for a further 3 years from 2023-24 to 2025-26. It is unclear at this stage whether the new government will provide a further extension. Under the Safety Valve agreement the Council has made budget provision for its contribution for 2024-25 and subsequent years in the MTFP for the duration of the agreement which together with planned actions to reduce the annual deficit and DfE contributions would see the accumulated DSG deficit cleared by 2027-28.

While there is no legal definition of a balanced budget, legislation does provide a description to illustrate when a budget is considered not to balance:

- where the increased uncertainty leads to budget overspends of a level which reduce reserves to unacceptably low levels, or
- where an authority demonstrates the characteristics of an insolvent organisation, such as an inability to pay creditors.

To avoid the risk of an unbalanced budget the Council has to be financially resilient. Good financial management is fundamental in establishing confidence in the budget and ensuring that savings plans are achievable, and the finances can withstand unexpected shocks.

The draft budget continues to include an assessment of financial risks. The 2025-26 budget also includes a new assessment of the financial resilience of the Council based on

latest CIPFA guidance on building financial resilience. Both of these measures show that the Council has some way to go to improve its financial resilience.

D) Equalities Considerations

The Equality Act 2010 requires the Council, in the exercise of its functions to have due regard to eliminate unlawful discrimination, harassment and victimisation, advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.

To help meet its duty under the Equality Act the council undertakes equality impact assessments to analyse a proposed change to assess whether it has a disproportionate impact on persons who share a protected characteristic. As part of our budget setting process an equality impact assessment screening will be completed for each savings proposal to determine which proposals will require a full equality impact analysis (with mitigating actions set out against any equality risks) prior to a decision to implement being made.

The amounts for some savings can only be confirmed following consultation and completion of an equalities impact assessment. Consequently, amounts are only planned at the time the budget is approved and can change. Any changes will be reported through the in-year budget monitoring reports which will include separate and specific consideration of delivery of savings plans.

E) Treasury Management Strategy

The Treasury Management Strategy Statement will be included as an appendix to the report for approval by full Council in accordance with the CIPFA Treasury Management Code of Practice. The Statement sets out the proposed strategy with regard to borrowing, the investment of cash balances and the associated monitoring arrangements.

The prudential indicators set out in the Treasury Management Strategy and Capital Strategy will be based on the first three years of the 10 year Capital Programme.