Facing the financial challenge

2013-14 | 2014-15 | 2015-16 | 2016-17

Approved by County Council
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medium term financial plan

2014-17

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Leader's Foreword to the Budget and Medium Term Financial Plan

Setting the budget and medium term financial plan in the face of an unprecedented additional spending pressures and significant reduction in grant income from Government remains the most critical challenge facing KCC.

However it is important to place this into the context of how successful we have been in managing this challenge to date. We have planned and delivered £269m in savings over the three financial years to 2013-14. The majority of these savings have been delivered through a sustained focus on service efficiency and good business practice.

I am delighted that this administration has managed to deliver savings on such a scale whilst also supporting front-line services.

Indeed, not only have we continued to support front-line services, but we have continued to invest to improve those services where we have needed to. For example, we have invested an additional £32m over the last 3 years in Children's Social Services, and £6.7m of additional investment in our roads to fix potholes after the severe weather during the recent winter. We have also continued with our ambitious capital programme, investing £824m over the last 3 years.

Yet we must also be realistic. Central government remains committed to eliminating the budget deficit and to reduce the overall levels of public debt. This means *at least* four more years of reduced grant income from Government. The Chancellor of the Exchequer's long-term vision is that reduced levels of spending will need to continue for much longer than this MTFP if the country is to start to live within its means. This scenario is unlikely to change significantly irrespective of the outcome of the General Election in 2015.

It is vital therefore that we prepare now for the long-term. Whilst we cannot be precise about how we will respond in 2015-16 and 2016-17, we can set out our vision of the direction of travel. We must also prepare for the significant changes to social care to be introduced through the Care Bill currently before Parliament.

We know, to meet the long-term financial challenge, we must radically rethink our approach to managing demand through forward funding preventative activities, and reconsider how we deliver our services. Whilst we will always continue to drive efficiency savings as far as we can, we know that efficiency savings will not be sufficient to meet the financial challenge we face over the long-term.

That is why in July 2013 we launched '*Facing the Challenge'*, the County Council's first corporate, whole-council 3–year transformation plan.

'Facing the Challenge' sets out how we will 'Deliver the Challenge' by placing the customer at the heart of our services. We have already embarked on the journey of reshaping the organisation (as set out in the December County Council paper) so that departments are refocused around client/customer groups, embedding efficiencies by larger departments serving the same customer in a cohesive and coherent fashion.

A greater understanding of the needs of the customers shall guide our investment in key preventative services that shall seek to both reduce demand, and reduce the cost, of our services. We shall invest in those services that are most valued by our residents and de-commission services that either are not valued or are not financially sustainable.

By engaging with the private sector, we shall adopt the very best practice available in the commercial sector and embed a more focused commercial approach into the way we conduct our business, ensuring we obtain maximum returns from investment, best value from our assets, and deliver cost-effectiveness.

As a commissioner of services, we will use the best intelligence to decide what is commissioned over the next three years and how. We will explore different options for services from in-house provision, to utilising the commercial sector, to engaging and utilising Kent's voluntary and community sector organisations. We will determine what a good service looks like, how it will operate on a day-to-day basis, and what outcomes it shall provide for the residents of Kent, and then deliver this on time and on cost.

Having adopting this approach, as set out in 'Facing the Challenge', we will be able to introduce savings, reduce demand, and increase efficiencies, however it is imperative we continue this throughout 2014 and beyond to deliver at the pace and scale necessary to meet the increasing financial challenge, which is described in this budget paper.

We have welcomed the positive response to our budget consultation, with over 3,500 residents taking the time to express their views on the priorities we should select for the future. It is encouraging to note the public have recognised the extent of the budgetary challenge facing KCC, with the majority of residents supporting a Council Tax increase in preference to a freeze for the fourth year in a row.

However, even with a modest Council Tax increase, coupled with the overall impact of funding reductions, additional spending demands, we still need to find some £80m of savings next year to balance the books (8.4% of net spend). This challenge continues to escalate in 2015-16 and it is for this reason the need is greater than ever for KCC to provide strong leadership and sensible decision-making over the next three years to ensure the Kent residents continue to receive first-class front-line services in the years to come.

Paul Carter CBE
Leader of Kent County Council

KCC Medium Term Financial Plan 2014-17

CONTENTS

		Page
Section 1	Executive Summary	1 – 8
Section 2	National Financial and Economic Context	9 – 30
Section 3	Revenue Strategy	31 – 52
Section 4	Capital Strategy	53 – 62
Section 5	Treasury Strategy	63 – 74
Section 6	Risk Strategy	75 – 88
Appendix A	Medium Term Financial Plan (Revenue)	
	(i) High Level 2014-17 Budget Summary	89 – 90
	(ii) 2014-15 Budget by new Directorate	91 – 98
Appendix B	Prudential Indicators	99 – 102
Appendix C	Annual Minimum Revenue Provision Statement	103 – 104
Appendix D	Fiscal Indicators	105 – 106
Appendix E	Corporate Risk Register	107 – 120
Appendix F	Level of Reserves	121 – 124
Appendix G	Glossary	125 – 128

KCC Medium Term Financial Plan

SECTION 1

Executive Summary

Executive Summary

National Context

1.1 We continue to be in an era of the greatest financial challenge ever faced by local government. Local government and the wider public sector must realign itself to the fiscal reality and manage spending within the overall income available. KCC has made £269 million of savings between 2011-12 to 2013-14 in response to reduced government funding and the requirement to cover additional spending demands. We are planning for the need to make further savings of a similar magnitude over the next 3 years as part of an unprecedented period of sustained reductions in public spending.

1.2 The Government has set out its aim to eliminate the budget deficit over a five year period. The annual deficit as a percentage of Gross Domestic Product (GDP) is forecast to be 6.8% in 2013-14 (compared to a peak of 11% in 2009-10) and to return to a small surplus (0.1%) by 2018-19. This is more optimistic than forecast in the March 2013 Budget Statement, an indication that the UK's economic recovery is stronger than previously predicted. Overall public sector debt is forecast to continue to rise to a peak of 80% of GDP by 2015-16 (one year earlier than March 2013 Budget) falling to 75.9% of GDP in 2018-19. However, in spite of this improvement there will still be a need further reductions in public spending from the peak of 47% of GDP in 2009-10.

1.3 The scale of the deficit reduction is driving huge change across all public services, many of which also directly impact on local government. The welfare reform agenda is likely to continue to place additional demands on local authority services as well as transferring more responsibility to local government. The Social Care Bill will also put additional strain on local authority services and at this stage we have no clear indication how this will be funded. The government has committed additional funding to further improve the integration of social care and health services and in 2015-16 we will see the introduction of the Better Care Fund which will include some funding in advance of more significant care changes from April 2016.

1.4 Significant savings are expected throughout the MTFP period and beyond. Local government's contribution is still substantial even though in the latest Autumn Budget Statement the Chancellor has protected local government from the further 1% reductions to be applied to other departments in 2014-15 and 2015-16. The Autumn Statement announced additional caps and discounts to business rates, although local government will be fully compensated at least up until 2015-16. The government has also confirmed that those authorities which froze Council Tax in the past and freeze it in the future will be fully compensated through their baseline funding allocations and will not face the "cliff-edge" of having funding withdrawn.

1.5 The overall impact is that local government will still need to make substantial changes as a result of the financial challenge but the picture is slightly more certain and secure than it was a year ago.

Local Context

1.6 In 2014-15, investments will be made by KCC in a number of essential areas, particularly in services which support the most vulnerable. Demand across a range of services continues to increase, particularly in children's and adult social care, and home to school transport, at the same time as funding from Central Government is reducing. The council also has to offset the impact of inflation on goods and services it purchases and we need to continue to invest in capital infrastructure.

1.7 The council's capital strategy is aimed at improving our infrastructure planning to ensure that we are investing in the assets we need for the future without leaving unmanageable debts. This will mean much more rigour in approving projects which meet the council's core objectives and finding alternative funding sources. Securing sufficient quality school places for the rising number of school age children in the county will be one of our highest priorities over the coming years.

1.8 The County Council has frozen Council Tax since 2010-11 but now considers that the time is right to ask residents to pay a small increase in order to partially mitigate the impact of further funding reductions and spending demands. The council does not want to increase Council Tax above the referendum threshold as the cost of holding a separate ballot would be prohibitive.

1.9 Since 2010-11 KCC has delivered significant budget savings without having to make the sort of cuts to services seen in some local authorities. KCC's focus has been to deliver front-line services in a cost effective way and to maximise efficiency savings from reshaping of the size and structure of the council. Our approach will be to continue to avoid direct cuts to services wherever possible, and instead deliver transformational change which continues to provide, and further improve, the quality of service delivery within the reduced monies now available. A key aspect of this will involve managing down the demand for KCC services whilst still protecting those for the most vulnerable.

1.10 KCC's budget strategy over the next few years will therefore revolve around:

- **Prevention** - we will move away from expensive reactive service provision that responds once problems have already occurred, to investing in preventative models that not only deliver better outcomes, but are also more cost effective. The new council structure will remove overlaps between existing services with improved prevention outcomes. This preventative approach will also require much closer working with health, the voluntary sector, other Councils and local communities.

- **Productivity -** we must deliver a step change in the productivity of our services and staff through greater integration around our key client groups and investing in our back office support systems and procedures to release resources to the front line. Service users should also see the benefit of improved productivity through much quicker access to services.

- **Procurement** – a key challenge will be to introduce the best business and service practice found across the private sector into KCC – with particular regard to improving how we procure goods and services, not just in regards to how we scale-up contracts, but also how we scale-down contracts to support localism and innovation.

- **Partnership** – KCC does not operate in isolation and to deliver our budget strategy we must have effective partnerships so that prioritisation, productivity and prevention are driven not just within KCC but intelligently across all Kent public services. This will involve not only ensuring that there is a strong and shared partnership vision, but increasingly jointly commissioning and integrating services across public services.

1.11 Despite the difficult financial climate we have been able to make substantial improvements to the quality of children's services. This has been recognised by OfSTED which has now removed all improvement notices. Having tackled the urgent quality issues we now need to focus attention on putting children's services on a more sustainable financial footing without risking the quality of the service.

1.12 KCC Adult Social Services (in line with many departments nationally) is experiencing a slowdown in demand pressures which goes against the underlying demographic trend of an ageing population. This is due to a number of factors including the benefits of early intervention and preventative programmes. This is a welcome development and we aim to build on this through further transformation. This will put an even greater emphasis making sure clients are assessed quickly and accurately and given the right care packages to enable them to live independent lives for as long as possible. We will also be seeking better procurement of services, increased prevention and improved partnership with the NHS to deliver better outcomes at lower cost.

1.13 We will also seek to continue to make the improvements across all KCC services and focus on those services which are most valued by KCC residents. We have recently undertaken a thorough budget consultation exercise and our proposals reflect the views expressed. In particular we have looked to increase the efficiency savings and make further reductions in reserves so that we can protect those services for the most vulnerable and those services which make the most difference to people's day to day lives.

Treasury Strategy

1.14 Treasury management remains a key strategic issue for the Council, not least because of low interest rates and limited investment opportunity. The latest Treasury Management Strategy is included in Section 5, subject to approval by the County Council at the same time as the 2014-15 Budget and 2014-17 MTFP.

Risk Strategy

1.15 Effective risk management will be essential in ensuring we can deal with the difficult times ahead. The council needs to be become less risk averse by managing risks more effectively. Improved links between risk management and the performance management, business planning and business intelligence functions are aimed at ensuring risk management supports the delivery of organisational priorities and objectives. The Risk Strategy can be found at Section 6.

Appendices

1.16 The MTFP continues to include a number of appendices that cover key aspects of the Authority's financial planning framework.

Council Tax

1.17 In this Budget and MTFP for 2014-17 we are proposing a modest increase in Council Tax without triggering a referendum. This follows three successive years of freezing Council Tax and means the KCC element for a Band C property would rise from £931.36 per annum to £949.92. This increase is still below the rate of inflation.

1.18 The majority of those responding to the budget consultation (71%) supported some form of Council Tax increase in order to protect front-line services. Whilst the funding arrangements for local authorities do not allow us to explicitly identify which services are funded from the Council Tax increase we will be acting on the feedback from consultation that residents would like more information on how Council Tax funds the whole range of KCC services.

1.19 The total Council Tax households will have to pay will be effected by decisions from other authorities in Kent including District Councils, Police Authority, Fire and Rescue and where applicable Parish and Town Councils. This will include decisions on the levels of non-mandatory discounts and exemptions. We are anticipating a small increase in Council Tax receipts, due to continued growth in the number of Council Tax payers in the County.

Revenue Medium Term Financial Plan Format

1.20 We have made some further improvements to the presentation of the MTFP. In particular the financial appendices now provide:

a) A high level three year budget summary showing the key changes in funding and spending for each year.

b) A more detailed 2014-15 budget summary which shows the planned changes for the new directorate structures approved by County Council on 12th December and detailed savings proposals.

We have removed the traditional Portfolio by Portfolio forma so that the MTFP more closely resembles the budget monitoring headings reported throughout the year to Cabinet and Cabinet Committees.

Capital Budget and Format

1.21 Our capital programme aims to strike a balance between ensuring that we meet our strategic priorities and vision whilst at the same time ensuring schemes represent value for money and maximise value from the authority's asset stock. In particular we want to aim for schemes which help reduce the authority's running costs through invest to save projects, support Kent residents and help with the economic regeneration within the county.

1.22 Capital plays an important role in delivering long term priorities as it can be targeted in creative and innovate ways. However capital is not unlimited or “free money” – our capital funding decisions can have significant revenue implications. Every £10m of prudential borrowing costs approximately £1m per annum in financing costs (revenue) for 25 years. This is in addition to any on-going maintenance and running costs associated with the project itself. KCC has resolved that no more than 15% of the revenue budget will be spent in servicing debt related to the capital programme. A number of our capital schemes rely on grants from Government departments, in many cases e.g. schools basic need, we are still awaiting these grant announcements.

1.23 As with the revenue MTFP the most appropriate presentation is in the same new directorate order. The format for showing the individual schemes within each directorate has been continued from last year – it now combines the three year plan (2014-17) and details the funding of each project over this period.

1.24 Within each directorate we have distinguished between spending on rolling programmes (such as enhancement and modernisation of assets); and spending on individual projects. For rolling programmes we are showing the planned spend for the three year period of the MTFP. For individual projects the entire project cost is shown.

Conclusion

1.25 The Revenue and Capital MTFP set out in this document represents the culmination of nearly a year’s work in developing how the Council can respond to the unique financial challenge of reduced Government funding while at the same time there is increased demand for council services and inflation increases. We have sought to keep Council Tax levels realistic taking account of the on-going demands on household budgets and the financial pressures the authority is facing. We have also had to take into account the improving economic position.

1.26 If the economic recovery does not continue then the indicative position for 2015-16 and 2016-17 could get worse and we could face further additional spending demands and/or further funding reductions necessitating greater savings.

KCC Medium Term Financial Plan

SECTION 2

National Financial and Economic Context

National Financial and Economic Context

Introduction

2.1 KCC's financial and service planning takes place within the context of the national economic and public expenditure plans. This part of the proposals explores that context and identifies the broad national assumptions within which the budget and MTFP have been framed.

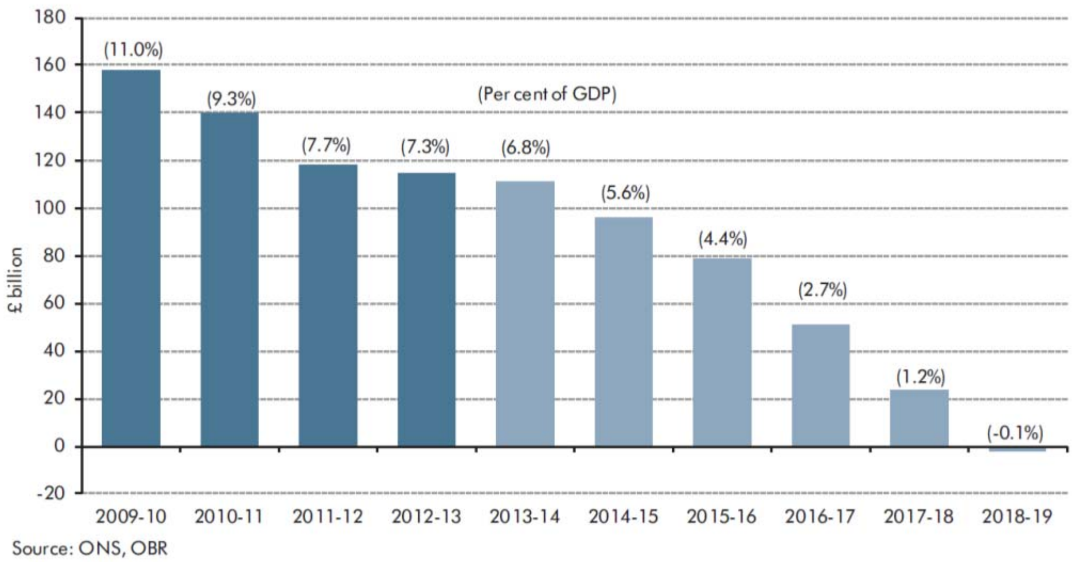
The Economy

2.2 The Government's economic strategy as set out in the June 2010 Budget remains committed to reducing the national budget deficit, restoring economic stability, equipping the UK to succeed in the global market and to rebalance the UK economy. In particular the Chancellor set targets in his first budget to eliminate the structural deficit and for debt as a percentage of GDP to be falling by 2015-16.

2.3 Since the original 2010 budget statement economic recovery has been initially slower and more uneven than originally forecast. As a result the original targets to eliminate the deficit and to reduce debt as a percentage of GDP are highly unlikely to be met by 2015-16, even though some progress has been made on reducing the deficit.

2.4 The latest forecast by the Office for Budget Responsibility (OBR) is that the budget deficit will be eliminated by 2018-19 if the Government adheres to their current plans. This is demonstrated in chart 1 taken from the OBR December 2013 "Economic and fiscal outlook".

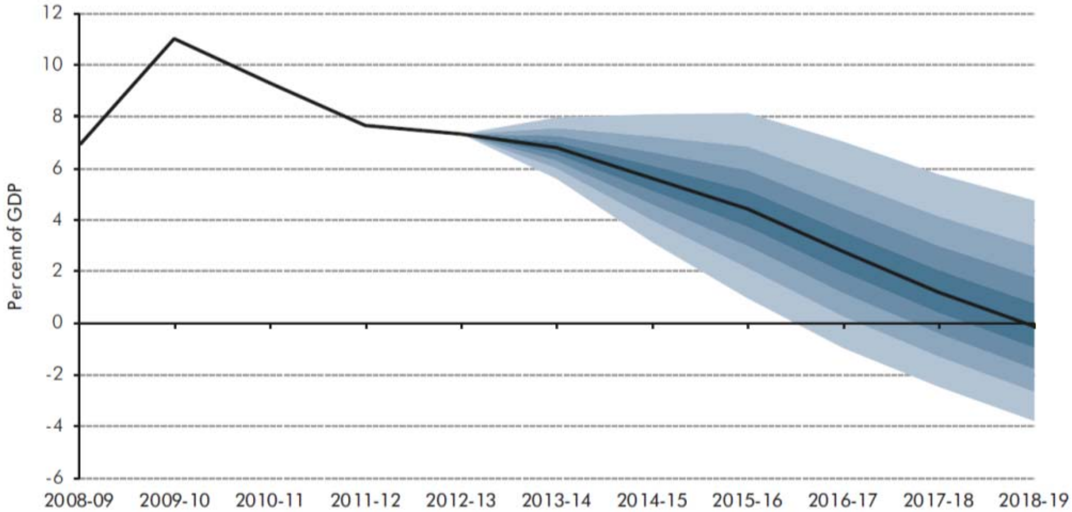
Chart 1



2.5 The OBR recognises that forecasts are uncertain and applies a "fan chart" showing the probability of variations from their main forecast.

These variations are derived from the pattern of previous forecast errors being a reasonable guide to future forecast errors. The fan graph for variations in the budget deficit forecast is shown in chart 2.

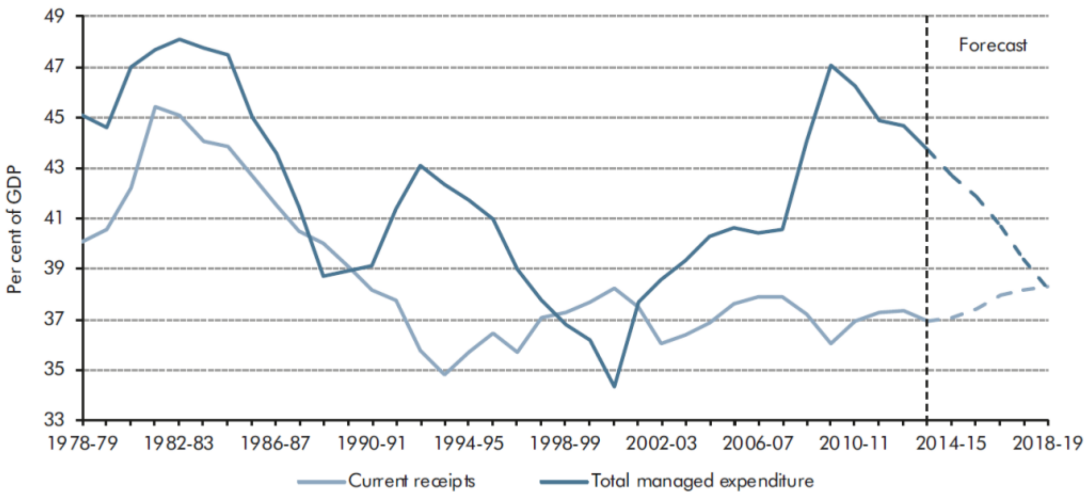
Chart 2



Source: ONS, OBR. Excludes Royal Mail pension fund and APF transfers

2.6 The relationship between reduced spending and increased tax revenues within the OBR forecast is shown in chart 3. This chart provides a clear demonstration of the 80/20 rule the Chancellor set in his 2010 Emergency Budget i.e. that the deficit would be cleared 80% from spending reductions and 20% from tax revenues. This chart is important in setting the council's medium term financial plan as it shows the continued downward trend in spending necessary to achieve a balanced budget.

Chart 3

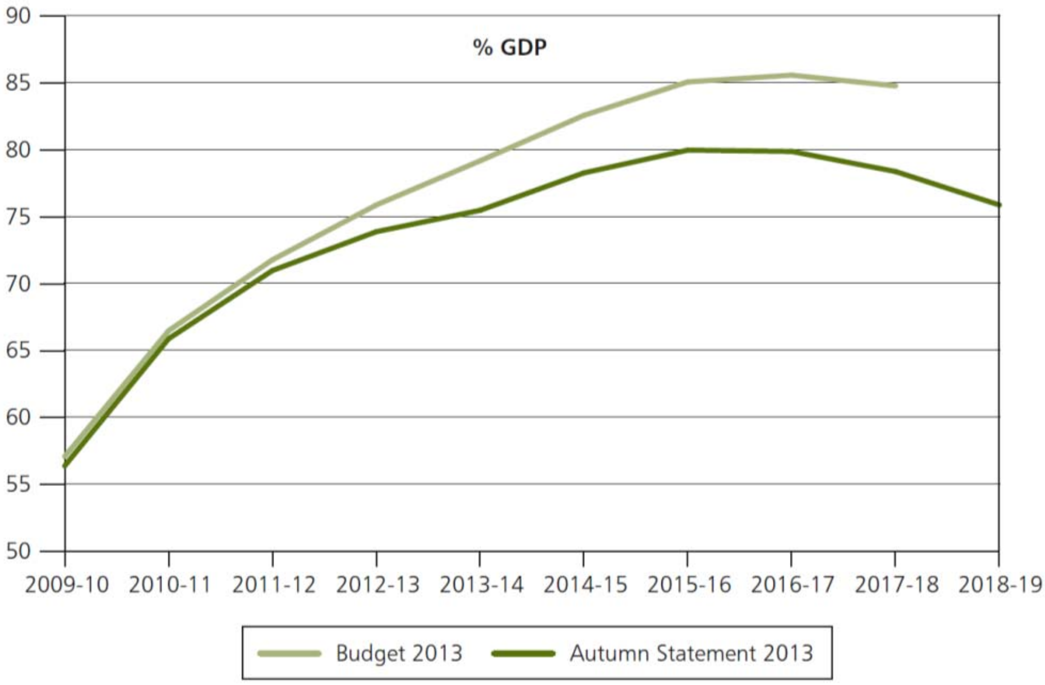


Source: ONS, OBR. Excludes Royal Mail and APF transfers.

2.7 The forecast for the deficit reduction will be influenced by a combination of economic recovery (GDP growth), public spending reductions and increased tax yields. This is a highly complicated mix with public spending only part of the equation, and inevitably performance of the whole economy in delivering GDP growth remains the most important facet.

2.8 The overall level of public debt as a % of GDP is still rising (*due to the current level of the budget deficit being in excess of the overall growth in the economy*). In his Autumn Budget Statement 2013 the Chancellor acknowledged that the target of reducing overall debt as % of GDP by 2015-16 would not be achieved, and would peak at 80% in 2015-16. This peak is lower than forecast in March 2013 Budget Statement and debt as a % of GDP is now forecast to start to reduce in 2016-17 (a year earlier than predicted in the March 2013 budget statement). This is demonstrated in chart 4 taken from the Autumn Statement.

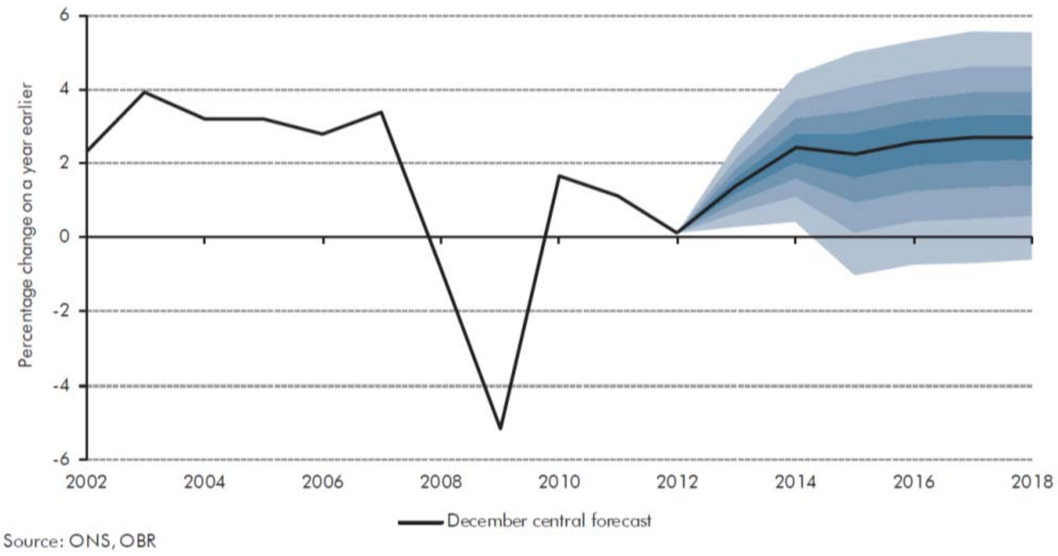
Chart 4



Source: Office for National Statistics and Office for Budget Responsibility.

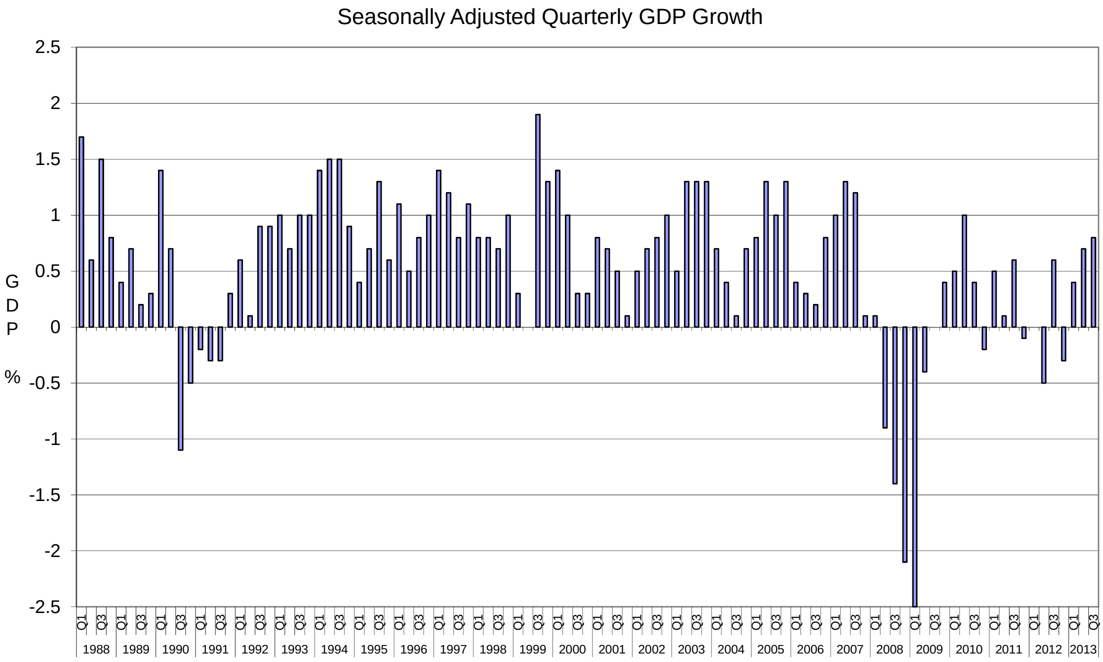
2.9 The UK economy picked up more strongly during 2013 than was previously expected by either the OBR or the Chancellor in his March Budget Statement. The OBR forecast for the annual rate of growth in 2013 is 1.4% (up from 0.6% earlier in the year). However, the OBR has concluded that this surprise growth is unlikely to be sustainable and forecasts that growth will not be as strong in 2014 as it was in 2013. Chart 5 shows the OBR fan graph for economic growth from its December 2013 report (as with the deficit reduction graph the fan shows the probability of variation)

Chart 5



2.10 Chart 6 shows the quarterly UK output (Gross Domestic Product – GDP) since 1988. This quarterly performance gives an early indication of variations from the forecasts. As already indicated economic recovery is key to the government meetings its deficit reduction targets and therefore future spending plans.

Chart 6



2.11 The government has set a target of 2% for the underlying rate of inflation as measured by the Consumer Price Index (CPI). The annual rate of inflation has been running higher than this throughout 2013 and is now not forecast to meet the target until 2016-17.

2.12 CPI in the year to September 2013 showed an increase of 2.7% (no change on August), RPI was 3.2% (down 0.1% on August). The September indices are important as they are used in the "triple lock" arrangements for state pensions (greater of increase in average earnings/CPI/2.5%). Disability benefits and carers allowances are also increased in line with September CPI (other benefits will only be increased by 1% in 2014-15 and 2015-16 under the provisions of the Welfare Benefits Up-rating Act 2013). Normally business rates are increased in line with September RPI but the Chancellor has announced alternative arrangements in his Autumn Statement (see below).

2.13 The October indices showed a slowdown in the annual rate of increases (CPI 2.2% and RPI 2.6%). However, some of this slowdown is a mirror image of the above average increases in October 2012 following the introduction of increased student tuition fees. The monthly variations in inflation indices can often be difficult to explain as the index reflects the annual change on the previous year and the tuition fee issue is a good example how previous year can have an impact on the current index.

2.14 The latest unemployment rate stands at 7.6% of the economically active population with 2.47m people unemployed in the UK in the quarter from June to September 2013 (down 48,000 on the previous quarter). This is the lowest level for more 3 years. The percentage claiming benefits is 3.9%. In total 29.95m people were in employment (71.8% of the population aged 16 to 64). The Governor of the Bank of England has stated that the Monetary Policy Committee (MPC) will not consider varying the current 0.5% Base Rate until unemployment is below 7%.

2.15 The latest release from the Office for National Statistics shows that average weekly earnings in the private sector rose by 1.1% in the year to September while those in the public sector fell by 0.4%.

- Average earning in private sector £438 excl. bonuses (up 1.1%)
- Average earning in private sector £473 incl. bonuses (up 1.1%)
- Average earning in public sector £482 excl. bonuses (down 0.1%)
- Average earning in public sector £487 incl. bonuses (down 0.4%)

If publicly funded financial corporations are excluded then the average public sector pay reduces to £476 a week (only £3 more than private sector). 80% of workers work in the private sector.

The Autumn Budget Statement

2.16 The Chancellor of the Exchequer made his Autumn Statement on 5th December 2013. In the past the statement has usually afforded the opportunity for the Chancellor to launch the latest economic forecasts and recommendations from the independent Office for Budget Responsibility (OBR). As with the 2012 statement the Chancellor took the opportunity not only to respond to the economic forecasts, but also to announce some tax and public spending changes.

2.17 As already outlined in paragraphs 2.4 to 2.9 the economic forecasts are slightly more encouraging than those in the March 2013 Budget statement and targets are now forecast to be reached a year earlier (but still later than originally set out in the 2010 Emergency Budget Statement). Table 1 summarises the key economic indicators from previous Budget Statements and latest Autumn Budget Statement (the 2013 Autumn Budget Statement deficit figures are adjusted to exclude the excess cash held by the Bank of England under the Asset Purchase Facility).

Table 1	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Budget Deficit (£bn)										
June 2010 Budget	154.7	149.1	116	89	60	37	20			
March 2012 Budget		136.8	126	120	98	75	52	21		
March 2013 Budget				114	108	97	87	61	42	
December 2013 AS forecast				115	111.2	96	78.7	51.1	23.4	-2.2
Debt as % of GDP										
June 2010 Budget		61.9	67.2	69.8	70.3	69.4	67.4			
March 2012 Budget		60.5	67.3	71.9	75.0	76.3	76.0	74.3		
March 2013 Budget			71.8	75.9	79.2	82.6	85.1	85.6	84.8	
December 2013 AS forecast				73.9	75.5	78.3	80.0	79.9	78.4	75.9
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Economic Growth % (GDP)										
June 2010 Budget	-4.9	1.2	2.3	2.8	2.9	2.7	2.7			
March 2012 Budget		2.1	0.8	0.8	2.0	2.7	3.0	3.0		
March 2013 Budget			0.9	0.2	0.6	1.8	2.3	2.7	2.8	
Sept 2013 ONS Actual	-5.2	1.7	1.1	0.1						
December 2013 AS forecast				0.1	1.4	2.4	2.2	2.6	2.7	2.7
Inflation % (CPI)										
June 2010 Budget	2.1	2.7	2.4	1.9	2.0	2.0	2.0			
March 2012 Budget		3.3	4.5	2.8	1.9	1.9	2.0	2.0		
March 2013 Budget			4.5	2.8	2.8	2.4	2.1	2.0	2.0	
Sept 2013 ONS Actual	2.2	3.3	4.5	2.8						
December 2013 AS forecast				2.8	2.6	2.3	2.1	2.0	2.0	2.0

2.18 The 2013 Autumn Statement was heralded as fiscally neutral. The impact of the spending and tax policy changes are summarised in table 2 (spending reductions/tax increases shown as positives and spending increases/tax reductions shown as negatives)

Table 2	2013-14 £m	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	Total £m
Departmental Spending	1,980	1,120	1,040				4,140
Households	-10	-1,075	-2,010	-1,350	-1,435	-1,575	-7,455
Young People and Support for Work	25	-215	-975	-495	-520	-530	-2,710
Business Taxes		-865	-110	350	270	255	-100
Enterprise and Housing		-50	-280	-25	5	10	-340
Energy and Environment		-505	-520	-30	-55	-75	-1,185
Avoidance, tax planning and fairness	20	955	2,215	1,205	1,220	1,260	6,875
Fraud, Error and Debt	-5	560	755	145	285	270	2,010
Other	10	-60	-190	-210	-340	-470	-1,260
Total	2,020	-135	-75	-410	-570	-855	-25
of which spending amounts to	2,000	-45	-565				1,390
of which tax amounts to	20	-90	490	-410	-570	-855	-1,415

2.19 The departmental spending adjustments in 2013-14 are derived from a forecast in-year underspend of £7bn, the Autumn Statement announced a £1.1bn reduction in the Reserve provision as a down payment on these under spends. The remainder of the 2013-14 figure relates to £0.9bn adjustment in Special Reserve provision to reflect planned reductions in personnel and equipment deployed in Afghanistan.

2.20 The 2014-15 and 2015-16 departmental amounts represent further 1% reductions in budgets over and above the reductions already announced in Spending Reviews. Local Government has been protected from these further reductions and there will be no changes to the amounts previously announced and reflected in the Medium Term Financial Plan. The Autumn Statement confirmed that local authorities will also be allowed some flexibility to use proceeds from asset sales towards one-off costs of service reforms. The Autumn Statement also announced the creation of a Children's Services Innovation Fund (details to be announced in advance of the March 2014 Budget Statement) and a benchmarking tool for Children's Services.

2.21 The main changes under the "Households" heading include the ability to transfer up to £1,000 of personal tax allowance between spouses and civil partners for married couples from 2015-16; the introduction of free school meal for all infant age children from September 2014; and the cancellation of the planned fuel duty escalator from September 2014.

2.22 The main changes under the "Young People and Support to Work" heading include the abolition of employer National Insurance Contributions for employees under the age of 21 from April 2015; the abolition of the cap on student numbers in higher education; a new package of Help to Work measures to help long-term unemployed after 2 years on the Work Programme.

2.23 The main changes under business Taxes include changes in the amounts business pay in business rates. These changes are funded and do not result in a reduction in the amount available to local government. Changes to bank levy from January 2014 and January 2015 are also included under this heading. The changes in business rates are:

- £1,000 discount for all retail, food and drink premises with a rateable value (RV) below £50,000 in 2014-15 and 2015-16
- An extension in the doubling of Small Business Rate Relief (SBRR) for a further year in 2014-15 (applies to business with RV of less than £12,000)
- The RPI uplift for all businesses to be capped at 2% for one year from April 2014 (the increase would otherwise have been 3.2%). The 2 % cap is applied to the business rate multiplier for smaller businesses (RV up to £18,000) and the cap will be 2.3% for larger businesses.

- Relaxation in SBRR arrangements to allow small businesses which expand to retain the relief on one property for an additional year from April 2014
- A new 50% discount for business which reoccupy premises between April 2014 and March 2016 that have been empty for more than a year
- The RPI uplift in business rates capped to 2%

2.24 The main change under "Enterprise and Housing" will allow greater flexibility over the use of Housing Revenue Accounts. The Autumn Statement also announced that following consultation earlier in the year that funds would not be top-sliced from local authority New Homes Bonus grants to transfer to Local Enterprise Partnerships (LEPs) for Local Growth Fund. The statement confirmed that these growth funds would amount to £2bn per annum from 2015-16 but did not include detail of how this will be funded. The statement also confirmed that an additional £1bn would be available for a 6 year programme to fund infrastructure works to unlock new large housing sites.

2.25 The main changes under "Energy and Environment" includes a £12 per annum rebate on every domestic electricity bill for the next 2 years, and energy efficiency grants for new home buyers and landlords.

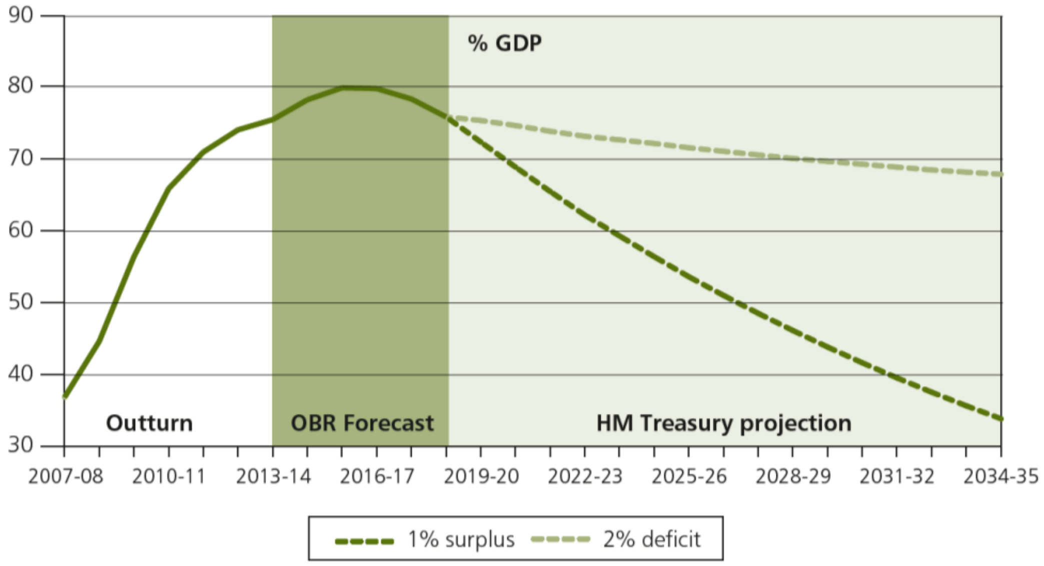
2.26 The Autumn Statement included a wide range of measures to reduce the incidence of tax avoidance, fraud and error. This included an announcement to establish a Single Fraud Investigation Service.

2.27 The Autumn Statement confirmed that the Government intends to set the Council Tax referendum limit at 2% for 2014-15 and 2015-16. The statement also confirmed that a grant equivalent to 1% increase would be available in each of these years for council's freezing or reducing Council Tax. A new national 50% discount will be applied on family annexes where extended families live together in properties which are currently valued separately. Local authorities will be compensated for the impact on the local tax base.

2.28 The Autumn Statement also set out the Coalition Government's vision for public spending beyond the current Spending Round for 2015-16. This anticipates the need for the further reductions in 2016-17 and 2017-18 of a similar magnitude to the annual reductions which have been made to date in order to meet the deficit reduction target. The fiscal assumption for 2018-19 is that public spending would be "flat" in real terms. This vision does not envisage a boom in public spending once the deficit has been eliminated.

2.29 The statement set out the long term financial consequences on the overall level of debt if public spending were to return to a small annual deficit or continue on the path of a small annual surplus. Chart 7 shows these projections

Chart 7



Source: Office for National Statistics, Office for Budget Responsibility and HM Treasury.

2.30 The overall package within the Autumn Statement reaffirms the government's commitment to meeting its fiscal mandate and rebalance economy; to stimulate economic growth; to equip the economy and UK workforce to succeed in the global market place; to invest in infrastructure and increase the supply of new homes (and continue to help more people to buy their own home); and deliver a fairer society which rewards employment and investment, and tackles inequities in the tax system.

KCC's assessment of the economic position

2.31 The general state of the economy is an important factor in setting the County Council's budget and MTFP. The previous budget and MTFP recognised that the economy had emerged from recession but that recovery was slower and more uneven than anticipated and economic activity had not yet returned to the pre 2008 levels. This MTFP recognises that the recovery has been stronger in 2013-14 but there are still substantial reductions required in public spending in general (including local authority spending) if the government is to meet its fiscal targets.

2.32 The County Council recognises that household budgets continue to be stretched and in many cases income levels have not kept pace with inflation. However, the council also sees some improvement in consumer confidence and a general increase in consumer spending. The cabinet proposed in its budget consultation launched in November

2013 that the County Council's element of Council Tax should be increased up to the 2% referendum limit (1.99%) following three years of freezes.

2.33 In proposing this increase Cabinet Members recognised that any increase would be difficult for some families (consistently around a quarter of respondents to the budget consultation sought a further freeze). However, Cabinet Members also recognised that a larger number of respondents supported a small increase if this meant some vital services could be protected. Cabinet Members have recognised that larger increases which would require a referendum would not be appropriate or are unlikely to be supported by Kent residents.

2.34 Levels of inflation continue to present additional spending pressures for the Council. Recent reductions in fuel prices and the cancelling of the fuel duty levy should reduce pressures on transport budgets, however, inflationary pressures on energy and other commodities continue to add to the Council's spending demands. Whilst the Council will continue to find innovative ways to save on energy budgets to offset inflationary pressures, we are wary of the impact on a number of other council services, particularly external contracts. The main element of these contracts relate to levels of pay rather than commodity prices, and while the Council embraces the Government's policy of pay restraint in the public sector, we cannot be immune to the impact of general inflation on our own staff or staff employed by contractors.

2.35 Generally unemployment in the county is below the national average (2.5% claiming benefits) compared to the latest ONS statistics set out in paragraph 2.14. However, even though unemployment is falling in all districts it is still above the national average in 4 districts. The Council is also concerned about high levels of youth unemployment (above average in 5 districts) and through our "Kent Jobs for Kent Young People" programme we will continue to look to generate training and employment opportunities in the county.

2.36 The Council continues to be concerned about the impact of welfare benefit restrictions and changes. Local schemes for Council Tax Support were introduced at the start of this year and generally seem to be working well, but need to be kept under review. In particular most districts will need to increase the contribution from working age recipients from 8.5% to 18.5% following the one-off transitional arrangements in 2013-14. We will also need to keep under review the impact of any benefit changes, especially the introduction of Universal Credit, and knock on consequences for County Council services.

2.37 The County Council has embraced the additional responsibility from localising the Social Fund to help the most vulnerable who need short term or emergency support. We have developed the local scheme so that we can target resources to those in the most need and they get the right support they need (with cash payments only available as a last resort).

2.38 Overall the Council recognises the need to tackle the budget deficit and the imperative for reductions in public spending. We intend to manage these through genuine efficiency savings and by transforming the way we provide essential front-line services so that they are available when people most need them. Through the transformation agenda we are aiming to deliver better outcomes and improved life opportunities for individuals at less cost to public spending. As part of the budget proposals we will continue to use previous year's underspends in order to protect front-line services, although we have to recognise this only provides a short term solution and we will need to replace this with long term sustainable actions.

2.39 The Council will continue to put a high priority on stimulating economic growth in the County so that Kent residents and employers are in a position to derive maximum benefit from economic recovery.

Local Government Expenditure

2.40 The outcome of the Spending Round 2013 (SR2013) was announced on 26th June 2013. This set out the total departmental expenditure limits (DEL) for 2015-16. The Local Government DEL for 2014-15 is based on the previously announced in the Spending Review 2010, amended for subsequent announcements e.g. spending for local government and other government departments was subject to a further 1% reduction for 2014-15 following announcement in the Chancellor's March 2013 Budget Statement. Table 3 below shows the spending review/round totals for 2013-14 to 2015-16. The baseline for 2013-14 was recalculated following the transfer of Council Tax Support and other changes to local government settlement as described in the 2013-15 MTFP.

Table 3	2013-14 £bn	2014-15 £bn	2015-16 £bn
Headline Departmental Total			
SR 2010	24.2	22.9	
March 2012 Budget	23.8	22.2	
March 2013 Budget (before transfers)	23.9	21.7	
SR 2013 (after transfers)	27.9	25.6	23.5
Baseline Funding for Local Authorities			
SR 2010	23.2	21.9	
March 2013 Budget (before transfers)			
Recast to reflect transfers	26.1	23.9	
SR 2013		23.6	20.5

2.41 The reduction in the 2014-15 settlement in table 2 was a consequence of the additional 1% reduction in DEL announced in the March 2013 Budget Statement, and was largely as we anticipated. This equates to a reduction in KCC's baseline funding assessment of approx. £2m for 2014-15 (this is covered in more depth in the Revenue Strategy section). The reduction for 2015-16 as a result of the SR 2013 announcement of a headline of 10% in real terms (8.2% cash) was rather more complex than it first appeared. It transpired that this reduction is netted down by additional funding for specific initiatives and the reduction in the baseline funding assessment for local authorities was 13.1%.

2.42 The specific initiatives which were included within the overall spending total of £23.5bn for 2015-16 included:

- £100m Efficiency and Collaboration Fund
- £118m to replace Independent Living Fund
- £335m for Social Care new burdens
- £200m for troubled families
- £30m Fire transformation fund

The £23.5bn also includes the amounts top sliced from the local authority baseline to fund the growth in New Homes Bonus Grant and the safety net under the local share of business rates. It also includes a number of other grants which are allocated separately by the Department for Communities and Local Government (DCLG). The overall impact of these is that £3bn of funding within the DCLG DEL is allocated outside the main baseline allocations under the new funding model. This represents a significantly increased proportion of DCLG budget for local government to be allocated outside the main settlement.

2.43 The Autumn Budget Statement confirmed there would not be any further reductions for local government in 2014-15 or 2015-16 in addition to the reductions already announced and set out in table 3. We do not have spending review announcements beyond 2015-16 although the Chancellor has indicated that reductions of a similar magnitude to recent years will be needed if the government is to meet its fiscal target of eliminating the budget deficit.

2.44 CLG resource also includes funding for the Council Tax Freeze Grant. The original 2011-12 Council Tax Freeze Grant has been added to the baseline funding for individual authorities. This element of the baseline is largely protected from the overall reductions. The freeze grant for 2012-13 was one-off funding. The freeze grant for 2013-14 was allocated as a separate grant in that year but has been built into the baseline from 2014-15. It has also been confirmed that freeze grants for 2014-15 and 2015-16 will be built into the baseline for those authorities taking up the freeze offer.

Local Government Finance Settlement

2.45 The provisional Local Government Finance settlements for 2014-15 and 2015-16 were announced on 18th December 2013. This provides details of the baseline allocations for individual authorities. The announcement included the main settlement from Department for Communities and Local Government as well as grants from Department for Education (DfE) and Department of Health (DoH). The final settlement was announced on 5th February, this was largely the same as the provisional settlement although there was a slight increase in the Revenue Support Grant for all authorities as more funding previously held back was returned. There were also minor changes in the New Homes Bonus allocations for some authorities which altered the amount of New Homes Bonus adjustment for all authorities. These changes were included in the final motion presented to County Council on 13th February.

2.46 The DCLG settlement included the baseline calculations for 2014-15 and 2015-16 under the new funding arrangements introduced in 2013-14. This included the levels of revenue support grant (RSG) and the business rate tariffs and top-ups for individual authorities. The settlement is subject to a 4 week consultation period from 18th December until 15th January.

2.47 The overall amount available for the baseline Settlement Funding Assessment (SFA) has changed since the original provisional settlement announcement in February 2013 and consultation issued in the summer. In particular the 2013-14 freeze grant has now been built into the baseline from 2014-15 (a year earlier than planned) and the previously separate Efficiency Support for Sparse Areas has also been rolled into the baseline. Building the freeze grants into the baseline ensures that those authorities which took up the freeze grant are not penalised in future spending round settlements.

2.48 The final settlement for 2014-15 and provisional settlement for 2015-16 also have an additional £100m compared to previous versions as the amount top-sliced to fund the growth in the New Homes Bonus (NHB) grant has been reduced. The excess amount top-sliced was repaid as an in year adjustment grant and thus this is not additional money but simply an increase in the amount paid through RSG with a consequential decrease in the amount of NHB adjustment grant. Table 4 sets out all the amounts in the Settlement Funding Assessments for all local authorities between 2013-14 to 2015-16 (including the changes to previous provisional settlement and consultation).

Table 4	2013-14			2014-15			2015-16		
	RSG	Business Rate	Total	RSG	Business Rate	Total	RSG	Business Rate	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Original Settlement February 2013	15,175.4	10,898.6	26,074.0	12,624.0	11,232.8	23,856.9			
Consultation Summer 2013									
Estimated NNDR multiplier					21.1				
1% Reduction in March Budget Statement				-218.9					
Increased hold back for NNDR Safety Net				-45.0					
Total				12,360.2	11,253.9	23,614.1	8,949.8	11,569.7	20,519.5
Provisional Settlment December 2013									
2013-14 Council Tax Freeze	174.0			174.0			174.0		
Effiicency Support for Sparse Areas	8.5			9.5			9.5		
Impact of limiting NNDR multiplier to 2% (2.76%)					-122.0			306.7	
1% Reduction in March Budget Statement				-218.9					
Increased hold back for NNDR Safety Net				-45.0					
Reduced hold back for NHB				100.0			100.0		
Estimated returned funding				28.0					
	15,357.9	10,898.6	26,256.4	12,671.6	11,110.9	23,782.5	9,233.3	11,417.5	20,650.8

2.49 Table 4 illustrates the impact on the local government SFA of the announcement to limit business rate increases to 2% in the Autumn Budget Statement. Previously consultation in the summer was based on an increase of 3.26% for 2014-15 and 2.8% for 2015-16. These have now been reduced to 1.95%[1] for 2014-15 and 2.76% for 2015-16.

2.50 The local share of the business rate in 2015-16 in table 4 is derived from the revised total for 2014-15 (£11.11m) inflated by 2.76%. This cannot easily be compared to the figure included in the original consultation (£11.57m) as the increases for both 2014-15 and 2015-16 need to be recalculated. Local government will be compensated for this impact on business rates via a separate grant, details of which were not announced at the time of the final settlement (although we have included an estimated figure in the final draft budget and MTFP).

[1] Due to a technicality which requires that the NNDR multiplier can only be calculated to 3 decimal places the rate for small businesses will only increase from 0.462 to 0.471 under the 2% announcement. The provisional multiplier for 2015-16 has been estimated at 0.484 giving a reduced increase of 2.76% for 2015-16

2.51 The SFA forms the baseline of the new funding arrangements. This includes the RSG to be paid to local government from the centrally retained share of business rates as well as the tariffs and top-ups under the business rates retention arrangements (for more detail on the calculation of tariffs and top-ups see 2013-15 MTFP or section 3 of this year's document).

2.52 The year on year changes in RSG and business rate elements for different classes of authority are set out in table 5 below. The overall reductions are slightly less than previously identified as a result of the funding rolled into the new arrangements, the reduced business rate multiplier and reduced top-slice for NHB grant. As already identified these will be reflected by changes in the other affected grants and the overall position will be neutral. When the impact on other grants is factored in the changes for different classes of authority will be the same as those set out in consultation in the summer.

Table 5	SFA Total	RSG	Business Rate		Change in	
			Baseline	Top-up / (Tariff)	RSG	SFA
	£m	£m	£m	£m		
2013-14						
Shire Counties	5,911.9	3,582.3	2,329.5	1,664.4		
London Boroughs	4,859.2	2,927.8	1,931.4	13.2		
Metropolitan Districts	6,778.3	4,080.2	2,698.1	783.8		
Unitary Authorities	5,471.3	3,297.0	2,174.3	13.8		
Shire Districts	1,263.8	763.0	500.8	-2,321.5		
Other	1,971.9	707.5	1,264.5	-143.2		
Total	26,256.4	15,357.9	10,898.6			
2014-15						
Shire Counties	5,407.9	3,033.0	2,374.9	1,696.9	-15.3%	-8.5%
London Boroughs	4,355.4	2,386.4	1,969.0	13.5	-18.5%	-10.4%
Metropolitan Districts	6,095.3	3,344.7	2,750.6	799.1	-18.0%	-10.1%
Unitary Authorities	4,930.4	2,713.8	2,216.6	14.0	-17.7%	-9.9%
Shire Districts	1,093.7	583.2	510.6	-2,366.7	-23.6%	-13.5%
Other	1,902.8	613.7	1,289.1	-145.9	-13.3%	-3.5%
Total	23,785.6	12,674.8	11,110.9		-17.5%	-9.4%
(memo two tier total)					-16.8%	-9.4%
2015-16						
Shire Counties	4,717.9	2,277.4	2,440.5	1,743.7	-24.9%	-12.8%
London Boroughs	3,727.1	1,703.7	2,023.4	13.8	-28.6%	-14.4%
Metropolitan Districts	5,207.8	2,381.2	2,826.6	821.1	-28.8%	-14.6%
Unitary Authorities	4,236.1	1,958.3	2,277.8	14.4	-27.8%	-14.1%
Shire Districts	924.4	399.8	524.6	-2,432.1	-31.5%	-15.5%
Other	1,837.6	513.0	1,324.7	-150.0	-16.4%	-3.4%
Total	20,650.8	9,233.3	11,417.5		-27.2%	-13.2%

2.53 To fully understand the impact on different tiers the changes to the individual components within the overall baseline need to be understood. Individual elements have been protected to a greater or lesser extent (with the main reduction being borne on the old Formula Grant element). The Formula Grant includes the funding transferred for Council Tax Support (although this is no longer separately identifiable) which has also been protected from further reductions. This means that the Formula Grant reductions will be slightly different for individual authorities (and therefore classes of authority) but this does not mean that other elements of the Formula have been recalculated (which remain crystallised until the next reset).

2.54 Table 6 below shows the individual elements for the main classes of authority (excluding Isles of Scilly, GLA and Fire Authorities shown under “other” in table 5). This analysis shows how the 9.9% reduction for 2014-15 and 14% reduction for 2015-16 has been allocated i.e. excluding the other classes of authority.

Table 6	Formula Grant (incl Council Tax Support)	2011-12 Council Tax Freeze	Early Intervention Grant	Homelessness Prevention	Lead Local Flood Authority	Learning Disability & Health Reform Grant	Rural Services Grant	2013-14 Council Tax Freeze Grant	Returned Funding	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
2013-14										
Shire Counties	4,495.1	216.0	554.4	0.0	4.9	560.7	4.0	76.7		5,911.9
London Boroughs	4,173.8	75.5	321.5	35.8	4.5	223.5	0.0	24.6		4,859.2
Metropolitan Districts	5,887.1	103.7	430.9	8.2	4.5	319.2	0.0	24.6		6,778.3
Unitary Authorities	4,586.3	123.2	401.6	15.1	7.0	309.3	2.6	26.2		5,471.3
Shire Districts	1,200.1	32.7	0.0	20.8	0.0	0.0	1.7	8.5		1,263.8
Total	20,342.4	551.1	1,708.4	80.0	20.9	1,412.7	8.3	160.6		24,284.5
2014-15										
Shire Counties	4,022.4	215.1	511.4	0.0	4.8	566.1	4.5	76.7	7.0	5,407.9
London Boroughs	3,688.0	75.1	296.6	35.3	4.4	225.6	0.0	24.6	5.8	4,355.4
Metropolitan Districts	5,227.1	103.3	397.5	8.1	4.4	322.2	0.0	24.6	8.1	6,095.3
Unitary Authorities	4,067.7	122.6	370.5	14.9	6.9	312.2	2.8	26.2	6.5	4,930.4
Shire Districts	1,028.7	32.5	0.0	20.5	0.0	0.0	2.0	8.5	1.5	1,093.7
Total	18,034.0	548.6	1,576.0	78.8	20.6	1,426.1	9.3	160.6	28.8	21,882.8
Change	-11.3%	-0.4%	-7.8%	-1.5%	-1.5%	1.0%	11.8%	0.0%		-9.9%
2015-16										
Shire Counties	3,383.2	215.0	467.7	0.0	4.8	565.9	4.5	76.7		4,717.9
London Boroughs	3,090.9	75.1	271.3	35.3	4.4	225.5	0.0	24.6		3,727.1
Metropolitan Districts	4,381.8	103.2	363.6	8.1	4.4	322.1	0.0	24.6		5,207.8
Unitary Authorities	3,411.7	122.6	338.9	14.9	6.9	312.1	2.8	26.2		4,236.1
Shire Districts	860.9	32.5	0.0	20.5	0.0	0.0	2.0	8.5		924.4
Total	15,128.4	548.5	1,441.4	78.7	20.6	1,425.7	9.3	160.6		18,813.2
Change	-16.1%	0.0%	-8.5%	0.0%	0.0%	0.0%	0.0%	0.0%		-14.0%

2.55 The final settlement also included the Spending Power calculation which has been included since 2010-11. The spending power sets out the overall change in funding in the main grant allocations including the SFA baseline, compensation for business rates cap, NHB, Council Tax Freeze, Public Health Grant and NHS funding to support social care. It also includes estimated increase in the Council Tax base (it does not include any estimate for changes in local share of business rates).

2.56 The headline change in Spending Power between 2013-14 and 2014-15 is quoted as 2.9%. This compares with the 9.4% in table 5 (9.9% excluding the “other” classes of authority). The headline for 2015-16 is

1.8% (compared to 13.2% in table 5 and 14% excluding “other” classes of authority). Table 7 sets out the Spending Power calculation.

Table 7	Adjusted 2013-14	2014-15	Change	Adjusted 2014-15	2015-16	Change
	£m	£m		£m	£m	
Council Tax: estimated base	20,087.0	20,220.9	0.7%	20,220.9	20,356.1	0.7%
Settlement Funding Assessment (excl. GLA)	25,091.9	22,630.0	-9.8%	22,630.0	19,497.7	-13.8%
Compensation Grant for Business Rate Cap	0.0	107.7		107.7	107.7	0.0%
Efficiency Support Grant	9.2	9.4	1.6%	9.4	10.4	10.5%
Council Tax Freeze 2014-15	0.0	234.5		234.5	234.5	0.0%
Council Tax Freeze 2015-16				0.0	236.1	
New Homes Bonus Grant	668.3	917.0	37.2%	917.0	1,165.6	27.1%
New Homes Bonus: returned funding	81.7	33.0	-59.6%	33.0	84.4	155.5%
Housing Benefit/Council Tax Support Admin	402.3	372.6	-7.4%			
Public Health Grant	2,661.8	2,793.8	5.0%	2,793.8	2,793.8	0.0%
NHS funding to support social care	859.0	1,100.0	28.1%			
Adult Social Care New Burdens				285.0	285.0	0.0%
Pooled NHS and Social Care				1,644.6	3,460.0	110.4%
Other	275.7	277.2	0.5%	277.2	55.7	-79.9%
Total	50,136.9	48,696.1	-2.9%	49,153.1	48,287.0	-1.8%

2.57 The main issue with the Spending Power calculation is that it includes additional funding which brings with it additional spending expectations e.g. Public Health, NHS support for Social Care, etc. It also does not take into account other unavoidable spending demands on local authorities e.g. inflation, demographic demand, etc. The Spending Power calculation therefore does not reflect the scale of savings which local authorities need to make in order to balance the impact of funding reductions and additional spending demands.

Education Funding and Dedicated Schools Grant (DSG)

2.58 The Dedicated Schools Grant (DSG) is funded 100% by government with no funding from local taxation (Council Tax or business rates). The grant is specific and has to be spent on schools (although local authorities are able to provide a top-up from Council Tax or other local sources). New arrangements for the calculation of DSG were introduced in 2013-14, these new arrangements allocated funding in 3 blocks; schools, early years and high needs.

2.59 The schools and early year’s blocks are calculated according to an amount per pupil. These amounts are unique for each authority based on historical average per pupil. The amounts per pupil for 2014-15 are the same as 2013-14. The schools and early years blocks allocations are based on the October 2013 pupil numbers. The schools block will be adjusted for any increase in reception aged pupils between October 2013 and January 2014. The early years block will be recalculated for any increase in January 2014 numbers, and will be recalculated again based on January 2015 pupil numbers with the final allocation based 5/12 on January 2014 numbers and 7/12 on January 2015.

2.60 The high needs block consists of schools and post schools sub blocks. The settlement announcement in December gave provisional allocations for high based on place numbers and will be subject to review following submissions of 2014-15 high needs commissioned places from local authorities. We are expecting to receive the final 2014-15 high needs block allocation at the end of March 2014.

2.61 The final DSG allocations are subject to additions for induction of Newly Qualified Teachers (NQTs) and extension of places for 2 year olds and deduction for the removal of schools from the requirements under the Carbon Reduction Commitment (CRC). Individual authority allocations are subject to a 2% cash floor to protect from falling pupil numbers. Table 8 sets the main block headings and average per pupil amounts.

Table 8	2014-15 Total		2014-15 per pupil
	£m	£m	£s
Schools Block		30,654.0	4,550.54
Early Years Block		2,118.6	4,282.41
High Needs Block		5,092.1	
Schools	4,882.8		
Post Schools	209.3		
Additionals and Deductions		714.8	
2 Year Olds	755.0		
NQTs	10.2		
CRC	-50.5		
2% Floor	0.2		
Total		38,579.6	

2.62 The local authority is responsible for determining the formula used to allocate funding to individual schools, although changes to the regulations have significantly restricted the scope for local variations. A Minimum Funding Guarantee (MFG) protects individual schools to lose no more than 1.5% per pupil year on year. The formula is agreed by the local authority following consultation with schools and the Schools' Funding Forum.

2.63 A separate Pupil Premium was introduced in 2011-12. This grant is passed on in full to schools and for 2014-15 equates to £1,300 per eligible primary aged child and £935 per eligible secondary aged child (eligible children are those entitled to a free school meal). Children looked after by the authority or those adopted or placed with guardians attract a higher rate of £1,900. These represent an increase of £347 per primary aged child, £35 per secondary aged child, and £1,000 for those in care.

2.64 A new Education Services Grant (ESG) was introduced in 2013-14 which provides funding for local authority central functions in relation to maintained schools on a national per pupil basis. The 2014-15 ESG for local authorities has been announced as £113.17 per pupil in maintained schools (plus £15 per pupil in all schools to reflect statutory duties not transferring to academies). Pupils in special schools and Pupil Referral Units (PRUs) are funded at higher rates of £480.97 and £424.38 respectively. Provisional allocations were announced in December settlement although the grant will be recalculated quarterly based on the relevant number of children in maintained schools and academies. Academies will also receive an ESG allocation of £140 per pupil in 2014-15, although some academies will also receive transitional protection to mitigate reductions against previous higher allocations. Table 9 sets out the national per pupil and local authority shares in the provisional settlement.

Table 9	2014-15 per pupil	Initial Pupil Numbers		Provisional Allocation
		Maintained	Academy	
	£s			£m
Pupils aged 3 to 19 in mainstream schools	113.17	5,181,907	2,309,183	586.4
Planned places in special schools	480.97	87,016	11,153	41.9
Planned places in PRUs	424.38	20,610	1,689	8.7
All pupils	15.00	7,611,559		114.2
Total				751.2

Other Government Grants and Funding

2.65 A separate grant will continue to be available in 2014-15 and 2015-16 for those councils which freeze or reduce Council Tax compared to the same level as the previous year. The provisional amount set aside for this grant is £234.5m in 2014-15 and £236.1m in 2015-16. This will be paid to qualifying authorities as the equivalent of a 1% tax increase. Ministers have confirmed that these grants will be built into individual authorities' baselines in future years, thus removing the fear of a "cliff-edge" effect if funding is subsequently withdrawn.

2.66 The Government has not confirmed the level of Council Tax increase that would require a referendum. Ministers had previously expressed a view that this should be the same as 2013-14 i.e. 2%. The final decision is due to be announced in January.

2.67 In 2013-14 Adoption Reform Grants worth £150m were paid to local authorities from funds transferred out of the Early Intervention Grant and assigned to the Department for Education to allocate according to agreed priorities. The government has announced that it intends to allocate an additional £50m to improve the recruitment of adoptive parents, although grant allocations for individual authorities are yet to be announced.

2.68 The New Homes Bonus (NHB) Grant continues to be rolled out over the original 6 year period albeit through diverting funds that would otherwise have been allocated via the RSG/business rate mechanism. The overall amount available for NHB will increase to £950m in 2014-15 (from £750m in 2013-14) and is planned to increase further to £1.25bn in 2015-16 with further funds transferred from RSG/business rate mechanism. As already outlined this is £100m less in each year than originally intended when the grant was first introduced. Any unallocated funds are repaid as NHB adjustment grant. The additional £100m is included in the RSG settlement (see above) with consequential reduction in adjustment grants.

2.69 Public Health Grant allocations have previously been announced which show an increase of 5% over 2013-14 with the average grant per head increasing from £49.23 to £51.22. The increase in grants for individual authorities ranges from 2.8% to 10% (per head from -0.3% to 9.8%). Public Health funding is a ring-fenced grant to enable local authorities to discharge public health functions and has to be separately accounted for.

2.70 The NHS support for social care is increasing in 2014-15 and 2015-16. In 2014-15 the total support was already proposed to increase from £859m to £900m. A further £200m has now been identified for 2014-15 to prepare for the introduction of the Better Care Fund (BCF) in 2015-16. The Better Care Fund (previously referred to as Integration Transformation Fund) will be worth £3.8bn in 2015-16. £1.9bn will be transferred from NHS together with the £1.1bn for local authorities for 2014-15 plus Carers' Break Fund, CCG reablement, and capital funding (including Disabled Facilities Grant). There are no additional conditions attached to the extra £200m for 2014-15 (although this will only be paid out where authorities have agreed and signed off two year plans). The BCF in 2015-16 will include some funding for additional responsibilities and transitional costs associated with the Care Bill.

2.71 Individual government departments will continue to provide local authorities with specific ring-fenced grants for particular purposes. These grants are announced separately from the main local government finance settlement.

KCC Medium Term Financial Plan

SECTION 3

Revenue Strategy

REVENUE STRATEGY

Introduction

3.1 Revenue expenditure is what we spend on day to day services provided by the Council e.g. care for the elderly and vulnerable adults, ensuring access to high quality schools, libraries and running the road network. It includes the cost of salaries for staff employed by the Council, contracts for services procured by the Council, the costs of financing borrowing to support the capital programme and other goods and services consumed by the Council. Our revenue spending priorities are determined according to the Council's statutory responsibilities and local priorities as set out in the Council's medium term plan "Bold Steps for Kent".

3.2 Over the past 4 years we have had to make significant reductions in revenue spending in response to the national economic situation and the squeeze on public spending to tackle the budget deficit.

3.3 We began planning for this squeeze as far back as April 2010, when we started considering the implications of the predicted significant reductions in Government Grant combined with additional spending demands. As part of this early planning we predicted that the County Council would need to make budget savings/income generation of £340m over the 4 years for 2011-12 to 2014-15 in real terms (i.e. after allowing for the effects of additional spending pressures and reductions in government funding). This estimate has proved to be remarkably accurate and in total the authority will have had to make around £350m of savings (including the impact of further reductions which we could not have foreseen in 2010).

3.4 Evolving the strategy for 2014-15 and 2016-17 has proved difficult due to unknowns around the settlement for 2014-15 and 2015-16. Although we no longer receive the same Formula Grant settlement as before, the baseline for the new Revenue Support Grant (RSG)/business rate funding mechanism remains a significant factor in our financial planning.

3.5 When the 2013-15 MTFP was agreed in February 2013 we had a provisional baseline settlement for 2014-15 (consisting of both RSG and business rates elements). The March 2013 Budget Statement announced a further 1% reduction in the settlement for 2014-15, and the June 2013 Spending Round announced the headline funding reductions for 2015-16. However, we did not receive the detail of the implications until consultations on the 2014-15 and 2015-16 settlements were launched in July. At this time a separate consultation was published suggesting a reduction in NHB of between around $^{1}/_{3}$ to 100%.

3.6 The uncertainty around these issues meant we could not launch consultation on KCC's budget and MTFP proposals until November. The outcome from this consultation is reflected in the proposed budget for 2014-15 and the MTFP. The final budget and MTFP proposals also take into account the provisional settlement announcement on 18th December.

3.7 The overall revenue strategy is based on the following key elements:

- Funding estimate
- Spending demands
- Savings and income requirements
- Consultation and engagement

This strategy outlined in the MTFP shows the impact of KCC policy decisions and bears a close similarity to the Government's Autumn Statement (which sets out the impact of Government policy decisions on spending and taxation)

Funding Estimate

3.8 The funding estimate is based on a forecast of the funding settlement using the best available information. This includes forecasting the impact of the reductions arising from spending review announcements and where available provisional or final settlements. The funding forecasts also take into account any transfers into or out of local government settlement.

3.9 Government grants included in the funding estimate are all the un-ring-fenced allocations which the local authority has complete discretion what they are spent on (ring-fenced specific grants and funding from other departments outside the main settlement are treated as income to offset spending). The allocation of the grants is explained in more depth in paragraphs 3.24 to 3.31. The funding estimate also includes Council Tax and the local authority's share of business rates.

3.10 The strategy for the forthcoming MTFP is built on the assumption that the County Council element of Council Tax would be increased in forthcoming years up to the referendum level each year. The County Council element of Council Tax has been frozen since 2010 in recognition of the pressures on household budgets following the economic turbulence caused by the recession in 2008-09, and relatively high levels of inflation. As outlined in the National Context section of the MTFP the economic recovery is gathering pace but the County Council still faces further funding reductions until 2018-19 (and then at best "flat" funding). Therefore it seems sensible timing to plan for a sustainable increase in Council Tax over the forthcoming years.

3.11 The forecast Council Tax also included an estimate of 0.5% annual growth in the tax base from new dwellings and additional yield from increasing the collectable base through reviewing discounts and exemptions. The forecast did not include changes to local schemes for Council Tax Support following the transitional arrangements in 2013-14 on the basis that the additional tax yield from reducing the discount for beneficiaries would be offset by the loss of transitional grant and impact on collection rates.

3.12 It is vital to the revenue strategy that the County Council continues to foster good relationships with district councils to maximise the collectable Council Tax base and collection rates, to our mutual benefit. For its part the County Council has committed to help district councils cover their additional costs in managing local Council Tax Support schemes, and to underwrite the district council's share of Council Tax Support in the local government settlement in the event that the number of claimants is more than assumed in the grant estimates. The County Council is also committed to supporting districts in other ways to maximise the Council Tax yield including removing erroneous claims for discounts and exemptions, and tackling fraud

3.13 Our forecasts of the available funding were included in the consultation launched in November, as set out table 1. These showed an estimated reduction in central government funding of £39.2m for 2014-15 (£142.6m over 3 years) and an increase in local taxation from Council Tax and business rates of £14m (£41.1m over 3 years). The additional funding assumed from increasing Council Tax up to the referendum level each year is shown separately in table 1.

Table 1	2013-14 Budget £000s	2014-15 Estimate £000s	2015-16 Estimate £000s	2016-17 Estimate £000s
Council Tax				
Tax Base (incl previous year tax increase)	509,636	512,184	525,003	538,159
Assumed annual increase	0	10,207	10,479	10,753
Collection Fund Balance	2,239	2,000	0	0
Local Share of Business Rates				
Business Rate	45,804	47,301	48,628	49,834
Un-ring fenced grants				
Revenue Support Grant	246,733	205,231	151,354	118,000
Business Rate Top-up	118,329	122,196	125,625	123,000
Council Tax Freeze	5,820	5,820	5,776	0
New Homes Bonus	4,473	5,600	0	0
Education Services Grant	20,642	18,000	13,000	13,000
Other Grants	628	628	0	0
Total	**954,304**	**929,166**	**879,864**	**852,747**

3.14 At the time the consultation was launched it was recognised that these estimates would be subject to change following announcements in the

Autumn Budget Statement and provisional/final Local Government Finance Settlement in December/February, and notification of the Council Tax and business rate tax bases from district councils.

3.15 The Autumn Budget Statement on 5th December announced that there would not be any transfer of New Homes Bonus (NHB) to the single Local Growth Fund (LGF) in 2015-16. At the time of the consultation we had assumed the worst case scenario that all of the grant for upper tier authorities would transfer. The impact of lesser reduction in funding for 2015-16 is welcome.

3.16 At the time of consultation we also had no indication that the allocation of surplus NHB via a separate adjustment grant would continue (and therefore assumed the worst case scenario that it would cease). We are now confident that following the publication of provisional/final NHB grant allocations that there will also be an adjustment grant for the foreseeable future, although the top-slice from RSG has been reduced by £100m and therefore the adjustment grant will be less than it would have been.

3.17 The amount due to be top-sliced from the overall Resource DEL to fund the growth in NHB has been reduced in each of 2014-15 and 2015-16. This is reflected in the provisional/final RSG allocation which is approx. £2m more than we had previously anticipated as a consequence. The NHB grant for 2014-15 is also £400k more than we had previously anticipated as we assumed the rate of growth for the fourth year would decline to 25% (in fact the growth has increased to 35% - mathematically the 4th year roll out should see $^{1}/_{3}$ increase on total grant for third year if growth were even). Table 2 sets out the NHB allocations for all districts and the county together with the growth.

Table 2	2013-14		2014-15		Growth
	Year 3 Rollout	Total	Year 4 Rollout	Total	
	£000s	£000s	£000s	£000s	
Ashford	992.7	2,430.4	436.3	2,866.6	17.9%
Canterbury	594.9	1,504.6	1,022.3	2,526.8	67.9%
Dartford	552.4	1,325.7	613.3	1,939.0	46.3%
Dover	450.4	899.5	396.4	1,295.9	44.1%
Gravesham	413.9	937.6	428.2	1,365.8	45.7%
Maidstone	1,152.7	2,948.4	792.0	3,740.4	26.9%
Sevenoaks	329.6	975.6	413.4	1,389.0	42.4%
Shepway	284.9	1,036.8	253.6	1,290.4	24.5%
Swale	562.7	1,763.0	505.7	2,268.7	28.7%
Thanet	403.0	1,447.9	561.7	2,009.6	38.8%
Tonbridge & Malling	411.7	1,636.2	759.7	2,395.9	46.4%
Tunbridge Wells	390.0	987.6	96.4	1,084.0	9.8%
Kent County Council	1,634.7	4,473.3	1,569.7	6,043.0	35.1%

3.18 The Autumn Budget Statement announced that business rates will only be increased by 1.95%[1] in 2014-15 (instead of the 3.26% September RPI). The provisional/final Local Government Finance Settlement includes the impact of this with a lesser increase in the baseline for the retained share of business rates and the business rate top-up. However, we will be compensated by an additional un-ring-fenced grant (although allocations for individual authorities were not notified as part of the provisional or final settlement and we have included an estimate in the MTFP at this stage). Local authorities will also receive a separate un-ring-fenced grant to compensate for their share of the other reductions in business rates announced in the Autumn Statement.

3.19 The provisional/final Local Government Finance Settlement also shows that the separate Council Tax Freeze grant relating to 2013-14 has been rolled into the baseline for 2014-15 rather than 2015-16 as originally anticipated. At the time of the consultation we had no guarantee of Council Tax Freeze funding beyond the current spending round (and we assumed the worst case scenario that the funding for the freeze grants for both 2011-12 and 2013-14 would be removed in 2016-17). The Local Government Minister has now confirmed that the freeze grants built into the baseline will be included in future year's settlements thus removing the fear of this "cliff edge" effect. We have therefore amended the estimated settlement for 2016-17 to include the 2011-12 and 2013-14 freeze grants in the baseline.

3.20 Since the consultation was launched we have had confirmation that the un-ring-fenced grant previously paid in relation to extended free home to school transport will continue for another year. For the consultation we had assumed this grant would no longer be available.

3.21 The provisional Education Services Grant (ESG) for 2014-15 has been announced and is initially higher than the amount we included in consultation. However, the provisional allocations are based on the October 2103 census and as in 2013-14 will be adjusted quarterly to reflect the actual number of pupils in maintained schools and academies. The funding for the 2014-15 budget is based on our estimate for ESG after the quarterly adjustments (as in 2013-14) although we have reduced this estimate form the consultation in light of further uncertainty around ESG. In particular the March 2013 Budget Statement included a £200m reduction in ESG for 2015-16. At the time of publication of this plan consultation on this proposal had not been issued and could have a knock-on impact in 2014-15.

3.22 The final tax base from district councils shows a 1.8% increase over 2013-14. The detail for individual districts is shown in section 2 of the draft Budget Book 2014-15. Initial analysis indicates that this larger

[1] Due to a technicality the business rate multiplier can only be calculated to 3 decimal places and for small businesses (those with rateable value up to £18,000) the multiplier will increase from £0.462 to £0.471

than expected increase is due to a combination of more households being included on the valuation list, larger reductions in discounts and exemptions and improved collection rates. We will provide a fuller analysis of changes in the tax base in due course.

3.23 Table 3 sets out the revised funding assumptions in the 2014-17 MTFP which account for the change in total funding between the consultation and MTFP. This funding includes provisional and estimated amounts which could be subject to change.

Table 3	2014-15 Estimate £000s	2015-16 Estimate £000s	2016-17 Estimate £000s
Total included in consultation	929,166	879,864	852,747
Council Tax			
Tax Base (incl. prev. year tax increase)	518,787	531,771	545,097
Assumed annual increase	10,338	10,614	10,892
Collection Fund Balance	4,018	0	0
Local Share of Business Rates			
Business Rate	46,924	47,978	49,200
Business Rate Collection Fund (deficit)	-1,236	0	0
Un-ring-fenced grants			
Revenue Support Grant	213,092	158,726	127,000
Business Rate Top-up	120,634	123,964	127,000
Business Rate Compensation Grant	2,000	2,000	0
New Homes Bonus (incl adjustment)	6,610	7,967	8,800
Education Services Grant	17,000	13,000	13,000
Other Grants	2,146		
Revised total included in MTFP	940,313	896,018	880,989

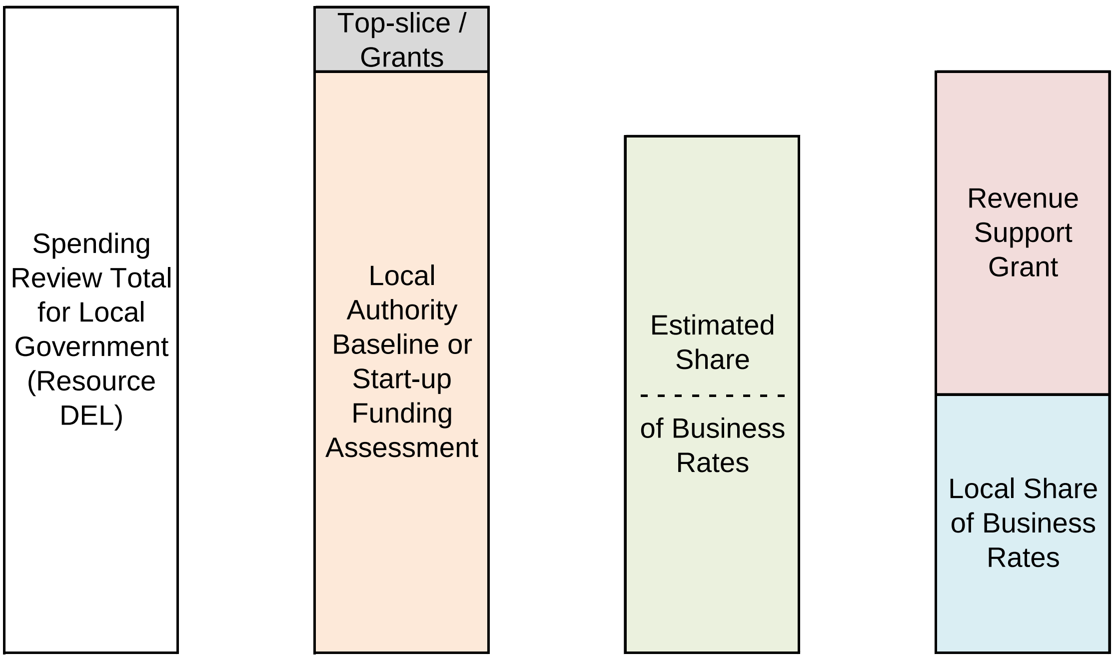
Government Un-Ring-Fenced Grants

3.24 In recent years we have seen a shift in emphasis from central government away from specific ring-fenced grants (where spending is constrained according to the conditions attached to the grant) towards un-ring-fenced grants (where spending is wholly at the discretion of the local authority). The main source of funding through the redistribution of business rates has always been un-ring-fenced since it was introduced in 1993 (although the mechanism by which this has been distributed through block grant mechanisms has been subject to change, particularly since 2006). This section provides more background on the current distribution mechanism for government un-ring-fenced funding.

3.25 The new business rates model was introduced in 2013-14 and was described in detail in last year's MTFP. The new system starts from the total amount to be spent by local government as identified in departmental expenditure limit (Resource DEL) described in the Section 2 National Context (paragraph 2.40). There are a number of adjustments as described in paragraph 2.42 to determine the net amount of funding for local authorities (referred to as the baseline or Start-up Funding Assessment (SUFA) for local authorities).

3.26 This baseline is split between business rates (according to the estimated business rate yield for the year) and Revenue Support Grant (RSG). 50% of the estimated business rate is the local share retained by local authorities and 50% central share. The central share is repaid as RSG along with the balance necessary to get back to the net DEL for local government. Figure 1 shows a demonstration of this stage in the process.

Figure 1



3.27 The Start-up Funding Assessment (SUFA) is allocated to each authority based on the historic share of grants which transferred into the new funding arrangements in 2013-14. This 2013-14 allocation is adjusted pro rata to the overall totals available for each element within the 2014-15 settlement. This enables the total SUFA for all authorities to be adjusted for the overall amount of funding available and enables individual elements to be protected in accordance with ministerial policy e.g. Council Tax Freeze. This means that all the factors within the former grants included in the baseline have been crystallised e.g.

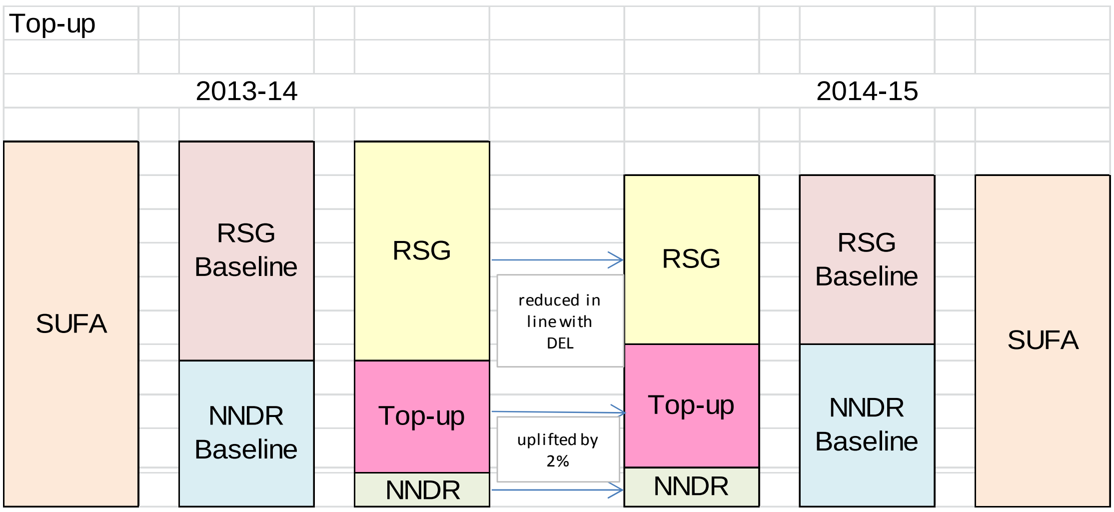
population, and will not be recalculated until the next reset (probably 2020)

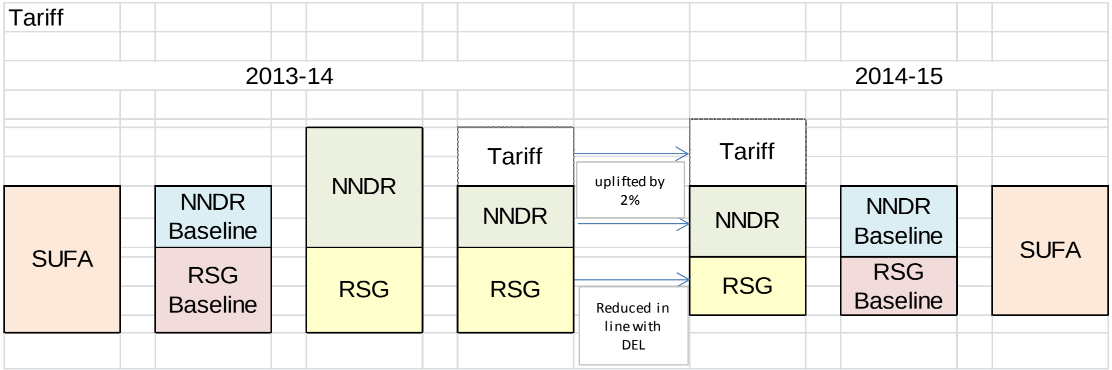
3.28 The 2013-14 SUFA for each authority was split between RSG and business rates elements pro rata to the national split illustrated in figure 1. The business rate element for 2014-15 is calculated by uplifting the 2013-14 business rate element in line with the uplift in the national business rate multiplier (1.95% for 2014-15 following the announcement in the 2013 Autumn Budget Statement). The RSG element is pro-rata to the national share of RSG.

3.29 In 2013-14 each authority was allocated a proportion of the local share of business rates (based on historical averages). In two tier areas 80% of the local share goes to the lower tier (districts), 18% to the upper tier and 2% to fire authority. This NNDR share is compared to the SUFA business rate figure to determine whether an authority needed a top-up or tariff on their share of business rates.

3.30 In two tier areas this means the upper tier authority has a disproportionately large SUFA compared to its notional share of business rates (and thus has a substantial top-up) while the lower tier has a much larger notional share of business rates than SUFA (and thus pays a large tariff). These local shares, tariffs and top-ups have all been uplifted by the 1.95% in the 2014-15 provisional settlement and the RSG element reduced in line with the overall amount available in the Resource DEL for local government. These adjustments between 2013-14 and 2014-15 baseline calculations are illustrated in figure 2.

Figure 2





3.31 The local share of business rates included in the 2014-15 budget will be based on the County Council's share of the business rate tax base estimate from districts. A system of levies and safety nets ensures that gains and losses from changes in business rates are manageable. In two tier areas the levy only applies to district councils with the levy rate capped at a maximum of 50%. This means any district which has an increase in business rates will benefit by at least 20% of any increase i.e. 50% of their 80% share of the half retained locally. Any district with a levy rate less than 50% would retain more. The County and Fire authorities will retain all of their 18% and 2% shares of the half retained locally. The safety net ensures that no authority can lose more than 7.5% of their overall share of business rates.

Spending Demands

3.32 Forecasts for spending demands are based upon a combination of in-year monitoring of budgets, and estimates for the impact of anticipated changes over the forthcoming year. The impact of needing to replace one-off actions from reserves and underspends agreed as part of setting the 2013-14 budget are also shown as additional spending demand.

3.33 At the time of the budget consultation we estimated £9.4m of additional spending demands in 2014-15 as a result of pay and price rises (£44.2m over 3 years). We also estimated £2m of additional spending arising from government and legislative decisions (£3.4m over 3 years), £7.8m arising from additional demand and demographic changes (£29.8m over 3 years), and £12m arising from local decisions mainly financing the capital programme (£27.3m over 3 years), £24.9m in 2014-15 to replace one-off savings in the 2013-14 budget and £10m for "emerging" pressures in later years. In total the consultation identified additional spending demands of £56m in 2014-15 (£139.5m over 3 years). For simplicity the consultation did not include any estimates for the impact of additional spending or income from ring-fenced grants e.g. health funding.

3.34 Since the consultation a number of changes to spending demands have been identified, particularly in relation to inflation and demand for services (e.g. numbers of looked after children, adults with learning disabilities, SEN children requiring transport to school). These amendments to demand led budgets enable us to “right size” budgets based on the very latest budget monitoring returns using current activity levels.

3.35 The final proposed budget has £11.5m of additional spending demands in 2014-15 as a result of pay and price rises (£46.3m over 3 years). We also estimate £11.3m of additional spending arising from government and legislative decisions including spending associated with specific grants and contributions from government departments (£11.6m over 3 years), £7.8m arising from additional demand and demographic changes (£25.8m over 3 years), and £17.8m arising from local decisions (£33.1m over 3 years). There is also an additional £24.9m to find in 2014-15 to replace one-off savings in the previous year (£32.5m over 3 years and £14m for “emerging” pressures in later years. In total there is £73.3m of additional spending in 2014-15 (£163.3m over 3 years).

3.36 Full details of the additional spending pressures for 2014-15 is set out in appendices A(ii) of the MTFP (this has been presented in directorate format for the first time) and over the 3 year plan in appendix A(i).

Savings and Income

3.37 Over the last few years the County Council has had to make unprecedented levels of savings to offset the impact of reduced government funding and meeting the cost of additional spending demands. This trend looks likely to continue throughout this MTFP and beyond (based on the scenario outlined in section 2). This MTFP recognises that part of the solution should come from Council Tax, but the majority will have to come from delivering further savings. For convenience we have separated these into efficiency savings (doing the same for less) and transformation savings (providing the same or better outcomes from alternative approaches at less cost).

3.38 At the time of the consultation we estimated the need to make £81.2m of savings in 2014-15 (£241.1m over 3 years) in order to compensate for the combination of reduced funding and additional spending demands. Without the proposed increase in Council Tax up to the referendum level this would have increased to £91.4m (£272.2m over 3 years).

3.39 The final draft MTFP identifies the need for £91.1m of savings and income in 2014-15 (£248.7m over 3 years) although this includes £11m of additional income from specific ring fenced grants which was ignored for consultation purposes. Therefore, the overall level of savings in 2014-15 is similar to that at the time of the consultation although we have amended some of the proposals in response to latest information and responses the consultation.

3.40 In particular the consultation included £16m of savings under the banner of “Facing the Challenge”. Following approval of the proposed new structure at County Council on 12th of December we have been able to allocate a substantial amount of this to new directorates. However, we have also had to recognise that all the savings originally envisaged at the time of the consultation cannot be achieved in sufficient time and have also included £7.6m of one-off savings from underspend in the current year and use of reserves.

3.41 Details of all the savings proposals for 2014-15 are set out in appendix A (ii) of the MTFP (which as previously outlined is in the new directorate format) and for 3 years in Appendix A (i).

Budget Summaries & Medium Term Financial Plan

3.42 The budget templates in appendix A show a high level “at a glance” summary of the three year plan together with a more detailed presentation of the 2014-15 proposals as they affect each directorate. This new presentation of the MTFP replaces the previous portfolio templates. In future all budget and MTFP information will be presented in directorate format rather than portfolio. This better reflects the way that the council’s finances are managed and reported through the budget monitoring during the year.

3.43 The directorates reflect the new structures agreed at County Council on 12th December. Inevitably there will need to be some minor changes as the new arrangements bed in and some virements may be necessary during the year. These will be reported in budget monitoring in the normal way. We aim to have all budgets allocated to responsible directors from the start of the year. At this stage we have held the provision for a single reward “pot” unallocated at this stage until we have the outcome of Total Contribution Pay (TCP) assessments.

3.44 The budget for 2014-15 will be presented in the existing A to Z format. The portfolio flag in this presentation will be replaced with a directorate flag to be consistent with the new MTFP presentation. The proposed budgets for 2015-16 and 2016-17 in the MTFP are indicative and are likely to change before the final budgets for these years are approved.

Budget Consultation and Engagement

3.45 The budget consultation opened on 8 November 2013 with a press launch. Throughout the five-week period the consultation was backed up with an on-going communications campaign. The aim of this campaign was to inform Kent residents and businesses of the scale of the financial challenge and to get them involved in how the Council responds. The "2 minutes 2 questions" tag was aimed at getting a much higher number of responses than we have previously achieved. The more detailed budget modelling tool provided the opportunity to explore the Council's budget in more depth and to express views on the spending areas of highest and lowest priority.

3.46 The first question of 2 questions sought views on how the Council should go about making savings necessary to close the gap between anticipated funding and current spending forecasts. The question was framed to explore whether the Council should seek to redesign services within the available funding or cut back on existing provision. The responses indicate a strong level of support for the current direction of travel i.e. to transform services with the aim of achieving the same or better outcomes for less money and efficiency savings (achieving the same outcomes for less money) and to protect front-line services. The options to make savings by simply cutting back to a basic level of service or restricting access to services were consistently the least favoured responses throughout the consultation.

3.47 The second question was about Council Tax and income from charges. 23% of respondents wanted Council Tax frozen for another year, 71% supported an increase. The number supporting a small increase (under 2%) was consistently higher than those supporting a freeze. The number supporting an increase above 2% was consistently lower than the number supporting a freeze. It was also clear that during the campaign the number supporting a low increase (under 2%) increased during the campaign, while those supporting an above 2% increase declined. Support for increasing charges to service users was consistently low. The overall conclusion is that a small increase in Council Tax would be acceptable in order to prevent further savings, but an increase above the referendum level would be unlikely to be supported.

3.48 The findings from the "2 minutes 2 questions" campaign are remarkably similar to the findings from the more in depth research undertaken by BMG Research on behalf of the County Council. This leads to the conclusion that the views coming from the consultation can be relied on to represent the views of Kent residents at large. We continue to value independent research to support the consultation process. This included the following 3 areas of activity:

- Face to face survey with a representative sample of Kent residents through two all day deliberative workshops
- The development of an on-line tool to capture views about people's core values for a range of KCC services
- A staff workshop and survey similar to the public workshops and surveys

3.49 The key general findings from the BMG research are not surprising:

- Few had noticed changes to services over recent years arising from previous savings
- People are less supportive of service reductions if they directly impact on them or their families, particularly where this has an impact on their day-to-day lives and livelihoods
- Some accepted there are opportunities for reductions in current service levels without significant detrimental impact
- More people had the perception that the Council and services can be more efficient
- Few people understand Council Tax or what it pays for

3.50 Other specific points to note from the BMG research include:

- The views of staff and residents are remarkably consistent
- Care services for the most vulnerable were consistently the most valued services while services where users have a degree of choice least valued
- The public were significantly more supportive of decisions being made locally than staff, and significantly less supportive of delivering statutory minimum level of service
- A small Council Tax increase would be acceptable to the majority of residents although a consistent core of around ¼ would prefer a freeze
- The most favoured options for savings included new opportunities for generating income , encouraging communities to become more self-reliant to deliver services for themselves and sharing services with other Councils

3.51 A separate report from BMG Research will be available prior to the County Council meeting on 13th February 2014. The final draft budget proposals have been amended to reflect views expressed in consultation and in particular we have sought to drive out all efficiency savings before making any changes which impact on front-line services. We have focussed any front-line savings on service transformation rather than cuts. The budget proposals also seek to protect services for the most vulnerable (whilst also ensuring that we get best value from these services delivering the best possible outcomes within the resources available).

Response to the 2014-15 and 2015-16 Provisional Settlements

3.52 The County Council has responded to consultation on the provisional settlement by the deadline of 15th January. This was an exceedingly tight deadline at the same time we were analysing the response to our own consultation and preparing the final draft budget. Whilst we recognise the difficulty minister's face in providing settlement information before The Autumn Budget Statement, we continue to urge earlier notification and more reasonable consultation period which does not span the holiday period. In our response we have recognised that any changes to the provisional figures at this late stage would be difficult for authorities to manage.

3.53 We have welcomed the decision not to transfer funding from the NHB grant into the Local Growth Fund to be managed by LEPs. We set out our strong objections to this proposal (along with many other authorities) in our response to the consultation, and are pleased to see that the government has acted on these representations. We are also pleased to see that ministers have recognised the severity of funding reductions on local government and have protected local government from the further round of 1% reductions applied to other government departments.

3.54 We have also welcomed the support to businesses through the changes to business rates whilst at the same time not passing the impact onto local government. In our experience this will be welcomed by local businesses. We have expressed concern that the compensation grant has only been confirmed for 2014-15 and 2015-16 and if this is not built into the baseline it could adversely affect local government in the future.

3.55 We have re-iterated our concerns about the “Spending Power” figures included as part of the settlement. In particular our concerns that this calculation includes increases in ring-fenced grants and excludes the impact of unavoidable spending demands are outlined in section 2. We have also re-iterated our concerns that the new funding arrangements have in effect crystallised the previous redistribution of business rates via a discredited formula. We have also repeated our concerns that this crystallisation means there is no additional funding for authorities with growing populations (other than through increases in the local share of business rate and Council tax base) whilst those with reducing needs are protected.

3.56 We have welcomed that the funding for previous and future Council Tax freezes will be built into the baseline and protected. This allays the fear of a “cliff edge” should this funding be withdrawn and vindicates the decision to freeze Council Tax since 2010 at a time when most household budgets have been under severe pressure. We have raised our concerns about the possibility of reducing the referendum threshold on Council Tax increases. This is mainly on practical grounds that in most years it would not make sense to hold a separate referendum when there are not any other elections across the whole county. We have also repeated our concerns that the referendum arrangements are little different in practice from previous capping regime and the current 2% threshold leaves little margin for manoeuvre. We conducted consultation on Council Tax in good faith based on the current threshold and this supports our proposal for a small increase up to the referendum limit. If this limit is lowered much further Council Tax increases would in effect be irrelevant. This would damage local democracy.

3.57 We have expressed concern that the settlement seems to imply that Local Welfare Provision Grant will be removed only two years after it was introduced. Whilst this is not expected it does leave the problem that local authorities will continue to have responsibility for local schemes without any funding.

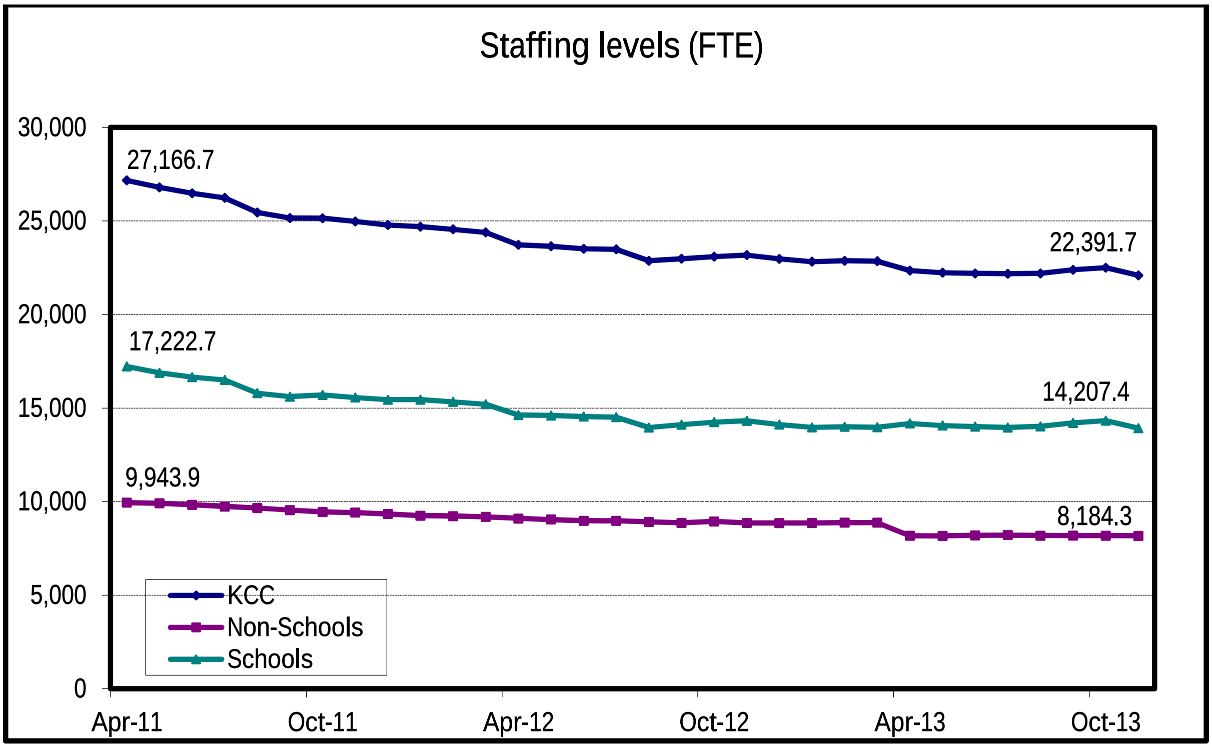
Workforce Strategy

3.58 The medium term plan for the workforce is contained in the published Organisational Development and People Plan (2011). We will be seeking to enable the organisation’s staffing population to be flexible, engaged and recognised within a well-constructed and appropriate terms and conditions and reward structure.

3.59 KCC is committed to organisational design principles, intended to improve the capacity and performance of the management structure and decision making accountability. This will assist in the delivery of further staff reductions in restructuring exercises.

3.60 Chart 1 sets out the changes in full time equivalent (FTE) staff numbers since April 2011

Chart 1



Changes in staffing levels:

- Between April 2011 and September 2013 the Authority's workforce decreased by 4,775 full-time equivalents (FTE).

Non-schools:

- Over one third of the reduction was from the Non-schools sector (1,760 FTE). A further reduction of 6 FTE is expected before the 31 March 2014, due to the realignment of services within the Authority.
- Kent's Coroners officers are employed by KCC from the 1st January, which increases staffing numbers by around 13 FTE.
- Commercial Services left the Authority in April 2013, accounting for around 470 FTE of the reduction. A decision to report Pupil Referral Units under the Schools sector from April 2013 accounted for a further decrease of 265 FTE. Public Health joined KCC in April 2013, accounting for a rise of approximately 37 FTE.
- During the period April 2011 to September 2013, there were 1,066 redundancies.
- Sickness levels, calculated as an annual rolling average, showed a reduction from 7.8 days lost per FTE in April 2011, to 7.1 days lost per FTE in September 2013.

Schools:

- The number of staff in the schools sector decreased by around 3,015 FTE in the period April 2011 to September 2013.
- Schools may opt to purchase HR and Payroll services from providers other than KCC and the number of schools buying KCC's services varies from year to year, which impacts on reported staffing numbers. Additionally, numbers have decreased as schools have left the authority to adopt Academy status.

3.61 Despite reducing numbers overall, we still need effective mechanisms to recruit, retain and performance manage a significant staff population. There is a significant service transformation agenda across all Directorates that will require a suitably competent workforce in the right place at the right time. This will be influenced by organisational wide programmes aimed at increasing self-sufficiency, new work practices and eliminating duplication of effort and processes.

Strategies to Support the Local Economy

3.62 As the economy returns to growth, we are delivering a major programme to create jobs, increase innovation and expand businesses. Our current programmes are summarised below in table 4, showing the amount of KCC investment together with the value of other funds secured and anticipated:

Table 4	Capital (£000s)	Revenue (£000s)	External funding		Estimated benefits
			Secured	Anticipated	
Direct business finance					
Expansion East Kent		1,300	35,000	140,000	5,000 jobs*
TIGER		715	20,000	80,000	1,700 jobs*
Escalate		194	5,500	22,000	300 jobs*
Business investment and growth					
High Growth Kent		297	440	4,500	300 jobs*
Trade development		200	380		350 businesses supported*
Inward investment		805			3,250 jobs**
Infrastructure and housing					
No Use Empty	8,900	150**	14,000		3,037 homes***
Broadband Infrastructure	10,000		9,870	20,000	91% superfast broadband. Universal coverage at 2mb

*	Over programme period
**	Per year
***	To date

Proposed Budget 2014-15

3.63 Our budget proposals provides for the following major new investments for 2014-15:

- An additional £2.7m into Specialist Children's and Young People's services to fully fund anticipated cost of placements for children in care.
- Additional £8.1m into Adult Social Care to include enhanced preventative services and to meet anticipated increases in client numbers (particularly adults with learning disabilities and those entitled to Ordinary Residence).
- Additional £1.1m into SEN transport to cover increased numbers and cost of specialist transport
- Financing the Capital Programme to ensure we continue to deliver new facilities and improved infrastructure for our residents, businesses and visitors

- Additional £2.1m into revenue budget to fund new more flexible arrangements for member highways and community grants

3.64 Our budget includes the following major areas for £91.1m savings and income in 2014-15:
- Staffing efficiencies £8.0m
- Procurement efficiencies £11.8m
- Reduced waste tonnage to be disposed of £2.4m
- Reduced reactive/discretionary highway maintenance due to increased planned maintenance from capital £3.6m
- Integration of adolescent services £3.6m
- Review of Freedom Pass arrangements £2.0m
- Review of children's centres £2m
- Transformation of specialist children's services £4.7m
- Transformation of adult social care £13.1m
- Re-commissioning of support for people on the edge of care £2.4m
- Savings from existing arrangements for member grants and community engagement £1.8m
- Reduction in support services £2.9m
- Income generation £4.6m
- Increase in ring-fenced grant and contribution from Health £11.0m
- Drawdown of specific reserves £3.6m
- Use of current year under spend £4m

3.65 The previous paragraphs have set out where we have changed the Budget to reflect our strategies and plans next year. What can often be overlooked are those services we have been able to protect and these include (but not exclusively):
- Social Care services for the most vulnerable elderly, adults and children;
- Local bus services;
- Provision of waste recycling facilities;
- Library services;
- The Gateways Programme

3.66 Our budget reflects:
- A small increase in Council Tax (1.99%) after three consecutive years of freezes
- A decrease in the net budget (excluding schools) of 1.9%
- A decrease in government un-ring-fenced grants of 8.9% on like for like basis.
- Need for savings of £80.1m excluding specific grant income (8.4% of net spending excluding schools)

Resource Management

3.67 Our staff will have to continue to be at their innovative and creative best to deliver the required level of savings while maintaining and improving service outcomes. Our financial and asset management will need to continue to deliver excellence to ensure we make best use of our resources.

3.68 Our Commercial Services Team and our Companies generate significant annual income to support the Revenue Budget. As well as the planned £7.7m surplus generated by Commercial Services (which is the equivalent of 1.5% on Council Tax), we have a number of services that we provide to other Councils, at their request, which deliver further net income to KCC and value for money for the purchaser.

Sensitivity Analysis

3.69 Our budgets are constructed using sound and prudent assumptions over spending, inflationary pressures and our ability to realise additional income generation, efficiencies and service transformation. We are confident that the budgets can be delivered.

3.70 We are fully aware of the high risk budgets within the Council, which are largely those over which we have limited or no control in the short term. We will continue to focus support to the highest risk areas (financial, operational and reputational). The general reserve to meet unforeseen circumstances is £31.725m which equates to over 3% of net expenditure. This is considered a prudent level of reserves to manage risk.

3.71 We are proposing to drawdown a further £3.6m from earmarked reserves in 2014-15 in addition to previous year's drawdown and borrowing against long term reserves. We have also made provision to start planned repayment towards those long term reserves. As a general rule we would not recommend using such reserves to balance the budget but in difficult times this was supported as one of the most popular approaches in the budget consultation.

Conclusion

3.72 The Government has set us a massive challenge to lead the way in making public expenditure reductions. In our budget, we have followed our revenue strategy, minimising spending demands and cost increases and driving out efficiency savings across the organisation. To help smooth the impact of transformation and savings under the banner of “Facing the Challenge” we have undertaken reviews of our level of reserves and repayment of debt. It has been a real challenge, but our budget reflects the structural changes which will ensure we have a lean and efficient organisation, fit for the economic climate we face. Our budget also includes significant transformation in care services. We are acutely aware that transformation savings require us to change the relationship we have with clients and providers to change behaviours and demand for traditional services.

KCC Medium Term Financial Plan

SECTION 4

Capital Strategy

CAPITAL STRATEGY

4. Overview

Introduction

4.1 The capital strategy has been in place for a year, and continues to take a transformational stance. The process to support this strategy has been embedded and is an important tool to aid directing resources to appropriate projects in light of budget pressures and Facing the Challenge.

4.2 Capital expenditure is defined as the purchase or enhancement of assets where the benefits last longer than the year of expenditure. A de minimis level is applied – for KCC this is £10k i.e. anything below this value individually is classed and treated as revenue.

4.3 The capital budget should support the overall objectives of the organisation, and act as an enabler for transformation to support Kent County Council's (KCC's) strategic priorities in 'Bold Steps for Kent', our Medium Term Plan.

4.4 In recent years KCC has spent an average of £275m per year on capital projects. We plan to invest £635m over the next three years and to finance 12% of this expenditure from borrowing which will impact on our revenue budget.

4.5 Capital investment shapes the future, ensures the organisation is fit for purpose, and can transform services and ways of working. It can act as a catalyst and enabler for change. Our spending on capital remains a significant proportion of overall spend and provides an important driver for economic growth - stimulating regeneration and construction, and providing local jobs for local people.

4.6 With a challenging financial environment for the foreseeable future that is influenced by a variety of external factors, there will only ever be a limited amount of capital resources available. Therefore, it is vital that we target limited resources to maximum effect with a sharper focus on our strategic priorities and 'invest to save' opportunities.

4.7 We will use capital investment proactively as an enabler and facilitator for driving transformation in service delivery in our communities. We will become agile and flexible enough to be able to both plan ahead and to respond innovatively to emerging opportunities and challenges. We will target and maximise investments, manage risk, anticipate trends and radically re-think how best to focus our capital programme to keep pace with changes in national policy, legislative requirements and business needs.

What role does the Capital Strategy play?

4.8 The capital strategy sets out the strategic direction for KCC's capital management and investment plans, and is an integral part of our financial and service medium to long term planning and budget setting process. It sets the principles for prioritising our capital investment under the prudential system.

4.9 Capital plays an important role in delivering long term priorities as it can be targeted in creative and innovative ways. However capital is not unlimited or "free money" – our capital funding decisions can have significant revenue implications. Every £10m of prudential borrowing costs approximately £1m per annum in financing costs (revenue) for 25 years. This is in addition to any on-going maintenance and running costs associated with the investment. Our fiscal indicator limits spend on debt charges to 15% of the Council's net revenue budget – as revenue budgets are reducing this heightens the need to ensure we get the best benefit from capital investment.

4.10 KCC's budget planning processes integrate both capital and revenue so that coherent decisions are made on a level of borrowing that is prudent, affordable and sustainable for the Authority. The difficult financial environment means we have to spend limited money wisely and there is a delicate balancing act in managing these types of potential pressures effectively.

Ambition

4.11 The Authority continues to take a transformational stance in relation to its capital strategy. This involves setting aside some capital projects in favour of others that are more in-line with current strategic priorities. This stance will enable maximum flexibility but could also result in increased capital spend. This may be funded through the introduction of rigorous capital receipts targets, better targeted invest to save projects and other innovative funding streams but not through increased borrowing, which would have a negative impact on our fiscal indicator and revenue budget.

Drivers for Change

4.12 This is a time of unprecedented change in the public sector and the following drivers for change inform and impact our Capital Strategy.

A sustained and complex financial challenge

4.13 The medium to long-term financial position for local authorities remains extremely challenging. The combination of the on-going national drive for austerity until at least 2017-18 with sustained reductions in local government funding and unfunded, rising demand pressures for public services add up to an unprecedented financial challenge for KCC.

4.14 In response, KCC has put in place the **Facing The Challenge: Whole Council Transformation Programme** to ensure we have the capacity and capability to transform our operating model to meet the anticipated pressures we face. In order to achieve significant transformation of services at pace and scale we need to selectively and creatively target capital investment to deliver innovative services that deliver best value for Kent's communities. Our future capital programme must be outcome focused and deliver tangible benefits that support sustainable delivery of the three ambitions in **Bold Steps for Kent** and the key themes in **Facing the Challenge**.

4.15 The challenge of delivering an ambitious capital programme is in the very nature of capital projects, which do not always deliver to anticipated timescales or budgets, (e.g. building projects delayed by funding, planning or construction issues). This can potentially risk increasing costs and creating additional revenue pressures. In a challenging financial environment it is essential that we have effective procurement, robust contract management and strong management grip to manage costs and ensure every penny counts.

Stimulating growth

4.16 Capital investment is a key catalyst for economic growth through funding transformational regeneration and infrastructure projects that generate jobs, enhance Kent's skills base and create an efficient highways network. We need to ensure that our capital investment supports the joint priorities in the forthcoming Economic Growth Strategy - **Unlocking the Potential: Going for Growth**, which is being developed by the Kent and Medway Economic Partnership (including businesses, KCC the Kent Districts and Medway); our transport delivery plan, **Growth without Gridlock** and the joint Strategic Economic Plan being developed by the South East Local Enterprise Partnership. This will help us to secure additional Government investment and will benefit both the wider Kent economy and our residents.

4.17 Collaboration with our public, private and voluntary & community sector partners will enable us to seize appropriate external capital funding opportunities, joining-up capital funding bids that attract and stimulate growth. Wherever possible, we will continue to work together to develop a partnership response to national funding challenges, such as the Community Infrastructure Levy (CIL).

Growth and demand pressures in education

4.18 The rapidly evolving national policy environment for Education continues to shape the role of the Local Education Authority, and our relationship with our academies, free schools and school federations. The demographic changes within Kent are leading to rising demand for school places, particularly at Primary School level. We need to provide sufficient sustainable, quality education facilities to meet the needs of children and young people within Kent's communities, prioritising needs within the challenging proportion of national funding available and balancing this with the savings we need to make as an organisation.

4.19 Our £95m capital investment in education, set out in our **Education Commissioning Plan,** reflects these changes and takes a flexible, pragmatic asset management approach, ensuring KCC invests money in assets we are likely to retain. The **Basic Need Programme** will ensure we will meet our requirements to 2015 and beyond. We will continue to work closely with our local schools to ensure that capital investment is targeted where limited resources can be used to best effect.

Service transformation and integration

4.20 **Facing the Challenge** will result in the rapid transformation and integration of frontline services, which will need to be delivered with our partners and providers. In particular the national drive towards health and social care integration, and our own transformation agenda to integrate local service delivery around client groups will significantly change the way we work and use our community assets.

4.21 We need to ensure we use capital in an innovative way that will provide the property and ICT assets that enable and facilitate this change. We will ensure there is a robust business case for investment in our existing assets so they remain fit for purpose to respond to rising customer demands, expectations and changing needs. We will maximise capital receipts and target capital funding to reinvest in enhancing community facilities to modernise and transform service delivery within community settings to better meet the needs of our customers, and to deliver better quality outcomes. We will explore asset collaboration opportunities and shared technology solutions with our public, private and voluntary and community sector partners to invest in new ways of working that will enable successful transformation.

4.22 Capital investment can be a key enabler for high quality design that helps to deliver more vibrant community assets. We want to maximise the potential for the innovative use of our shared partner assets to reduce social isolation and increase connections for social care service users, their families and carers. This will play a critical role in early intervention, prevention and demand management to support transformation programmes such as the Adult Social Care Transformation, Health & Social Care Integration and the Kent Integrated Adolescent Support Service.

Strategic asset management

4.23 Capital and assets are two sides of the same coin and it is vital that our capital programme complements the five key themes in our **Asset**

Management Strategy. The challenge is to turn the inefficient properties into efficient ones, or if this is not possible, sell and to realise a capital receipt to re-invest in a property from which an improved service can be offered. Our asset rationalisation and disposals policy will be more rigorous, creating headroom in the capital programme. We will focus on securing an acceptable market value. We will invest in priority property locations where modernising assets may help to promote opportunities for co-location, asset collaboration and service integration.

Doing things differently

4.24 We need to ensure that capital investment can be a catalyst for cultural change. Our **Doing Things Differently** Programme is exploring all aspects for changing the way we work – including people, customers, systems, working and services. For example modernising an office work space and introducing ICT technology that enable flexible working through our **New Ways of Working** programme, which will enable frontline staff to carry out their roles closer to service users, and ensure office-based workers can work more efficiently and effectively.

4.25 We need to continue to invest in ICT infrastructure that will support future service solutions in line with our **ICT Digital Strategy**, and provide new ways for customers to communicate, access and interact with our services. We want to create more efficient, streamlined systems and promote economic growth (e.g. investment in broadband infrastructure will support learning, employment, skills and business growth, particularly in our rural communities).

4.26 We will ensure that by doing things differently, we invest funding intelligently in ways that transform services around the needs of our customers. Well-targeted capital investment will unlock significant ‘channel shift’ savings, fund new technology solutions that redesign our services from the customer’s perspective and transform access points for services.

Intelligent Investment

4.27 We need to ensure that every penny counts on our capital programme. Our category management approach will ensure a more intelligent, cost-effective approach to procurement and ensure we are doing all that we can within legal frameworks to allow the best opportunity to direct spend to local suppliers to support Kent businesses. Robust contract management will ensure we hold providers to account and ensure they deliver to time and quality and meet priority outcomes. Our **Environment Strategy** will ensure we deliver a sustainable capital programme by ensuring all works help to reduce our carbon footprint, through efficient energy and water consumption. This will not only have a positive environmental benefit; it will also be more cost effective.

Funding

Sources of capital funding

There are a variety of different sources of capital funding, each having different complications and risks attached.

Borrowing

4.28 KCC currently has borrowing of just over £1 billion and our policy is that net debt costs must not exceed 15% of the net revenue budget. However, this indicator is at risk of being exceeded, particularly as over the coming years our revenue budget is forecast to reduce, so we must continue to effectively manage our borrowing and look at alternative sources of funding to ensure that we stay within the 15% target over the 3 year Medium Term Financial Plan.
The level of borrowing to fund the capital programme must take into account the revenue implications, i.e. for every £10m of borrowing our revenue borrowing costs are around £1m and we must also consider the Prudential Code.

Grants

4.29 The challenging financial environment means that national government grants (currently 53% of our financing for capital projects) are reducing, or changing in nature. A large proportion of this funding is currently un-ring-fenced which means it is not tied to particular projects but it is often tied to a particular area such as education or highways so we do not have complete freedom on where to spend our grants. Our aim is to use only up to the level of grant provided and we will not use prudential borrowing to 'top up'. However, we must also meet our statutory obligations and where the grant is not sufficient, other sources of funding such as New Homes Bonus, CIL and capital receipts will be sought to fund the gap.

Community Infrastructure Levy (CIL)

4.30 CIL is a challenging issue and needs careful handling and consideration when put forward to fund major projects. CIL will be built into the programme at the point that planning permission is granted, but recognising that there are still risks around housing development and the realisation of CIL. Careful monitoring of expenditure against this funding is critical to ensure that we don't have to forward fund significant levels using borrowing. Careful negotiation is required to ensure we cover any potential borrowing costs resulting from late or reduced levels of CIL funding.

Capital Receipts

4.31 KCC has a rigorous disposal programme, aimed at maximising the return on our assets. These receipts are critical to delivering our capital programme and reducing the level of borrowing that we require. We will also aim to create headroom by setting a capital disposal target. This supports the transformation agenda. KCC's Property managers will work with the service directorates to explore options to release property as part of the transformation reviews to continue to create a sustainable pipeline of funds in the future.

Partnership Working

4.32 We will continue to explore opportunities for more partnership working.

Targeting investment

4.33 The strategy requires a mechanism for determining the way forward in line with the transformational ambition of the Authority, the drivers for change and the constraints that we are under. This means that tough decisions will have to be made as to which projects go ahead and which ones don’t (we can’t meet all the ‘wants’). This section explains the criteria that have been developed to assess capital projects, to ensure that our capital budget is targeted to our priority areas.

Meeting our statutory requirements

4.34 KCC will always ensure that appropriate capital budget is allocated to meet our statutory requirements, such as basic need, health and safety, disability discrimination act (DDA) and other legal requirements. As such it is appropriate to assess the Approval to Plan business cases for the statutory spend against a different set of criteria than for all other spend. This is mainly because the statutory spend is unlikely to score well against the 3 key drivers in the Bold Steps for Kent.

4.35 Statutory bids will be assessed against the following two criteria.

Criteria	**Description**	**Yes/No?**
1. Statutory	Evidence must be provided that the bid is for statutory capital expenditure	Y/N
2. Basic minimum	Evidence must be provided that the bid is for doing the basic minimum and no optional extras.	Y/N

4.36 If a bid is submitted via the ‘statutory spend’ route and the answer is ‘No’ to Criteria 1 then the bid will be assessed against the ‘other spend’ matrix. If the answer is ‘Yes’ to Criteria 1, but ‘No’ to Criteria 2 then the bid will be split in two – the element that is requesting capital spend above the basic minimum will be assessed against the ‘other spend’ matrix and if it is not approved then only the basic minimum amount of capital spend will be allowed.

Making the available headroom count

4.37 Having separated the capital budget into 'statutory spend' and 'other spend', the big question is how we prioritise all the 'wants' within the 'other spend' category. 'Other spend' covers invest to save projects and all other non-statutory projects. These projects should clearly link in with KCC's strategic priorities.

4.38 The scoring matrix below will be used to assess all bids against the 'Other Spend' category:

Criteria	Description	Weighting
1. Benefits	How does bid achieve 3 key drivers of Bold Steps for Kent, the themes in Facing the Challenge and any relevant underlying strategies? What are the social/economic outputs? How does it improve service delivery and/or contribute towards long term service provision and integration of services? Does the bid consider the wider organisation and other similar projects and strategies to ensure a joined up approach?	50%
2. Invest to Save	Do the savings generated from the project fund the prudential borrowing/debt costs, and generate on-going savings in addition to that?	15%
3. Delivery	Has an achievable delivery mechanism been identified? Have all the delivery options been considered?	20%
4. Value for Money	Not only about initial capital cost, but also whole-life cost (and payback period if relevant) and on-going revenue implications. Is there any match funding?	15%

Governance and process

4.39 In order to deliver the strategy, there is a strong governance framework in place and a rigorous approval process for projects. This ensures that decisions taken are agreed by the right people at the right point, to ensure that the agreed strategy for the capital programme is delivered.

KCC Medium Term Financial Plan

SECTION 5

Treasury Strategy

Treasury Management Strategy Statement and Investment Strategy 2014-15

Background

5.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in Public Services requires local authorities to determine the Treasury Management Strategy Statement. This statement also incorporates the Investment Strategy. Together these cover the financing and investment strategy for the forthcoming financial year.

5.2 CIPFA has defined Treasury Management as:

"the management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

5.3 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are an important and integral element of its treasury management activities. The main risks to the Council's treasury activities are:

- Credit and Counterparty Risk (Security of Investments)
- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal & Regulatory Risk

Regulatory Framework

5.4 There are two main elements to the regulatory framework for treasury management, the CIPFA Treasury Management Code and the Department for Communities and Local Government Investment Guidance.

5.5 The Council approved the adoption of the CIPFA Treasury Management Code at its February 2012 meeting and has incorporated changes from the Revised CIPFA Code of Practice into its treasury policies, procedures and practices.

KCC Governance

5.6 The Corporate Director of Finance & Procurement is responsible for the Council's treasury management operations, with day to day responsibility delegated to the Head of Financial Services and Treasury and Investments Manager. The detailed responsibilities are set out in the Council's Treasury Management Practices.

5.7 A sub-committee of Cabinet has been established to work with the Officers on treasury management issues – the Treasury Management Advisory Group (TMAG). The group consists of the Deputy Leader & Cabinet Member for Finance & Procurement, Deputy Cabinet Member for Finance & Procurement, Chairman Policy & Resources Cabinet Committee, Chairman Superannuation Fund Committee, Leader UKIP Group, Finance Spokesman Labour Group and Finance Spokesman Liberal Democrat Group.

5.8 TMAG's agreed terms of reference are that it "will be responsible for advising the Cabinet and Corporate Director of Finance & Procurement on treasury management policy within KCC's overarching Treasury Management Policy". TMAG meets the requirement in the CIPFA Treasury Management Code for a member body focussing specifically on treasury management. TMAG meets regularly and members of the group receive detailed information on a weekly and monthly basis.

5.9 Whilst Council will agree the Treasury Management Strategy all amendments to the strategy during the year will be agreed by the Corporate Director of Finance & Procurement and the Deputy Leader and Cabinet Member for Finance & Procurement or Cabinet where a change in policy is proposed.

5.10 Governance & Audit Committee receives quarterly Treasury Management update reports and a report is made to Council twice a year.

Borrowing Strategy

5.11 The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with balances and reserves, are the core driver of treasury management activity.

5.12 As at 30 November 2013 long term borrowing was £1,011m including £42m attributable to Medway Council.

5.13 The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest cost and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

5.14 Given the significant reductions to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

5.15 From this approach, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2014-15 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

5.16 In addition, the Council may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages. The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board
- UK Local Authorities
- Any institution approved for investments (see below)
- Any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK.
- UK public and private sector pension funds (except the Kent Superannuation Fund).
- Capital market bond investors.
- Special purpose companies created to enable joint local authority bond issues.

5.17 The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

5.18 The Council holds £441.8m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The Council understands that lenders are unlikely to exercise their options in the current low interest rate environment but there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

5.19 Short-term and variable rate loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators.

5.20 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

Investment Strategy

5.21 The Council holds significant invested funds, averaging in the year to date £348m, representing income received in advance plus balances and reserves held.

5.22 Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and have regard to the security and liquidity of its investments before seeking higher return. It must also be recognised that given the Councils' overall funding position the return achieved is important.

5.23 The Council's investment strategy has evolved over recent years from sole use of the Government Debt Management Office deposit account from late 2008 to 2010, then expanding to bank deposits and Certificates of Deposit with systemically important UK banks and Tbills, then adding Australian and Canadian banks in 2012 and most recently in September 2013 establishing a core cash investment portfolio for a maximum of £75m. All of these changes have been discussed at the Treasury Management Advisory Group, reported to Governance & Audit Committee and are based on advice from Arlingclose.

5.24 Over the last year the availability of cheap finance for banks from the Government's Funding for Lending Scheme has meant that UK banks have significantly reduced the rates they pay on deposits making them less attractive.

5.25 As well as providing reduced returns the bank deposits which have provided the bedrock of the Council's investments in recent years now face a major new risk – "bail in" risk. UK and EU legislation is moving towards a position where bond holders and institutional depositors bear part of the cost of supporting a failing financial institution rather than financial support being provided exclusively by Government. We have seen this occur recently with the Cooperative Bank. This introduces a new level of risk to depositors and as a consequence the Council needs to diversify further and reduce the size of the investment it will make in any one financial institution. Overall this means that conventional bank deposits will form an increasingly smaller part of the Council's total investments.

Criteria for Counterparty Selection

5.26 The Council uses long-term credit ratings from the three main rating agencies. Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a A- rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, as set out in section 5.30, then only investments that can be withdrawn (on the next working day) will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.27 The Council understands that credit ratings are useful but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principle sum invested.

Specified and Non-Specified Investments

5.28 The CLG Guidance defines specified investments as those:

- denominated in pound sterling
- due to be repaid within 12 months of arrangement
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

5.29 The Council defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

Current Counterparties

5.30 The current counterparties are:

- Debt Management Office (DMO)
- Barclays Bank Plc
- HSBC Bank Plc

- Lloyds Banking Group – Lloyds / HBOS
- RBS Group – Royal Bank of Scotland / NatWest
- Santander UK Plc
- Nationwide Building Society
- Standard Chartered Bank Plc
- Australian and New Zealand Banking Group
- Commonwealth Bank of Australia
- National Australian Bank Ltd
- Westpac Banking Corp
- Bank of Montreal
- Bank of Nova Scotia
- Canadian Imperial Bank of Commerce
- Royal Bank of Canada
- Toronto Dominion Bank

(Note: whilst Cabinet agreed to the addition of the Australian and Canadian banks in September 2012 no deposits have yet been made with them.)

The permitted deposits are:

- Call accounts / Notice accounts
- Term deposits
- Certificates of deposit
- Treasury bills

The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term credit rating for counterparties is A- (or equivalent).

Proposed Additional Counterparties

5.31 In consultation with Arlingclose the following additions are proposed:

- Close Brothers – an A- rated UK bank focussed on SME lending and deposit taking

- Svenska Hendelsbanken – a highly rated Swedish bank which has now established a high street presence in the UK with 150 UK branches

- Leeds Building Society – the highest rated UK building society after Nationwide by our treasury advisors.

5.32 Arlingclose have also undertaken extensive analysis of smaller building societies and have selected the following for a maximum deposit of £1m.

- Furness
- Leek
- Newbury
- Hinckley & Rugby
- Darlington
- Market Harborough
- Melton Mowbray
- Tipton & Coseley
- Scottish
- Marsden
- Loughborough
- Mansfield
- Vernon
- Harpenden

5.33 It is also proposed that the option is given of investing in the following bonds directly:

- Supranational bonds AAA rated and issued by the World Bank, European Investment Bank, European Bank for Reconstruction and Development or Nordic Investment Bank.

- Covered bonds – corporate bonds which have recourse to a pool of assets which secures or covers the bond if the issuer fails.

Before any use is made of these additional counterparties and asset classes more due diligence will be undertaken by the Treasury Management Advisory Group.

Investment Portfolio

5.34 In September 2013 Cabinet agreed to set up an investment portfolio to a maximum of £75m with no more than £5m in any one investment. The main areas identified were:

- Absolute Return Funds
- Equity Income Funds
- Pooled Property Funds
- Opportunistic investments linked to local economic regeneration projects, where these would not be defined as capital expenditure

Other appropriate areas may be identified in the future.

Counterparty Limits

5.35 The Counterparty Limits proposed are reduced from 2013-14 where Arlingclose recommended a 15% of total deposits limit for systemically important UK financial institutions. This is now to be reduced to 10% per group for organisations under the same ownership. Whilst a £40m limit is appropriate at the beginning of the year when balances are high it is proposed that the Corporate Director of Finance & Procurement will review limits during the year and reduce as appropriate.

5.36 The recommended counterparty limits are:

• DMO	£450m
• Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered).	£40m
• Svenska Handelsbanken	£20m
• Leeds Building Society	£10m
• Close Brothers	£10m
• Australian & Canadian banks (£40m country limit)	£20m
• Small UK building societies meeting Arlingclose preferred criteria	£1m each to a maximum of £15m

- Supranational bonds £80m
- Covered bonds £20m

Duration of Investments

5.37 The maximum duration for term deposits and Certificates of deposit will be 12 months.

5.38 For bonds the maximum duration will be 5 years including, where applicable, the 5-year benchmark bond which may at the point of issue have a maturity a few months in excess of 5 years.

Treasury Advisors

5.39 Since March 2011 Arlingclose has been the Council's treasury adviser. Officers meet with Arlingclose on a monthly basis and Arlingclose attend the quarterly TMAG meetings.

Training

5.40 Training is provided by Arlingclose and a treasury management training module is included in the Financial Management Training Programme for members and senior officers.

KCC Medium Term Financial Plan

SECTION 6

Risk Strategy

RISK MANAGEMENT POLICY

Introduction

6.1 As an organisation concerned with service provision and the social and economic development of the county it is essential that the risks to achieving our objectives are managed efficiently and effectively.

6.2 By implementing sound management of our risks and the threats and opportunities which flow from them we will be in a stronger position to deliver our business objectives, provide improved services to the community, and achieve better value for money.

6.3 Risk management will therefore be at the heart of our good management practice and our corporate governance arrangements. Our risk management arrangements will be proactive and will enable decisions to be based on properly assessed risks that balance risk and reward, ensuring that the right actions are taken at the right time.

6.4 Our risk management framework is based on the Office of Government Commerce publication *Management of Risk: Guidance for Practitioners* which provides a 'best practice' reference point for risk management. It is derived from the HM Treasury 'Orange Book' and is closely aligned and informed by the international standard for risk management ISO: 31000.

Mandate and commitment

6.5 This policy is supported and endorsed by the Corporate Management Team and Cabinet Members who will ensure that:

- the risk management objectives are aligned with the objectives and strategies of the Council;
- the Council's culture and risk management policy are aligned;
- the necessary resources are allocated to risk management; and
- the framework for managing risk continues to remain appropriate.

Applicability

6.6 This policy applies to the whole of Kent County Council's (KCC) core functions. Where KCC enters into partnerships the principles of risk management established by this policy and supporting guidance should be considered as best practice and applied where possible. We would also expect that our significant contractors have risk management arrangements at a similar level, and this should be established through procurement processes.

Objectives of risk management

6.7 The aims of this policy are to set out how KCC will:

- manage risks in line with its risk appetite, and thereby enable us to achieve our objectives more effectively;
- apply recognised best practice to manage risk using a balanced, practical and effective approach (Office of Government Commerce publication *Management of Risk: Guidance for Practitioners*)
- embed effective risk management into the culture of the Council;
- integrate the identification and management of risk into policy and operational decisions;
- eliminate or reduce the impact, disruption and loss from current and emerging events, consequently reducing the cost of threat;
- harness risk management to identify opportunities that current and emerging events may present and maximise benefits and outcomes;
- anticipate and respond in a proactive and timely way to social, environmental and legislative changes and directives that may impact delivery of our objectives;
- harmonise risk management disciplines across all Council activities;
- benefit from consolidating on-going learning and experience through the collation and sharing of risk knowledge; and
- demonstrate increasing confidence in our ability to deal effectively with the uncertainty that internal and external pressures present.
- demonstrate a consistent approach to the management of risks when embarking on significant transformational activity.

6.8 KCC shall achieve these aims by:

- maintaining the common links between business planning, performance and risk management;
- integrating effective risk management practices into the Council's management, decision making and planning activities;
- exploiting available business technology to store and share risk information and providing the business with access to a repository of risk knowledge and learning;
- maintaining the frequency and effectiveness of monitoring of key risks in line with the council's internal control framework.
- embedding risk management into the *Kent Manager* Standard;
- providing a mix of risk management training, awareness sessions and support for both Officers and Members of the County Council;

- ensuring links between audit planning and risk management processes to enable assurance on the effectiveness of risk management across the council;
- subjecting KCC's risk framework and practice to annual review to determine the effectiveness of arrangements and level of risk maturity.
- ensuring risk management arrangements are embedded within the *Facing the Challenge* transformation agenda.
- providing continuous challenge and quality assurance to all elements of the risk management process.
- promoting a wide understanding of the Council's risk appetite and how it translates into tolerance levels within a service or programme setting.
- focusing on robust monitoring of mitigating actions to ensure that risks, once identified and assessed, are appropriately managed

6.9 The Corporate Risk Manager shall maintain a programme that sets out the delivery of this policy with delivery being assured by the Corporate Management Team and, where necessary, the Performance & Evaluation Board.

Principles of risk management

6.10 The following principles of risk management have been adopted by KCC from the Office of Government Commerce's (OGC) recognised best practice guidance - *Management of Risk: Guidance for Practitioners*. The eight principles provide the basis on which KCC will manage risk and are informed by both corporate governance principles and the international standard for risk management *ISO: 31000*:

a) Aligns with objectives
Risk Management focuses on and around the achievement of the council's priorities and objectives together with those risks that may impact their successful achievement. In aligning risk management to its objectives the Council will determine the amount of risk it is able to withstand and the amount of risk it is prepared to tolerate.

b) Fits the context
The organisation is aware of the changing nature of the internal and external operating environment and the factors and events that may threaten or impact its stability.

c) Engages stakeholders
The Council has determined, assessed and appropriately engaged all internal and external groups and individuals with a vested interest in its activities. It will understand how stakeholders may influence Council activities and how Council activities affect them.

d) Provides clear guidance
The Council encourages the effective management of its risk through provision of a 'user friendly' and transparent approach, that is suitably resourced and that is consistently applied throughout the organisation to best effect.

e) Informs decision making
The Council harnesses its risk management capability within its decision making and planning processes to objectively inform both the substance for the decision or plans and achievability of desired outcomes. Additionally, the Council will assess approval of its decisions and plans alongside its capacity and appetite for taking risk.

f) Facilitates continual improvement
The Council has the means to gather knowledge and learning from its risk management activities and applies it to continually refine and enhance capability and effectiveness.

g) Creates a supportive culture
Risk management is embedded within the Council's day to day activities with the full support and commitment of Corporate Management and Members. This support will align risk management to the Council's values and culture through encouraging openness, transparency and sharing of risks. It will develop a 'risk aware' culture that increases the value and benefit derived from its investment in risk management.

h) Achieves measurable value
Enabled by the previous seven principles the effective operation of the Council's risk management framework will need to demonstrate that it adds value to the organisation through helping the achievement of objectives and increase Council and stakeholder confidence and success.

Context of risk management

6.11 To be effective, risk management must take account of the external and internal environment (or context) within which the Council seeks to achieve its objectives. We are a highly complex organisation delivering or commissioning multiple services. Our external environment is very dynamic and the changes occurring are not always subject to our control or influence. The external context can impact directly on our internal context, but other internal factors must also be understood, such as our policies and objectives, our governance, the Council's capability and capacity and our culture.

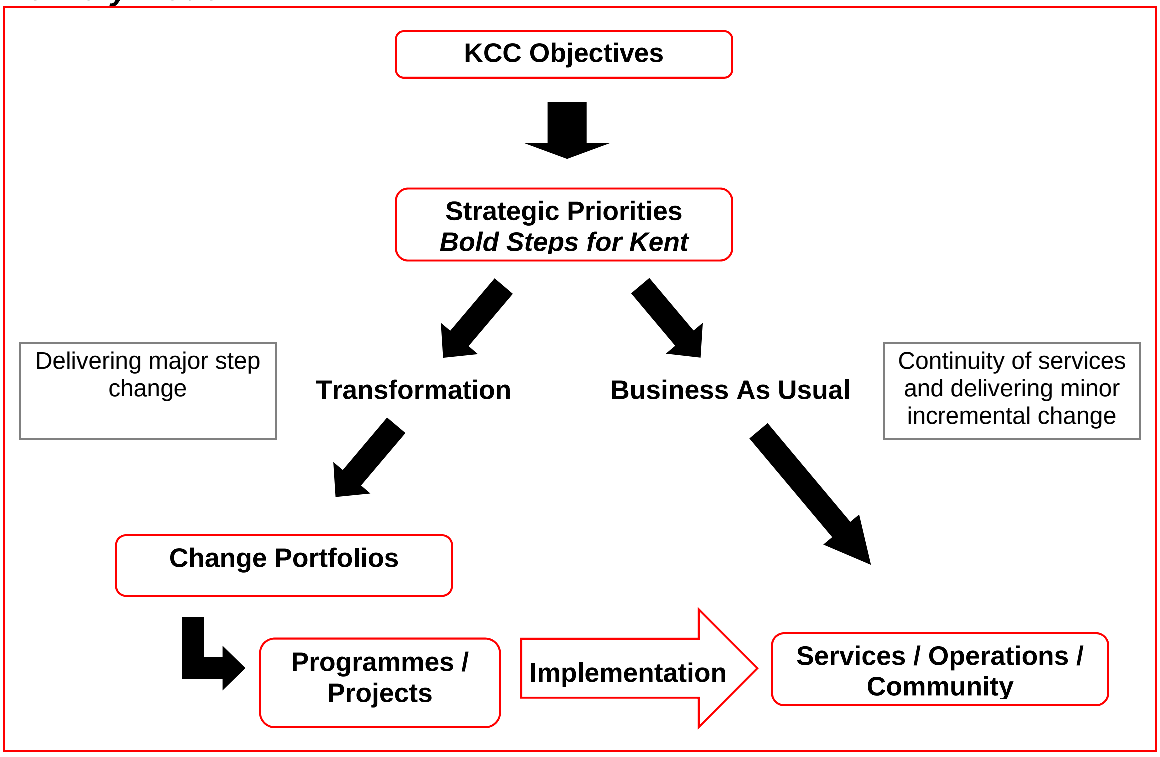
6.12 In an organisation as operationally complex and diverse as ours it is important to recognise and understand where risks emerge. There are two main elements to manage;

- ‘Business as usual’ - the day to day management of operations and services to agreed service levels and performance; and
- Transformation – managing the development and implementation of key step changes that will deliver our objectives and priorities.

6.13 The operational delivery model below provides a visual demonstration of how these two management elements operate in the greater context of organisational direction. They also help to determine where risk occurs providing five risk perspectives;

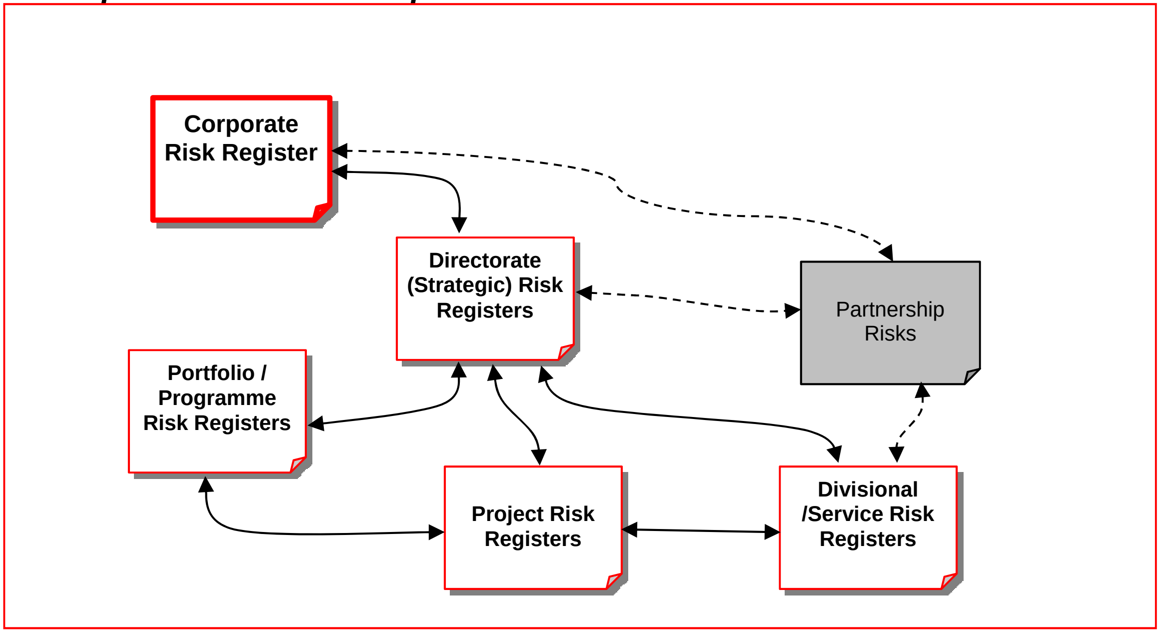
- **Corporate** – where decisions are made that shape our overall mission, strategic priorities and ambitions.
- **Strategic** - where we are exposed to risks that could affect our ability to successfully achieve our strategic priorities.
- **Programme** – where we are exposed to risks that could affect our ability to successfully complete the desired transformational outcomes of the Council and the County
- **Project** – where we are exposed to risks that could affect our ability to successfully deliver predefined outputs that enable us to deliver outcomes and realise benefits.
- **Operational / Service** – where we are exposed to risks that could affect our control and ability to successfully and continually deliver services to our customers.

Delivery Model



6.14 These five perspectives are inherent at different levels across the organisation. They have clear interdependencies for effective management of risk and provide a logical structure of risk registers that inform each other and allow risks to be communicated and if necessary escalated up and down and across the hierarchy. The Corporate Risk Register leads this hierarchy and will be a key document through which the Council maintains assurance around its most significant risk areas.

Risk Perspectives and Interdependencies



Governance of risk management

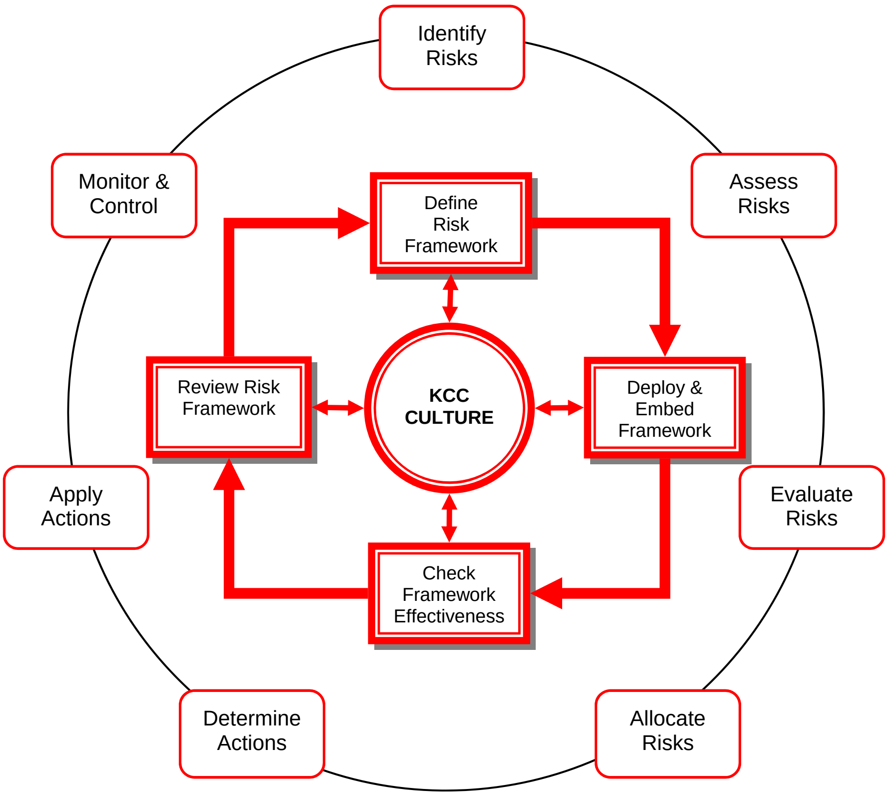
6.15 Responsibility for risk management runs throughout the Council; everyone has a role to play. However, to ensure that risk management is successful, the roles and responsibilities of key groups and individuals must be clearly identified. The main individuals and groups and reporting structure for Risk Management are set out in Appendix 1 and the roles and responsibilities are set out in Appendix 2.

6.16 Other officer groups deal with related risk specialisms such as Health and Safety; Treasury; Emergency Resilience and Business Continuity; Insurance; Information Security etc. These groups are linked into the governance arrangements of the Council so that their work is co-ordinated within the Council's overall risk management framework.

Overview of the risk management framework and process

6.17 Our risk management framework will align with OGC's recognised best practice guidance - *Management of Risk: Guidance for Practitioners*, as expressed in diagram 1 below: The framework is an iterative process to enable continuous improvement.

Diagram 1 – The Risk Management Framework



6.18 The risk management framework is summarised below and practical detail for managers is set out in the risk management guidance and support resources on KNet.

6.19 **Risk Management Framework** - The four core elements of the framework development, highlight the need for its risk management approach and practices to be informed by, and aligned with, its values and culture. They form the basis of the Council's Risk Management Policy:

- **Define risk framework** – The Head of Business Intelligence determines and recommends policy and practical guidance for the management of the Council's risks in line with its culture and values. Supported by Cabinet Members and Corporate Directors, it will set out the standards and practices that must be used across the Council and will define the activities and practices for assessing and managing risk.

- **Deploy & embed framework** – Senior management will assign resources to implement risk management throughout the council. This will entail the promotion and communication of the policy supported by the delivery of training in the principles and practices of risk management to Members and appropriate officers.

- **Check framework effectiveness** – The Corporate Management Team will ensure that the council's arrangements for managing risk are regularly reviewed and will report on this to Cabinet Members. The Governance and Audit Committee shall regularly commission its internal auditors to undertake a formal review of the Council's risk management arrangements. The outcomes of the internal review will be presented to the Governance and Audit Committee and be used to inform its review of the policy and framework.

- **Review risk framework** – All information collated on the effectiveness of the Council's risk management arrangements will be interpreted and used alongside lessons learned to review and strengthen the policy and to provide greater capability and capacity for managing the Council's risks. This in turn will provide greater assurance to stakeholders.

6.20 **Risk Management Approach** – Illustrated above, surrounding the four concepts of the risk management framework, are the defined process and practices for assessing and managing risk. Practical details are outlined within the management guidance and support resources for managers on KNet:

- **Identify Risk** – Concerns our methodology for establishing an activity's exposure to risks and how they are to be recorded for each of the five risk perspectives.
- **Assess Risk** – A process through which risks are analysed according to potential likelihood and impact..
- **Evaluate Risk** – The evaluation of risks against parameters (risk appetite and tolerance) which provides assurance of a consistent approach to the measurement of risk and appropriate management and escalation.
- **Allocate Risk** – Ensuring that identified risks are suitably allocated to stakeholders who are best placed to take ownership of the risk and who have the required level of authority to effectively manage them.
- **Determine Actions** – A logical approach to determining appropriate, proportionate and viable solutions to eliminating, reducing or controlling threats and enhancing opportunities in line with risk appetite.
- **Apply Actions** – Our approach for the agreement and deployment of selected actions.
- **Monitor & Control** – Methodology for reviewing risks against factors that could affect their profiles and for exercising control over risk to reduce and maintain them to tolerable levels.

Risk Appetite, Tolerance & Escalation

6.21 Principle e) in Section 5 makes reference to Risk Appetite – our willingness to tolerate a particular level of exposure to specific risks or risk groups. Understanding risk appetite is a vital aspect in supporting effective risk management. It follows that this appetite reflects the Council's capacity to bear risk and will vary by risk type and perspective.

Our appetite for risk is implicitly defined within our standard for determining risk levels (below). Risks rated as "High" will be deemed to have exceeded tolerance levels and will be subject to escalation to the next management level for review and action. The target residual rating for a risk is expected to be 'medium' or lower. In the event that this is not deemed realistic in the short to medium term, this shall be discussed as part of the escalation process, and this position regularly reviewed with the ultimate aim of bringing the level of risk to a tolerable level.

KCC's Standard for determining risk levels

Likelihood	Very likely	5	5 Low	10 Medium	15 Medium	20 High	25 High
	Likely	4	4 Low	8 Medium	12 Medium	16 High	20 High
	Possible	3	3 Low	6 Low	9 Medium	12 Medium	15 Medium
	Unlikely	2	2 Low	4 Low	6 Low	8 Medium	10 Medium
	Very Unlikely	1	1 Low	2 Low	3 Low	4 Low	5 Low
RISK RATING MATRIX			1	2	3	4	5
			Minor	Moderate	Significant	Serious	Major
			Impact				

Training on risk management

6.22 The Corporate Risk Team will develop and deliver appropriate training to support the implementation of this policy for Members and Officers. Officer training will be linked to the *Kent Manager* standard and approved by the Corporate Management Team to ensure that the requirements of the various staff groups within the Council are met. Supplementary training will also be delivered to directorates and business units if requested and where capacity allows.

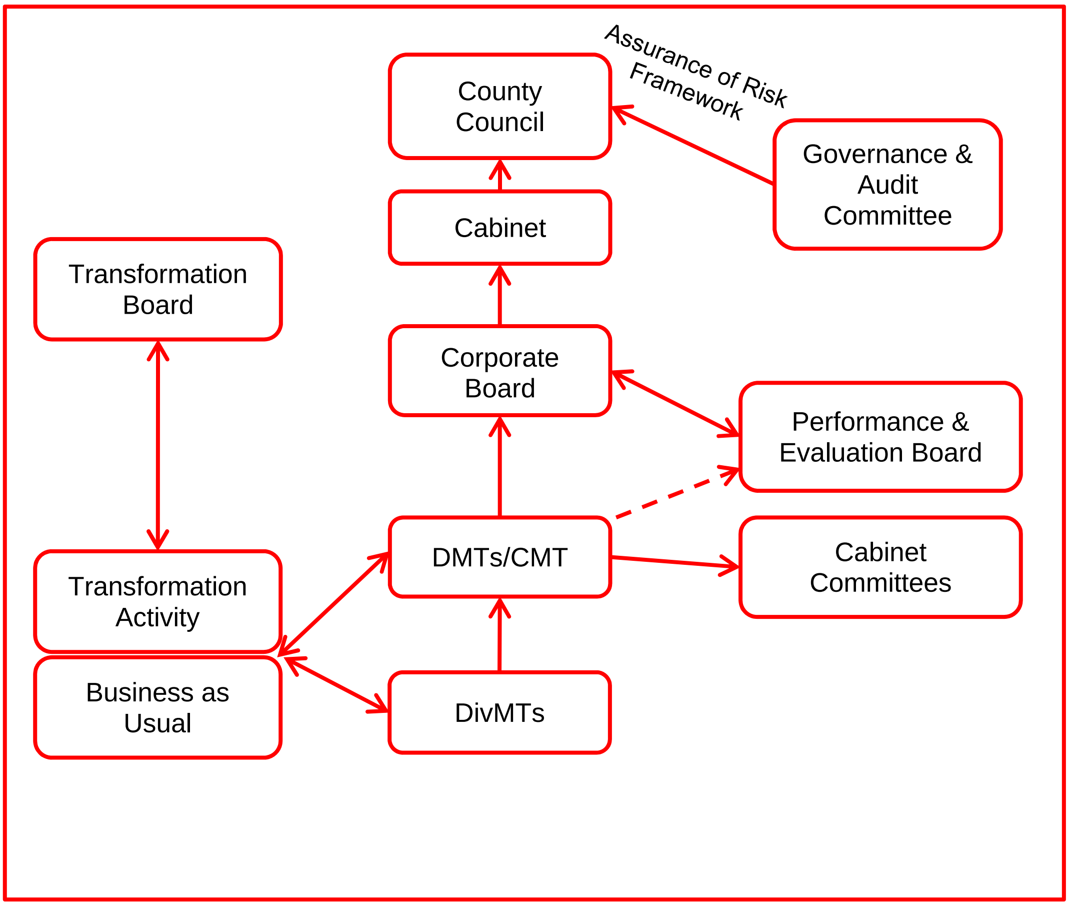
6.23 Attendance at training sessions will be monitored to ensure that risk management capability is consistently embedded across all areas of the Council. Training will also be evaluated by attendees to facilitate continual improvement.

Review of this policy

6.24 It is the responsibility of the Governance and Audit Committee to: '*On behalf of the Council ensure that Risk Management and Internal Control systems are in place that are adequate for purpose, and are effectively and efficiently operated.'* Internal Audit will support their role in assuring its effectiveness and adequacy.

6.25 Information from Internal Audit and from other sources will be used to inform recommended changes to the policy and framework at least annually. Any changes will be presented to the Governance and Audit Committee for approval before publication.

Risk Management Governance Structure



Risk Management Roles and Responsibilities

Group or Individual	Responsibilities
County Council	Ensure that an effective system of risk management is in place.
Governance & Audit Committee	On behalf of the Council ensure that risk management and internal control systems are in place that are adequate for purpose, and are effectively and efficiently operated.
Cabinet	Responsibility for the operation of the risk management system, including the establishment of the Council's risk appetite.
Cabinet Member for Business Strategy, Audit & Transformation	On behalf of Cabinet ensure effective risk management arrangements are put in place
Cabinet Portfolio Holders	Responsibility for the effective management of risk within their portfolio areas and ensuring that they consider risks in all decisions they make
Cabinet Committees	To provide scrutiny pre-decision to ensure that due consideration is given to associated risks.
Section 151 Officer	Active involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered.
Corporate Management Team (CMT)	To ensure the Council manages risks effectively through the Risk Management Policy and actively consider, own and manage key strategic risks affecting the Council through the Corporate Risk Register. Keep the Council's risk management framework under regular review and approve and monitor delivery of the annual risk work programme
Performance & Evaluation Board	Investigate strategic risks where monitoring indicates that progress against mitigating actions is not sufficient.
Portfolio / Programme / Project Boards	To ensure that portfolio, programme and project risks are effectively identified and managed and that any impacts on the business that may follow implementation are reported and managed.
Corporate Portfolio Office	To develop and ensure implementation of ,portfolio, programme and project governance, controls and risk management arrangements to successfully deliver outputs and secure desired outcomes and benefits.
Directorate Management Teams (DMT)	Responsibility for the effective management of risk within the directorate, including risk escalation and reporting to the Corporate Management Team as appropriate.
Divisional Management Teams (DivMT)	Responsibility for the effective management of risk within divisions, including risk escalation, and reporting to DMT as appropriate.
Corporate Director Business Strategy & Support (Head of Paid Service)	Responsibility for the overall monitoring of strategic risks across the Council, including the endorsement of priorities and management action. Responsible for ensuring that risk management resources are appropriate.
Head of Business Intelligence	Establish the organisational context and objectives for risk management and map the external and internal risk

	environment. Develop and maintain the risk management policy, strategy, management guidance and support resources.
Corporate Risk Manager	Promote a positive risk management culture within KCC, developing and implementing the risk management framework and strategic approach and continuing to develop and embed an effective infrastructure for managing and reporting risk. Facilitate maintenance of an up to date Corporate Risk Register and provide reports on corporate risk to Cabinet members and the Corporate Management Team. Facilitate the risk management process within the Council and advise on developments on risk management. Assist key individuals with implementing and embedding risk within key Council areas and provide guidance, training and support as required.
Corporate Risk Team	Day to day responsibility for developing and co-ordinating risk management across the Council and providing advice, support and training, and contributing to ongoing regular reporting on risk management
Internal Audit	Assesses the effectiveness of the risk management framework and the control environment in mitigating risk
Directors and Kent Managers	Ensure that effective risk management arrangements are in place in their areas of responsibility to minimise the Council's exposure to risk and uncertainty.
All staff members	Identify risks and contribute to their management as appropriate. Report inefficient, unnecessary or unworkable controls. Report loss events or near-miss incidents to management.

Appendix A (i) - High Level 3 Year Plan

2013-14 (revised)					2014-15			2015-16			2016-17	
£000s	£000s	£000s		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
		991,818	**Revised Base Budget**			**954,304**			**940,313**			**896,018**
			Additional Spending Pressures									
	9,265		Pay & Prices		11,472			15,811			19,000	
	87,075		Government & Legislative		14,369			280			0	
	15,882		Demand & Demographic		10,487			7,000			11,000	
	9,362		Impact of Local Decisions		20,215			8,151			7,140	
	0		Emerging Pressures		0			4,000			10,000	
		121,584	**Total Additional Spending**			**56,542**			**35,242**			**47,140**
		23,512	One-Off Savings			24,870			8,861			0
		145,096	**Total Pressures**			**81,412**			**44,103**			**47,140**
			Income & Savings									
	-3,280		Income Generation		-5,127			-4,816			-1,700	
	-87,501		Increases in Grants and Contributions		-14,001			0			0	
	-9,706		Removal of one-off spending in previous year									
			Efficiency Savings									
-14,125			Staff Pay, Travel & Other	-9,982			-7,256			0		
-151			Premises related	-422			-2,893			-906		
-8,022			Contracts & Procurement related	-13,693			-1,341			-300		
0			Financing the Capital Programme	-3,000			0			0		
	-22,298				-27,097			-11,490			-1,206	
			Service Reviews, Transformation & Demand Management									
			Adults Transformation	-13,050			-7,000			-4,000		
			Specialist Children's Services	-4,700			-2,700			0		
			Children's Centres	-2,000			-500			0		
			Adolescent Services	-3,629			-4,198			-7,357		
			Early Years Services	-293			-2,912			-1,395		
			Supporting People	-2,400			-1,000			0		
			Highways	-3,652			0			0		
			Home to School Transport	-2,575			-3,925			0		
			Community Safety	0			-1,280			0		
			Economic Development	-640			-240			0		
			Community Engagement & Localism	-1,801			-234			-235		
			Reduction and review of non front line support activities	-2,850			-3,866			-1,344		
			Other Service Reviews	-2,728			-875			0		
	-34,955				-40,318			-28,730			-14,331	
			Savings still to be identified		**0**			**-43,361**			**-44,933**	
	-24,870		One-off savings		-8,861			0			0	
		-182,610	**Total Income & Savings**			**-95,404**			**-88,397**			**-62,170**
		954,304	**Net Budget Requirement**			**940,313**			**896,018**			**880,989**
			Funded by									
	509,636		Council Tax Yield		529,125			542,385			555,989	
	2,239		Council Tax Collection Fund		4,018			0			0	
	45,804		Local Share of Business Rates		46,924			47,978			49,200	
	0		Business Rate Collection Fund (deficit)		-1,236							
			Un-ring-fenced Grants									
	246,733		Revenue Support Grant		213,092			158,726			127,000	
	118,329		Business Rate Top-Up		120,634			123,964			127,000	
	0		Business Rate Compensation Grant		2,000			2,000			0	
	20,642		Education Services Grant		17,000			13,000			13,000	
	5,820		Council Tax Freeze Grant		0			0			0	
	4,473		New Homes Bonus Grant		6,043			7,400			8,800	
	0		New Homes Bonus Adjustment		567			567			0	
	628		Other Un-Ring-Fenced Grant		2,146			0			0	
		954,304	**Total Funding**			**940,313**			**896,018**			**880,989**

Appendix A (ii) - 2014-15 Revenue Budget by new Directorate

	Social Care, Health & Wellbeing	Education & Young People	Growth, Environment & Transport	Strategic & Corporate Services	Financing Items	Unallocated	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
2013-14 Approved Base Budget	**480,042.6**	**105,763.8**	**176,544.6**	**85,667.7**	**106,285.3**	**0.0**	**954,304.0**
Base Adjustments (internal)	**7,307.0**	**-1,216.4**	**744.1**	**229.1**	**-5,840.8**	**-1,223.0**	0.0
2013-14 Allocation of Parked Savings	-832.0		-45.0	-200.0	1,077.0		0.0
2013-14 Centralisation of Budgets	-105.9	-27.1	-114.9	247.9			0.0
2013-14 Directorate Funded Borrowing Costs			-508.0	-180.0	688.0		0.0
2013-14 Budget Realignments to reflect latest monitoring position	3,776.1	-1,633.1	251.6	240.5	-2,635.1		0.0
2013-14 Transfer of Services between directorates	96.0	357.4		-700.2	246.8		0.0
2014-15 Allocation of parked savings full year effect					1,223.0	-1,223.0	0.0
2014-15 Transfer of Services between directorates	78.0			-78.0			0.0
2014-15 Changes to Grant/External Funding allocation	-10.8			10.8			0.0
2014-15 Budget Realignments	4,434.7	107.1	1,184.6	714.1	-6,440.5		0.0
2014-15 Centralisation of budgets	-129.1	-20.7	-24.2	174.0			0.0
Base Adjustments (external)							
<u>Additional Spending Pressures</u>							
Pay & Prices	**559.6**	**702.5**	**2,839.1**	**580.5**		**6,790.0**	**11,471.7**
Reward payments and increase in pay grades as part of proposed single pay reward scheme						4,000.0	4,000.0
Children's Social Care Prices	551.0						551.0
Transport contracts	0.6	563.5	510.4	0.5			1,075.0
Energy contracts			472.7	194.0			666.7
Waste contracts			1,305.0				1,305.0
Highways & PROW maintenance contracts			517.0				517.0
Provision for non-specific price pressure						2,790.0	2,790.0
Rent & Rates				386.0			386.0
Other	8.0	139.0	34.0				181.0
Government & Legislative	**10,872.8**	**1,758.7**	**1,137.0**		**600.0**		**14,368.5**
Landfill Tax escalator			1,137.0				1,137.0
Additional Public Health spending in line with additional ring-fenced grant	4,984.0						4,984.0
Reduction in Social Fund Grant for 2014-15	51.0						51.0
Investment of Health funding for social care in reablement and other preventative services	4,580.0						4,580.0

Appendix A (ii) - 2014-15 Revenue Budget by new Directorate

	Social Care, Health & Wellbeing	Education & Young People	Growth, Environment & Transport	Strategic & Corporate Services	Financing Items	Unallocated	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Additional spending in line with new SEN Reform grant		1,758.7					1,758.7
Additional spending in line with Adoption Reform Grant	1,257.8						1,257.8
Carbon Reduction Levy changes relating to streetlighting					600.0		600.0
Demand & Demographic	**5,654.8**	**2,102.0**	**1,822.0**	**908.0**			**10,486.8**
Concessionary Fares and Freedom Pass take-up		170.0	334.0				504.0
SEN Transport to reflect current and forecast activity		1,100.0					1,100.0
Adults with Learning Disabilites (transitionals, provisionals and Ordinary Residence) and Mental Health	3,549.9						3,549.9
Right sizing budgets for Asbestos and Legionella testing				448.0			448.0
Right sizing Landlord maintenance budget				460.0			460.0
Increased waste disposal costs, reduction in income from sale of waste materials and rightsizing waste budgets for current activity levels			1,488.0				1,488.0
Right sizing teachers' pensions budgets for previous early retirements		248.0					248.0
Looked After Children to reflect current and forecast placement in care	2,104.9	584.0					2,688.9
Impact of Local Decisions	**1,261.1**		**2,014.0**	**2,569.0**	**14,371.2**		**20,215.3**
Financing the Capital Programme			957.0	200.0	6,872.0		8,029.0
Phased repayment of sums borrowed from long-term reserves					1,303.0		1,303.0
Running costs for new and extended buildings				32.0			32.0
Rephasing previous years planned property savings				237.0			237.0
Transfer of Coroners Officers from Police			255.0				255.0
Increased maintenance responsibilities through the creation of new public rights of way routes and updating the definitive map			52.0				52.0
Rephasing of previous years proposals on streetlight part night/removal savings and energy prices			750.0				750.0
Funding for new single Member grant				2,100.0			2,100.0
Contribution to District Councils from increased council tax yield due to revising discounts and exemptions					6,144.2		6,144.2
Continue essential spend supported by one-off Adoption Reform Grant in 2013-14	1,261.1						1,261.1

Appendix A (ii) - 2014-15 Revenue Budget by new Directorate

	Social Care, Health & Wellbeing	Education & Young People	Growth, Environment & Transport	Strategic & Corporate Services	Financing Items	Unallocated	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Drawdown from Prudential Equalisation Reserve					52.0		52.0
One-off Savings		**3,000.0**			**21,870.0**		**24,870.0**
Total Pressures (Additional Spending)	**18,348.3**	**7,563.2**	**7,812.1**	**4,057.5**	**36,841.2**	**6,790.0**	**81,412.3**
Income and Savings							
Income Generation	**-1,690.0**	**-500.0**	**-145.0**		**-2,792.0**		**-5,127.0**
Increased contribution from Commercial Services					-2,792.0		-2,792.0
Increase in Social Care charges in line with benefits uplift	-1,690.0						-1,690.0
Increased income from school improvement traded services		-500.0					-500.0
Increase in income from Registration ceremonial activities and Kent Scientific Services from less work being sub contracted			-145.0				-145.0
Increases in Grants and Contributions	**-12,241.8**	**-1,758.7**					**-14,000.5**
Increase in Public Health Grant	-4,984.0						-4,984.0
Increase in Health contribution to support social care	-6,000.0						-6,000.0
Adoption Reform Grant	-1,257.8						-1,257.8
SEN Reform Grant		-1,758.7					-1,758.7
Efficiency Savings							
Staff Pay, Travel & Other	**-2,541.3**	**-1,782.5**	**-3,670.8**	**-3,158.4**	**-52.0**	**1,223.0**	**-9,982.0**
Full Year effect of staffing & other efficiencies implemented during 2013-14		-75.0	-703.0	-2.0			-780.0
Review of arrangements across the Gateways portfolio				-150.0			-150.0
Reductions in Environment Management, Planning Applications and Planning & Transport Policy budgets			-145.0				-145.0
Review staff and management structures and other efficiencies			-1,050.0				-1,050.0
Staffing & other reductions across a number of units		-514.0					-514.0
Review of Environment Services and Planning Applications			-152.0				-152.0
Review of inclusion budgets		-193.0					-193.0
Savings from implementing new structure, market testing and service reviews under Facing the Challenge	-1,516.0	-344.0	-559.0	-272.0		1,223.0	-1,468.0
Savings from non front line posts & related costs	-483.0	-563.0		-975.0			-2,021.0

Appendix A (ii) - 2014-15 Revenue Budget by new Directorate

	Social Care, Health & Wellbeing	Education & Young People	Growth, Environment & Transport	Strategic & Corporate Services	Financing Items	Unallocated	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Net reduction in the number of Director and Corporate Director posts	-150.0	150.0	-332.4	-417.6			-750.0
On-going savings on staff travel as a result of removing essential user status and lease cars	-241.2	-33.9	-27.6	-41.3			-344.0
Additional VAT recovery income from staff travel claims	-100.1	-25.6	-11.8	-12.5			-150.0
Removal of one-off funding required in 2013-14 only			-165.0	-350.0			-515.0
Reduction in borrowing costs through release of PEF2 assets					-52.0		-52.0
Reduce spending on legal disbursements				-188.0			-188.0
Greater collaboration with police and fire including integration of separate Community Safety and Emergency Planning teams			-50.0				-50.0
Reduced activity and increased income from prosecutions within Trading Standards			-75.0				-75.0
Review central budgets			-250.0				-250.0
Fully cover Governor Support Services from income on training		-91.0					-91.0
Reduction in Social Fund expenditure following reduction in Social Fund Grant	-51.0						-51.0
Multi Agency ICT provision				-750.0			-750.0
One-off reduction in book fund			-150.0				-150.0
Remove KCC subsidy for Minority Communities Achievement Service (now fully funded from grant and income)		-93.0					-93.0
Premises Related				**-422.0**			**-422.0**
Savings from reducing overall property portfolio through local area asset reviews				-300.0			-300.0
Additional Facilities Management savings from transferring remaining property budgets into Corporate Landlord (requires base adjustment during 2014-15)				-59.0			-59.0
Dilapidations				-63.0			-63.0
Contracts & Procurement Related	**-2,108.3**	**-4,376.6**	**-6,083.2**	**-300.0**	**-825.0**		**-13,693.1**
Commissioning and Procurement efficiencies within Public Health	-384.0				-825.0		-1,209.0
Reduction in post mortem contracts (part year effect)			-50.0				-50.0
Waste contract and procurement efficiencies			-309.0				-309.0
Waste partnerships			-1,711.0				-1,711.0
Full year effect of HWRC decisions			-350.0				-350.0

Appendix A (ii) - 2014-15 Revenue Budget by new Directorate

	Social Care, Health & Wellbeing	Education & Young People	Growth, Environment & Transport	Strategic & Corporate Services	Financing Items	Unallocated	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Full year effect of CXK (Connexions Kent) contract renegotiation		-1,500.0					-1,500.0
Cease Kent Safe Schools (project Salus)		-292.0					-292.0
Full year effect of reduced support to Welfare Advice Service				-50.0			-50.0
Review of printing spend across the authority and reduced central activity				-250.0			-250.0
Sustainable Transport - combination of increased income and reduced traffic modelling capacity			-175.0				-175.0
Reduce planned waste tonnage volume			-2,371.0				-2,371.0
Services commissioned from Public Health	-1,724.3	-2,284.6	-50.0				-4,058.9
Increase operational efficiency of HWRCs			-250.0				-250.0
Street Lighting energy saving through Part Night approach (switch off selected lights beetween midnight and 5am) and street light removal			-467.2				-467.2
Reduce spend on Urban Traffic Control system			-100.0				-100.0
Public Transport contract efficiencies for 2014-15			-250.0				-250.0
Continuation of previous policy decision to phase out discretionary home to school transport		-300.0					-300.0
Financing the Capital Programme					**-3,000.0**		**-3,000.0**
Revised Minimum Revenue Provision (MRP) Policy					-3,000.0		-3,000.0
Service Reviews, Transformation & Demand Management							
Adults Transformation	**-13,050.0**						**-13,050.0**
Net saving from Adults Transformation Programme (includes investment in services to manage demand in order to deliver these savings)	-13,050.0						-13,050.0
Specialist Children's Services	**-4,700.0**						**-4,700.0**
Procurement efficiencies in fostering placements through framework agreements	-300.0						-300.0
Reduction in the use of agency staff	-492.0						-492.0
Reduction in legal charges as a result of reduced demand from alternative delivery models	-600.0						-600.0

Appendix A (ii) - 2014-15 Revenue Budget by new Directorate

	Social Care, Health & Wellbeing	Education & Young People	Growth, Environment & Transport	Strategic & Corporate Services	Financing Items	Unallocated	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Demand reductions and implementation of alternative payment mechanisms and delivery models	-3,308.0						-3,308.0
Children's Centres		**-2,000.0**					**-2,000.0**
Children's Centre review		-2,000.0					-2,000.0
Adolescent Services	**-231.0**	**-3,398.0**					**-3,629.0**
Replace previous arrangements under Youth Opportunity Fund		-600.0					-600.0
Reduce demand for 14-19 support		-50.0					-50.0
Reduction in staffing from integration of adolescent services	-231.0	-2,748.0					-2,979.0
Early Years Services		**-293.0**					**-293.0**
Review early years market development		-293.0					-293.0
Supporting People	**-2,400.0**						**-2,400.0**
Supporting People spending on "floating support" and re-commissioning of services	-2,400.0						-2,400.0
Highways			**-3,652.0**				**-3,652.0**
Highway Maintenance and Management - reduced reactive/discretionary maintenance due to increased planned maintenance from capital			-3,652.0				-3,652.0
Home to School Transport		**-4,075.0**			**1,500.0**		**-2,575.0**
Net saving from review of Freedom Pass & 16+ Travel Card policy		-3,450.0			1,500.0		-1,950.0
SEN Transport - reduction in costs through continued efficient procurement and a more flexible approach to provision including personalised budgets		-625.0					-625.0
Economic Development			**-640.0**				**-640.0**
Review economic development staffing and commissioned activity			-640.0				-640.0
Community Engagement & Localism				**-1,801.0**			**-1,801.0**
Review of grants arrangements with District Councils				-234.0			-234.0
Remove grants to Local Boards				-400.0			-400.0

Appendix A (ii) - 2014-15 Revenue Budget by new Directorate

	Social Care, Health & Wellbeing	Education & Young People	Growth, Environment & Transport	Strategic & Corporate Services	Financing Items	Unallocated	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Review of Community Engagement function				-327.0			-327.0
Remove existing member scheme grants				-840.0			-840.0
Reduction and review of non front line support activities				**-2,850.0**			**-2,850.0**
Reduction in support services & related activities to reduce the "Corporate Overhead"				-2,725.0			-2,725.0
Review of Council Secretariat, Member allowances and Member support				-125.0			-125.0
Other Service Reviews		**-640.0**		**-213.0**		**-1,875.0**	**-2,728.0**
Review of 14 to 19 services		-210.0					-210.0
Review of Education Psychology Service		-280.0					-280.0
Reduce School Improvement activity		-150.0					-150.0
Review of commissioning and procurement activity						-1,875.0	-1,875.0
Customer Service Strategy (switching more contact to web based solutions)				-213.0			-213.0
One-Off Savings		**-600.0**			**-8,261.1**		**-8,861.1**
Roll forward of 2013-14 underspend					-4,000.0		-4,000.0
Draw down from reserves					-3,000.0		-3,000.0
One-off drawdown from reserves to enable continuation of essential spend covered by one-off Adoption Reform Grant in 2013-14					-1,261.1		-1,261.1
One off saving in lieu of rephased saving		-600.0					-600.0
Total Income and Savings	**-38,962.4**	**-19,423.8**	**-14,191.0**	**-8,744.4**	**-13,430.1**	**-652.0**	**-95,403.7**
Net Budget Requirement	**466,735.5**	**92,686.8**	**170,909.8**	**81,209.9**	**123,855.6**	**4,915.0**	**940,312.6**

Appendix A (ii) - 2014-15 Revenue Budget by new Directorate

		Social Care, Health & Wellbeing	Education & Young People	Growth, Environment & Transport	Strategic & Corporate Services	Financing Items	Unallocated	Total
		£000s	£000s	£000s	£000s	£000s	£000s	£000s
Net Budget Requirement Funded By:								
	Council Tax Yield							529,125.1
	Council Tax Collection Fund Surplus							4,017.5
	Local Share of Business Rates							46,923.8
	Business Rate Collection Fund (deficit)							-1,235.5
	Un-ring-fenced Grants							
	Business Rate Top-up							120,633.9
	Business Rate Compensation Grant							2,000.0
	Revenue Support Grant							213,091.8
	Education Services Grant							17,000.0
	New Homes Bonus Grant							6,043.0
	New Homes Bonus Adjustment							567.0
	Other							2,146.0
Total Funding								**940,312.6**

Appendix B
Prudential Indicators

1. Estimate of capital expenditure (including PFI)

Actual	2012-13	£181.299m
Estimate	2013-14	£265.319m
	2014-15	£333.967m
	2015-16	£188.730m
	2016-17	£111.934m

2. Gross Borrowing and the Capital Financing Requirement:

The Corporate Director of Finance and Procurement reports that, in light of current commitments and plans reflected in the budget forecast, gross borrowing by the Council is not envisaged to exceed the Capital Financing Requirement in 2013-14, nor are there any difficulties envisaged in meeting this requirement for future years.

3. Estimate of capital financing requirement (underlying need to borrow for a capital purpose)

Capital financing requirement at 31 March

	2012-13 Actual £000	2013-14 Forecast £000	2014-15 Estimate £000	2015-16 Estimate £000	2016-17 Estimate £000
Capital Financing Requirement	1,464,961	1,450,808	1,437,960	1,378,452	1,328,368
Annual increase (decrease) in underlying need to borrow	(30,912)	(14,153)	(12,848)	(59,508)	(50,084)

4. Estimates of ratio of financing costs to net revenue stream

Actual	2012-13	14.55%
Estimate	2013-14	13.78%
	2014-15	14.04%
	2015-16	14.71%
	2016-17	14.33%

5. Estimates of the incremental impact of capital investment decisions on the Council Tax (over and above capital investment decisions taken in previous years)

	2014-15 £	2015-16 £	2016-17 £
Impact on Band D – cumulative	0.00	0.00	0.00

No new borrowing has been approved that will impact on the Council Tax.

6. Adoption of the CIPFA Treasury Management Code:

Kent County Council has adopted the CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes

7. Actual External Debt:

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2013	£m
Borrowing	1,012
Other Long Term Liabilities[1]	261
Total	**1,273**

8. Authorised Limit and Operational Boundary for External Debt:

The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet. It has been set on the estimate of the most likely, prudent scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt relating to KCC assets and activities

	2013-14 Approved £m	2013-14 Revised £m	2014-15 Estimate £m	2015-16 Estimate £m	2016-17 Estimate £m
Borrowing	1,033	1,033	1,033	1,035	1,037
Other Long Term Liabilities[1]	1,134	1,134	261	261	261
Total	**2,167**	**2,167**	**1,294**	**1,296**	**1,298**

Authorised Limit for External Debt managed by KCC including that relating to Medway Council (pre Local government reorganisation)

	2013-14 Approved £m	2013-14 Revised £m	2014-15 Estimate £m	2015-16 Estimate £m	2016-17 Estimate £m
Borrowing	1,080	1,080	1,078	1,078	1,078
Other Long Term Liabilities[1]	1,134	1,134	261	261	261
Total	**2,214**	**2,214**	**1,339**	**1,339**	**1,339**

The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary for External Debt relating to KCC assets and activities

	2013-14 Approved £m	**2013-14 Revised £m**	**2014-15 Estimate £m**	**2015-16 Estimate £m**	**2016-17 Estimate £m**
Borrowing	993	993	993	995	997
Other Long Term Liabilities[1]	1,134	1,134	261	261	261
Total	**2,127**	**2,127**	**1,254**	**1,256**	**1,258**

Operational Boundary for total debt managed by KCC including that relating to Medway Council etc

	2013-14 Approved £m	**2013-14 Revised £m**	**2014-15 Estimate £m**	**2015-16 Estimate £m**	**2016-17 Estimate £m**
Borrowing	1,040	1,040	1,038	1,038	1,038
Other Long Term Liabilities[1]	1,134	1,134	261	261	261
Total	**2,174**	**2,174**	**1,299**	**1,299**	**1,299**

9. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding amounts.

The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the Revenue Budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments

The limits provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

	2013-14 Approved %	2013-14 Revised %	2014-15 Estimate %	2015-16 Estimate %	2016-17 Estimate %
Upper limit for Fixed interest rate exposure	100	100	100	100	100
Upper limit for Variable rate exposure	30	30	40	40	40

10. Maturity Structure of Fixed Rate borrowing:

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %
under 12 months	0	10
12 months and within 24 months	0	10
24 months and within 5 years	0	15
5 years and within 10 years	0	15
10 years and within 20 years	5	20
20 years and within 30 years	5	20
30 years and within 40 years	10	25
40 years and within 50 years	10	25
50 years and within 60 years	10	30

11. Upper limit for total principal invested over 364 days:

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. The increased limits from 2014-15 reflect the Council's proposed investment in bonds and establishment of an investment portfolio.

Upper limit for total principal invested over 364 days	2013-14 Approved £m	2013-14 Revised £m	2014-15 Estimate £m	2015-16 Estimate £m	2016-17 Estimate £m
	30	30	175	175	175

[1] The Pension fund liability has been excluded from long term liabilities from 2014-15 onwards, in line with the Prudential Code.

Appendix C
Annual Minimum Revenue Provision (MRP) Statement

Authorities are asked to submit a statement on their policy of making MRP to full Council or similar. Any revision to the original statement must also be issued.

In 2008 the Department for Communities and Local Government (DCLG) issued new guidance on the Minimum Revenue Provision. This guidance provided four ready-made options which would be most relevant for the majority of authorities but stated that other approaches are not meant to be ruled out, provided that they are **fully consistent with the statutory duty to make prudent revenue provision**. The options that we have implemented since this new guidance came into operation are:

- 4% of our capital finance requirement before the change in regulations.

- The asset life method in subsequent years. This method provides authorities with the option of applying MRP over the life of the asset once it is in operation, so for assets that are not yet operational and still under construction we effectively have an “MRP holiday”.

The total of these two methods has provided the annual MRP figure since the regulations changed. However, what this does not do, is align the MRP with the repayment of debt and other long term liabilities. For current and subsequent years we intend to continue with the existing calculations but then make an adjustment to reflect the timing of internal and external debt repayment and other long term liabilities. Given the challenges that the authority is facing over the next few years this is a more prudent approach. This adjustment will reflect either a deferment of MRP against the calculation or an additional contribution, on an annual basis.

Any adjustment made will be reflected in later years to ensure the overall repayment of our liabilities is covered at the appropriate point in time. This will depend on the position of our balance sheet each year and will be a new calculation each year but using the same principles.

This method retains the guidance calculations but allows for a more prudent approach, ensuring that adequate provision is made to ensure debt is repaid.

Each year a new MRP statement will be presented.

Appendix D – Fiscal Indicators

1. Net debt costs should not exceed 15% of net revenue spending – budgeted figures

	Forecast financing costs £'000	Less: Investment Income	Net Financing costs £'000	Total Revenue Spending £'000	%
2012-13 (revised)	125,694	2,700	122,994	991,818	12.4
2013-14 (revised)	125,184	2,700	122,484	954,304	12.8
2014-15	121,070	2,700	118,370	940,313	12.6

2. Council Tax increases as a comparison to the RPI over a rolling three year period

	Preceding September RPI %	KCC Council Tax increase %
2012-13	5.6	0.00
2013-14	4.5	0.00
2014-15	3.2	1.99
Three Year Average	**4.4**	**0.66**

3. Management and Operating Overheads should be targeted to be reduced to not exceed 10% of net revenue spending

	Management Overheads £'000	Net Revenue Spending £'000	%
2012-13 (revised)	97,042	991,818	9.8
2013-14 (revised)	95,402	954,304	10.0
2014-15	86,864	940,313	9.2

4. Corporate & Democratic Core (Strategic Costs) should not exceed 1.5% of net revenue spending

	Corporate & Democratic Core (Strategic Costs) £'000	Net Revenue Spending £'000	%
2012-13 (revised)	7,589	991,818	0.8
2013-14 (revised)	7,546	954,304	0.8
2014-15	6,766	940,313	0.7

5. Income from commercial activities should make a contribution of at least 5% to overheads

	Net income from Commercial Activities £'000	Overheads £'000	Contribution achieved %
2012-13 (revised)	6,568	97,042	6.8
2013-14 (revised)	4,899	95,402	5.1
2014-15	7,691	86,864	8.9

Note: Currently, net income from commercial activities is the surplus from Commercial Services only.

<u>Other Financial Management Indicators</u>

6. General Reserve as a percentage of Gross Expenditure (excluding Schools)

	General Reserve £'000	Gross Expenditure (exc. Schools) £'000	%
2012-13 (revised)	31,725	1,398,635	2.3
2013-14	31,725	1,431,465	2.2
2014-15	31,725	1,412,104	2.2

7. Local Funding (Service Income exc. Schools plus Council Tax) as a percentage of Gross Expenditure (excluding Schools)

	Service Income (exc. Schools) + Council Tax £'000	Gross Expenditure (exc. Schools) £'000	%
2012-13 (revised)	829,282	1,398,635	59.3
2013-14	755,852	1,431,465	52.8
2014-15	788,014	1,412,104	55.8

Appendix E – Corporate Risk Register
Summary Risk Profile

Low = 1-6	Medium = 8-15	High = 16-25

Risk No.*	Risk Title	Current Risk Rating	Target Risk Rating
CRR 1	Data and Information Management	9	9
CRR 2	Safeguarding	15	10
CRR 3	Access to Resources to aid Economic Growth and enabling Infrastructure	12	8
CRR 4	Civil Contingencies and Resilience	12	8
CRR 7	Governance & Internal Control	12	8
CRR 9	Better Care Fund (Health & Social Care)	12	8
CRR 10 (a)	Management of Adult Social Care Demand	20	12
CRR 10 (b)	Management of Demand – Specialist Children's Services	20	12
CRR 12	Welfare Reform Changes	12	9
CRR 13	Delivery of 2014-15 savings	12	4
CRR 14	Procurement	9	6
CRR 17	Future Operating Environment for Local Government	20	10
CRR 18	Public Service Network – Non-compliance with Code of Connection	8	4

* Each risk is allocated a unique code, which is retained even if a risk is transferred off the Corporate Register. Therefore there will be some 'gaps' between risk IDs.

NB: Current & Target risk ratings: The 'current' risk rating refers to the current level of risk taking into account any mitigating controls already in place. The 'target residual' rating represents what is deemed to be a realistic level of risk to be achieved once any additional actions have been put in place. On some occasions the aim will be to contain risk at current level.

Appendix E – Corporate Risk Register

Risk ID	**CRR1**	**Risk Title**	**Data and Information Management**		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council is reliant on vast amounts of good quality data and information to determine sound decisions and plans, conduct operations and deliver services. It is also required by the Data Protection Act and Government's Code of Connection (CoCo) to maintain confidentiality, integrity and proper use of the data. With the Government's 'Open' agenda, increased flexible working patterns of staff, and increased partnership working and use of multiple information repositories, controls on data management and security have become complex and important.	Poor decision making due to ineffective use of or insufficient availability of data and information sharing. Loss, misrepresentation or unauthorised disclosure of sensitive data. KCC falls victim to cyber attacks or sabotage.	Under performance. Breach of Data Protection Act leading to legal actions, fines, adverse publicity, and additional remedial and data protection costs. Significant interruption of vital services leading to failure to meet duties and to protect people, finances and assets. Potential damage to KCC's reputation.	On behalf of CMT: Director Governance & Law **Responsible Cabinet Member(s):** Corporate & Democratic Services	Possible (3) **Target Residual Likelihood** Possible (3)	Significant (3) **Target Residual Impact** Significant (3)

Appendix E – Corporate Risk Register

Risk ID	**CRR2**	**Risk Title**	**Safeguarding**		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council must fulfil its statutory obligations to effectively safeguard vulnerable adults and children.	Insufficiently robust management grip, performance management or quality assurance. Its ability to fulfil this obligation could be affected by the adequacy of its controls, management and operational practices or if demand for its services exceeded its capacity and capability. Insufficient rigor in maintaining threshold application/inconsistency. Increase in referrals and service demand resulting in unmanageable caseloads/ workloads for social workers. Decline in performance and effective service delivery leading to critical inspection findings and reputational damage.	Serious impact on vulnerable people. Serious impact on ability to recruit the quality of staff critical to service delivery. Serious operational and financial consequences. Attract possible intervention from a national regulator for failure to discharge corporate and executive responsibilities. Incident of serious harm or death of a vulnerable adult or child.	Corporate Director Families & Social Care **Responsible Cabinet Member(s):** Specialist Children's Services Adult Social Care & Public Health	Possible (3) **Target Residual Likelihood** Unlikely (2)	Major (5) **Target Residual Impact** Major (5)

Appendix E – Corporate Risk Register

Risk ID	CRR3	Risk Title	Access to resources to aid economic growth and enabling infrastructure		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council seeks access to resources to develop the enabling infrastructure for economic growth and regeneration. However, in parts of Kent, there is a significant gap between the costs of the infrastructure required to support growth and the Council's ability to secure sufficient funds through s106 contributions, Community Infrastructure Levy and other growth levers to pay for it. This is especially the case in the east of the county. At the same time, Government funding for infrastructure (for example via the new Local Growth Fund) is limited and competitive and increasingly linked with the delivery of housing and employment outputs. Several local transport schemes proposed will require preparatory work without knowledge of funding allocation in order to deliver on time.	Inability to secure sufficient contributions from development to support growth. Failure to attract sufficient funding via the Local Growth Fund and other public funds to both support the cost of infrastructure and aid economic growth and regeneration.	Key opportunities for growth missed. The Council finds it increasingly difficult to fund KCC services across Kent and deal with the impact of growth on communities. Kent becomes a less attractive location for inward investment and business. Without growth the county residents will have less disposable income, face increased levels of unemployment and deprivation which could lead to heightened social and community tensions. Our ability to deliver an enabling infrastructure becomes constrained.	Corporate Director Business Strategy & Support and Head of Paid Service (Corporate Director Enterprise & Environment) **Responsible Cabinet Member(s):** Economic Development	Possible (3) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

Appendix E – Corporate Risk Register

Risk ID	CRR4	Risk Title	Civil Contingencies and Resilience		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council, along with other Category 1 Responders in the County, has a legal duty to establish and deliver containment actions and contingency plans to reduce the likelihood, and impact, of high impact incidents and emergencies and severe / extreme weather conditions.	Failure to deliver suitable planning measures, respond to and manage these events when they occur. Critical services are unprepared or have ineffective emergency and business continuity plans and associated activities.	Potential increased loss of life if response is not effective. Serious threat to delivery of critical services. Increased financial cost in terms of damage control and insurance costs. Adverse effect on local businesses and the Kent economy. Possible public unrest and significant reputational damage. Legal actions and intervention for failure to fulfill KCC's obligations under the Civil Contingencies Act or other associated legislation.	Corporate Director Customer & Communities **Responsible Cabinet Member(s):** Customer & Communities	Possible (3) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

Appendix E – Corporate Risk Register

Risk ID CRR7	**Risk Title**	**Governance and Internal Control**			
Source / cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council has legal responsibilities to ensure that adequate governance arrangements are in place to help the Council achieve its statutory responsibilities and to protect the Council's assets and finances. This is particularly important during the current period of significant change.	Major governance and internal control failure within the Council and / or its key suppliers e.g.: Appropriate decision making processes not followed. Significant fraud activity undetected. Governance models do not keep pace with changes to operating models.	Reputational damage and financial loss. Fail external inspection/audit. Loss of confidence in the Council and possible government intervention.	Corporate Director Finance & Procurement (Director Governance & Law) **Responsible Cabinet Member(s):** Corporate & Democratic Services Finance & Procurement	Possible (3) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

Appendix E – Corporate Risk Register

Risk ID	CRR9	Risk Title	Better Care Fund (Health & Social Care Integration)		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Health & Social Care Act came into effect in April 2013 giving KCC, as an upper tier Authority, a new duty to take appropriate steps to improve and protect the health of the local population. The Government's spending review in June 2013 announced an Integration Transformation Fund (now relabeled Better Care Fund), which provides an opportunity to create a shared plan for health & social care activity and expenditure. The plan for 2015/16 needs to start in 2014 and form part of a five-year strategy for health & social care. A fully integrated service calls for a step change in current arrangements to share information, staff, money and risk. There are a number of national conditions attached to the Fund.	Service delivery requirements suffer during the major integration programme. Failure to maximise opportunities presented for health & social care integration, and ensure changes achieve maximum impact. KCC and Clinical Commissioning Group plan does not meet NHS England conditions	Ineffective health and social care provision for citizens of Kent. Business Continuity issues due to delay in the development and management of essential new complex partnerships between KCC and the NHS. Funds not released	Corporate Director Families & Social Care **Responsible Cabinet Member(s):** Education & Health Reform Adult Social Care & Public Health	Possible (3) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

Appendix E – Corporate Risk Register

Risk ID	CRR10(a)	Risk Title	Management of Adult Social Care Demand		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
Adult social care services across the country are facing growing pressures. Overall demand for adult social care services in Kent continues to increase due to factors such as increasing numbers of young adults with long-term complex care needs and Ordinary Residence issues. This is all to be managed against a backdrop of reductions in Government funding, implications arising from the implementation of the Care Bill and longer term demographic pressures.	Council is unable to manage and resource to future demand and its services consequently do not meet future statutory obligations and/or customer expectations.	Customer dissatisfaction with service provision. Increased and unplanned pressure on resources. Decline in performance. Legal challenge resulting in adverse reputational damage to the Council. Financial pressures on other council services.	Corporate Director Families & Social Care **Responsible Cabinet Member(s):** Adult Social Care & Public Health	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Serious (4)

Appendix E – Corporate Risk Register

Risk ID	CRR10(b)	Risk Title	Management of Demand – Specialist Children's Services		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
Local Authorities continue to face increasing demand for specialist children's services due to a variety of factors, including consequences of highly publicised child protection incidents and serious case reviews, and policy/legislative changes. At a local level KCC is faced with additional demand challenges such as those associated with significant numbers of Unaccompanied Asylum Seeking Children (UASC) There are also particular 'pressure points' in several districts. These challenges need to be met as specialist children's services face increasingly difficult financial circumstances and operational challenges such as recruitment and retention of permanent qualified social workers.	High volumes of work flow into specialist children's services leading to unsustainable pressure being exerted on the service.	Additional financial pressures placed on other parts of the Authority at a time of severely diminishing resources. Children's services performance declines as demands become unmanageable. Failure to deliver statutory obligations and duties or achieve social value. Ultimately an impact on outcomes for children, young people and their families.	Corporate Director Families & Social Care **Responsible Cabinet Member(s):** Specialist Children's Services	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Serious (4)

Appendix E – Corporate Risk Register

Risk ID	12	Risk Title	Welfare Reform changes		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Welfare Reform Act 2012 put into law many of the proposals set out in the 2010 white paper *Universal Credit: Welfare that Works*. It aims to bring about a major overhaul of the benefits system and the transference of significant centralised responsibilities to local authorities. KCC needs to be prepared to manage the uncertain affects and outcomes that the changes may have on the people of Kent.	The impact of the reforms in regions outside of Kent could trigger the influx of significant numbers of 'Welfare' dependent peoples to Kent. Failure to plan appropriately to deal with potential consequences. The financial models and budgets and funding sources underpinning the new schemes prove to be inadequate and allocation of payments and grants has to become prioritised against more challenging criteria.	Failure to meet statutory obligations. Ineffective delivery of schemes and operations to customers compounds demand on KCC and partner services. An increase in households falling below poverty thresholds with vulnerable people becoming exposed to greater risk. New schemes and operations are undermined by a negative impact on Kent's demographic profile. Insufficient employment to meet additional demand and to fill the publics' 'funding gap' places additional challenges for adult and child safeguarding and demand for social support. Increasing deprivation leads to increase in social unrest and criminal activity.	Corporate Director Customer & Communities Corporate Director Families & Social Care (Corporate Director of Finance & Procurement) **Responsible Cabinet Member(s):** Finance & Procurement Community Services Adult Social Care & Public Health	Possible (3) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Significant (3)

Appendix E – Corporate Risk Register

Risk ID	**CRR13**	**Risk Title**	**Delivery of 2014-15 savings**		
Source / Cause of Risk The ongoing difficult economic climate has led to significant reductions in funding to the public sector and Local Government in particular. KCC has already made significant cost savings and still needs to make ongoing year-on-year savings in order to "balance its books."	**Risk Event** The required savings from key programmes or efficiency initiatives are not achieved.	**Consequence** Urgent alternative savings need to be found which could have an adverse impact on service users and/or residents of Kent. Potential adverse impact on whole-council transformation plans. Reputational damage to the council.	**Risk Owner** On behalf of CMT: Corporate Director Finance & Procurement **Responsible Cabinet Member(s):** Finance & Procurement	**Current Likelihood** Possible (3) **Target Residual Likelihood** Very unlikely (1)	**Current Impact** Serious (4) **Target Residual Impact** Serious (4)

Appendix E – Corporate Risk Register

Risk ID	**CRR14**	**Risk Title**	**Procurement**			
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**	
As part of KCC's whole-council transformation programme the Authority is moving towards more strategic commissioning arrangements. This will put even greater emphasis on the importance of robust procurement and commissioning arrangements and contract management.	Commercial or contractual failure of suppliers. A procurement process is challenged because it is considered to be discriminatory or to have failed to adhere to procedures set out in procurement law. Potential conflict between best price and *Bold Steps for Kent* objectives. Non-delivery of procurement savings. Ineffective contract management – KCC fails to act as a strong enough 'client'. Procurement and commissioning functions not appropriately aligned.	Providers fail to deliver expected benefits. Service users / residents of Kent suffer – potential legal, financial and reputational implications. Procurement processes may have to be halted / restarted, which has service and financial implications. Failure to secure optimum value for money from service providers.	On behalf of CMT: Corporate Director Finance & Procurement **Responsible Cabinet Member(s):** Finance & Procurement	Possible (3) **Target Residual Likelihood** Unlikely (2)	Significant (3) **Target Residual Impact** Significant (3)	

Appendix E – Corporate Risk Register

Risk ID	CRR17	Risk Title	Future operating environment for local government		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner(s)**	**Current Likelihood**	**Current Impact**
The extension of public sector austerity beyond the current Parliament, the continuing growth in pressures and a radical public service reform agenda being pursued by the Coalition Government means that KCC, like many local authorities, is faced with significant uncertainty and enormous challenges.	Failure to respond appropriately to the challenges faced and to be able to shape a new resilient and financially sustainable fit-for-purpose Authority in the timescales required.	Services of insufficient quality to support the needs of the people of Kent. Unsustainable financial overspend. Reduction in resident satisfaction and reputational damage.	Corporate Directors **Responsible Cabinet Member(s):** Business Strategy, Audit & Transformation	Likely (4) **Target Residual Likelihood** Unlikely (2)	Major (5) **Target Residual Impact** Major (5)

Appendix E – Corporate Risk Register

Risk ID	**CRR 18**	**Risk Title**	**Public Sector Network - Compliance with Code of Connection**		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Public Services Network is the successor to the Government Connect Secure Extranet (GCSx) and Government Secure Intranet (GSi). The PSN is a UK government Wide Area Network, whose main purpose is to enable connected organisations, including local authorities and central government, to communicate electronically and securely at low protective marking levels. The customer Code of Connection (CoCo) provides a minimum set of security standards that organisations must adhere to when joining the PSN. Due to the Government's zero-tolerance approach KCC, like a number of local authorities, is currently in exception for complying with the latest security standards from government and is working towards compliance. Complying with the standard will have a number of potential impacts on KCC objectives.	Short Term: KCC judged to be non-compliant with Government's Code of Connection Longer Term: Additional investment in technology required to meet standards without commensurate increase in productivity.	Short Term: Reputational damage Longer Term: Impact on "Doing things Differently" objectives – less technology choices available. Financial implications	Corporate Director Business Strategy & Support **Responsible Cabinet Member(s):** Corporate & Democratic Services	Unlikely (2) **Target Residual Likelihood** V. Unlikely (1)	Serious (4) **Target Residual Impact** Serious (4)

Appendix F
Assessment of Level of Reserves

1 Introduction

Each year, reviewing the level of reserves the Council holds is an important part of the budgetary process. The review must be balanced and reasonable, factoring in the current financial standing of the Council, the funding outlook into the medium term and beyond, and most importantly, the financial risk environment we are operating in.

2 Background

The Chartered Institute of Public Finance and Accountancy (CIPFA) recommend that the following factors should be taken into account when considering the level of reserves and balances:

- Assumptions regarding inflation and interest rates
- Estimates of the level and timing of capital receipts
- The capacity to manage in-year demand led pressures
- Ability to activate contingency plans if planned savings cannot be delivered
- Risks inherent in any new partnerships
- Financial standing of the authority (level of borrowing, debt outstanding etc.)
- The authority's record of budget management and ability to manage in year budget pressures
- Virement and year-end procedures in relation to under and overspends
- The general financial climate
- The adequacy of insurance arrangements

It should be made clear that the assessment of the adequacy of reserves is very subjective. There is no 'right' answer as to the precise level of reserves to be held. There is also no formula approach to calculating the correct level; it is a matter of judgement, responsibility for which lies with the S151 officer.

3 Comparison with other County Councils

There continues to be national scrutiny of Councils' reserves. The most common criticism levelled at Councils is that they, collectively, are holding too much money in reserve while at the same time they are cutting services. Each Council must make their own decisions about the level of reserves they hold, taking into account all of the issues referred to in Section 2 above.

The analysis of the 2012-13 reserves shows that on average County Councils hold around 14% of their annual budget in earmarked and general reserves. Kent are below average, at 11%. For this Council, 1% equates to around £9m.

The range of reserves held as a percentage of budget is vast; the lowest being 5% up to the highest at 23%.

4 Analysis of Risk

Listed in Section 2 of this appendix are the factors that CIPFA recommend should be taken into account when considering the level of reserves and balances. Below, each of those factors is given a 'direction of travel' indicator since last year's budget was set. An <u>upward</u> direction means an <u>improved</u> position for this Council (i.e. the risk is less than it was last year).

⇧

- Assumptions regarding inflation and interest rates.
  Inflation is returning close to Govt target of 2.0%. Interest rates are largely determined by base rate, which has been at 0.5% for a long time. The lower the actual and expected rate of inflation, the better for our budget in net terms.

⇧

- Estimates of the level and timing of capital receipts.
  The market has changed considerably from twelve months ago. Our reliance on capital receipts is significant, in order to fund our capital programme, and current delivery against target is very encouraging.

⇔

- The capacity to manage in-year demand led pressures.
  As the new Directorates take shape and Directors are appointed, it will be crucial that ownership of savings plans for 2014-15 is accepted and delivered. We are developing a process to ensure all budget managers fully understand the 'ask' of them for 2014-15.

⇔

- Ability to activate contingency plans if planned savings cannot be delivered.
  We still have enough 'safety valves' that can be turned off in an emergency, albeit they may be very unpopular and potentially expensive in the longer term.

⇩

- Risks inherent in any new partnerships.
  The partnership with Health is going to be ever more crucial with more of our funding dependent upon agreements and evidence of outcomes delivered.

- Financial standing of the authority (level of borrowing, debt outstanding etc.).
  Although reserves have fallen on a like-for-like comparison due to our draw-down to support the 2013-14 budget, our level of borrowing has stabilised and our future borrowing plans are modest. Our revised Minimum Revenue Provision (MRP) policy will enable a more prudent level of MRP provision to be made.

- The authority's record of budget management and ability to manage in year budget pressures.

- Virement and year-end procedures in relation to under and overspends.

- The general financial climate.
  The squeeze looks set to last for at least the life of this medium term financial plan, and the 2015-16 indicative funding for local government looks particularly difficult.

- The adequacy of insurance arrangements.

Of the ten factors, two show an improvement from twelve months ago, six are relatively unchanged, and two have deteriorated. No weighting has been applied to the ten factors, and the general financial risk to the Council remains fairly static compared with a year ago.

However, and perhaps most crucially, none of the above adequately reflects the risk attached to the approved savings plans. Historically, most savings have been within our direct control e.g. reduce the number of staff. The budget for 2014-15 now has well over £35m based on us achieving savings that are not directly in our control, such as reducing demand for adult services, reducing the costs of looked-after children, and procurement savings. This brings additional risk and this has increased considerably in the past two years. Only our general reserves of £31m are available to offset any in-year overspends, and of course can only be used once.

The overall conclusion is that we have a slightly increased risk profile since the 2013-14 budget, and therefore the reserves that cover these risks should not be reduced.

5 The detail of our Reserves

The Statement of Accounts that we produce each year details our **Earmarked reserves** and explains why we hold each of them. There will continue to be draw-down and contributions to these reserves in line with the patterns of expenditure anticipated when the reserves were created. There is no proposal within the budget to change this strategy. We are proposing that the repayment of the £14m borrowed from reserves to support the 2012-13 budget begins in 2014-15, and this is shown in the budget proposals in Appendix A of this document.

A review of the earmarked reserves shows that it is prudent to release some of the Council Tax Equalisation Reserve. This reserve was created by putting some of the Council Tax Freeze Grant into this reserve in order to smooth out the impact of freezing the Council Tax, in future years. It is appropriate therefore to drawn-down some of this reserve to support the 2014-15 budget.

As illustrated above, our risk profile is increasing slightly, and therefore no reduction in the **General Fund Reserve** is possible. The more prudent scenario would be to add to it to reflect the lower level of direct control we have over our proposed budget savings. However, on balance, it is appropriate to maintain this reserve at its current level.

6 Role of the Section 151 Officer

The duties of the council's Section 151 Officer include the requirement 'to ensure that the Council maintains an adequate level of reserves, when considered alongside the risks the Council faces and the general economic outlook'.

7 Conclusions

It is important to review on an annual basis the level of reserves we hold. The factors to consider are set-out above. In conclusion, we are holding an appropriate level of reserves.

Appendix G
Glossary of Abbreviations

A to Z of Services	Presentation of KCC's annual budget according to services provided
Autumn Budget Statement	Chancellor’s Annual midyear update to national budget
BoE	Bank of England
Bold Steps	Bold Steps for Kent - The Council's strategic vision document
BSF	Building Schools for the Future
Budget	Annual spending plan for 2014-15
Business Rates (NNDR)	Local property tax levied on businesses and redistributed by the Government.
Capital Budget	Investment programme on infrastructure improvements
CFR	Capital Financing Requirement
CIPFA	Chartered Institute of Public Finance & Accountancy
CLG	Government Department for Communities & Local Government
CPI	Consumer Price Index - Government measure of inflation
CRB	Criminal Records Bureau
DEFRA	Government Department for Environment, Food & Rural Affairs
DfE	Government Department for Education
DfT	Government Department for Transport
DH	Government Department for Health
DMO	Debt Management Office
DSG	Dedicated Schools Grant - government grant 100% funded from national taxation to fund schools
DWP	Government Department for Work and Pensions
EFA	Education Funding Agency
EIG	Early Intervention Grant - DfE grant
EU	European Union
E&YP	Education and Young People Directorate

ERP	Enterprise Resource Planning; computer systems
ESG	Education Services Grant – new grant provided to local authorities on a national per pupil basis to provide central services for maintained schools
Formula Grant	Until 2013-14 this was the main grant to local government comprising RSG and redistributed business rates
FTE	Full Time Equivalent - standard used to assess equivalent number of full time and part time employees
FYE	Impact in a full financial year of an initiative that has been implemented part way through the year
GAC	Governance & Audit Committee
Gateway	Customer contact points for all local councils' services
GDP	Gross Domestic Product - Government measure for the overall health of the economy
GET	Growth, Environment and Transport Directorate
GP	General Practitioner
GUF	Guaranteed Unit of Funding - mechanism used to determine DSG for each local authority
HO	Home Office
HWRC	Household Waste Recycling Centre
ICT	Information Communication Technology
KCC	Kent County Council
KCS	Kent Commercial Services
KDAAT	Kent Drug & Alcohol Action Team
LAC	Looked After Children - children placed into care by the local authority
LACSEG	Local Authority Central Equivalent Grant (LACSEG)
LAMS	Local Authority Mortgage Scheme
LD	Learning Disability
LDF	Local Development Framework
LEP	Local Enterprise Partnership - regional grouping of local authorities to promote economic prosperity
LGA	Local Government Association
LOBO	Lender Option Borrower Option – lender has the option to call in loan at pre-determined future

	date
LSSG	Local Service Support Grant – grant introduced in 2011 to summarise a number of small grants
MFG	Minimum Funding Guarantee - guaranteed level of funding for individual schools
MRP	Minimum Revenue Provision - prudent amount needed to cover the revenue consequences of capital investment
MTFP	Medium Term Financial Plan
NHS	National Health Service
NNDR	National Non Domestic Rates
NQT	Newly Qualified Teacher
OBR	Office for Budget Responsibility - independent body advising the chancellor on economic forecasts
OfSTED	Office for Standards in Education, Children's Services and Skills
ONS	Office for National Statistics
PCT	Primary Care Trust
PEF (1) & (2)	Property Enterprise Fund - scheme established by the council to maximise benefit from property holding at a time property values are depressed
PER	Prudential Equalisation Reserve
PFI	Private Finance Initiative
PROW	Public Right of Way
PWLB	Public Works Loan Board
Revenue Budget	Annual recurring expenditure on staff, buildings, contracts, supplies, etc.
RPI	Retail Price Index - alternative measure of inflation
RSG	Revenue Support Grant - grant to local government funded from national taxation and share of business rates
S&CS	Strategic and Corporate Services Directorate
SC,H&W	Social Care, Health & Wellbeing Directorate
Schools’ Funding Forum	Statutory body representing views of schools in relation to a number of financial matters
SEN	Special Educational Needs

SIP	Supporting Independence Programme
SORP	Statement of Required Practice - new KCC risk management tool
SR2010	Spending Review 2010
TAG	Treasury Advisory Group
TCP	Total Contribution Pay - performance reward payments to staff
TIGER	Thames Gateway Innovation, Growth and Enterprise programme - offering direct financial support to business in North Kent and Thurrock
TM	Treasury Management
WCA	Waste Collection Authority
WDA	Waste Disposal Authority
VAT	Value Added Tax

Approved by County Council
13 February 2014

medium term financial plan

2014-17

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