2015-18

Medium term financial plan

Approved by County Council 12 February 2015

Published Date: 25 March 2015

kent.gov.uk/budget

Kent County Council kent.gov.uk

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

I make no apologies for starting this introduction by painting a gloomy picture. The Office for Budget Responsibility's (OBR) latest report on the economic and fiscal outlook which formed the basis of the Chancellor of the Exchequer's Autumn Budget Statement set out the background to this picture. This independent body concluded that if the Government is to meet its deficit reduction target by 2018-19 and sticks with its current policies, then public spending as a proportion of the overall economy would have to reduce to around 35%.

The OBR also predicted that most of these reductions would have to be made on the departmental elements of public spending not including welfare and debt (amongst other things). This departmental spending accounts for less than half of the totality of public spending and includes those departments which to date have been protected, such as health, as well as local government spending (which has had no protection). If the OBR predictions are correct this would be a very gloomy outlook for local government and we can expect spending over the period 2015-16 to 2018-19 to reduce by more than we have had to manage over the period 2010-11 to 2014-15. This means if the journey so far has seemed difficult, the rockiest part of the road could still lie ahead. On a slightly cheerier note I should emphasise that these are only predictions and we do not have any definitive Government spending plans beyond 2015-16.

We have managed the savings to date since 2010 very well and by the end of 2014-15 we will have delivered savings of around £350m (equivalent to 25% of gross spend or more realistically 37% of our net controllable spend) in response to the triple challenge of reductions in the cash settlement from central government, no or low Council Tax increases, and the need to find money to fund unavoidable increases in spending. If anything, and with hindsight, we may have made making these savings appear too easy. The majority of these savings have been delivered through a sustained focus on service efficiency and good business practice. Over this time we have also seen over 20% reduction in our non-schools workforce, although with minimum compulsory redundancies. I am delighted that this administration has managed to deliver savings on such a scale whilst also maintaining front-line services. I would concur with the sentiments expressed by the Communities Secretary, Eric Pickles, when he recently conceded that local authorities had dealt with the financial squeeze "exceptionally well".

During these challenging times we have made some significant investments to improve services. For example, we have invested over £35m over the last 4 years into Children's Social Services, and last year £7.8m of additional investment in our roads to fix potholes after the severe winter weather. We have also continued with our ambitious capital programme, investing £776m over the last 3 years.

Looking forward we must also be realistic as it is almost inevitable we will face another 4 years of significant reductions in spending irrespective of the outcome of next year's General Election. First and foremost we must be much more rigorous in challenging any extra additional spending and ask ourselves whether it is unavoidable, what long term benefits will accrue, can it be financed in other ways and ultimately is it affordable. Managers need to be clear that seeking approval for additional funding from within the Council's budget should be the last resort not the first. We must also look into how we can manage down the demand for Council services, invest in preventative services, and continue with our programme to transform services so that we can deliver better outcomes at reduced cost. 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 and we are on track to deliver fundamental redesign and delivery of services in phase 1 of this programme. We have included over £20m of savings from the phase 1 programme in the medium term financial plan for 2015-16 to 2017-18, although we still hope and expect to deliver more through our market engagement with the private sector enabling us to adopt the very best practice and a more commercial approach to delivering some of our services. Other phases of the programme, as we test more services, should deliver even more savings.

As the Council moves to a commissioning authority, 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.

We have welcomed the positive response to our budget consultation, with over 2,700 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 small Council Tax increase in order to protect vital services We will not be seeking excessive increases, a modest increase each year in line with price/wage inflation does not appear to be unreasonable.

However, even with a modest Council Tax increase, coupled with the overall impact of funding reductions and additional spending demands, we still need to find around £90m of savings next year to balance the books (approx. 10% of net controllable spend). There is a greater need 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 2015-18

CONTENTS

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 available funding. KCC has made £350 million of savings between 2011-12 to 2014-15 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 proportionate magnitude over the next 3 years, which will see 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 5% in 2014-15 (compared to a peak of over 10% in 2009-10) and to return to a small surplus by 2018-19. Overall public sector debt is forecast to continue to rise to a peak of 81.1% of GDP by 2015-16, falling thereafter to 72.8% of GDP in 2019-20. This will be mirrored by a reduction in public spending as a proportion of the overall economy from a peak of 45.3% on 2009-10 to a predicted 35.2% in 2019-20.

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 Act will also put additional strain on local authority services and at this stage we have no clear indication how this will be funded beyond 2015-16. 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 require improved collaboration and integration between health and social care services.

1.4 There are no formal public expenditure plans beyond 2015-16 although in its latest Economic and Fiscal Outlook the Office for Budget Responsibility (OBR) has made projections of public spending if the deficit reduction objectives are to be met. In its projections the OBR anticipates that that the proportion of public spending referred to as Annually Managed Expenditure (which includes among other things welfare, debt interest and expenditure financed by Council Tax) will remain largely constant as a proportion of GDP) and therefore nearly all of the spending reduction needed to meet the deficit reduction would be borne by Government Departmental spending (including grants to local authorities). At this stage we have not translated these predictions into our MTFP projections for 2016-17 and 2017-18 pending a more definitive picture coming from the Spending Review following the General Election in 2015.

1.5 However, irrespective of the outcome of the election, it seems likely that any incoming Government will set challenging targets for local government to make further substantial changes in response to reduced funding.

Local Context

1.6 Our proposed budget for 2015-16 includes some significant investments 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, 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. These additional spending (often unavoidable) tends to be over looked, but when coupled with funding reductions from central Government and limits on ability to raise Council Tax present a significant financial challenge to find sustainable additional savings every year equating to around 5% to 7% of gross spend.

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 As part of the challenge the County Council needs to plan for manageable annual increases in Council Tax. This provides the Council with sustainable source of income in future years. Unlike other taxes Council Tax does not reflect changes in prices, wages or economic activity. However, as a financial strategy it is not unreasonable to plan for small annual increases broadly in line with inflation/pay. The Council does not want to increase Council Tax above the referendum threshold as we believe 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. Moving forwards the Council needs to challenge even more rigorously spending increases to ensure they cannot be avoided, that spending will accrue long term benefits and is affordable within the context of further substantial funding reductions.

1.10 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.

1.11 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.

1.12 We also need to see through the review of all other areas of the Council's spending under the "Facing the Challenge" Programme. We have already included over £20m of savings from phase 1 of this programme in the proposed MTFP over the next 3 years. The current market engagement exercise will identify whether there is further scope for savings by adopting a more commercial approach and best practice applied in the private sector. Further phases of this programme will help to meet some of the as yet unidentified savings beyond 2015-16.

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 2015-16 Budget and 2015-18 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 2015-18 we are proposing a modest increase in Council Tax each year without triggering a referendum. For 2015-16 this would result in the KCC element for a Band C property rising from £949.92 a year to £968.88 (Band D from £1,068.66 to £1,089.99).

1.18 The majority of those responding to the budget consultation (75%) 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 an increase in Council Tax receipts, due to continued growth in the number of Council Tax payers in the County and an on-going programme to review the application of discounts and exemptions.

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 2015-16 budget summary which shows the planned changes with a more detailed narrative than included in previous years.

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 budget and MTFP, the most appropriate presentation for the capital programme is in directorate format. Individual schemes within each directorate continue to be identified in detail and separated from rolling programmes.

Conclusion

1.24 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.

1.25 If the economic recovery does not continue, or the outcome of the Spending Review is different from our forecast, then the indicative position for 2016-17 and 2017-18 could change. This could result in additional spending demands and/or even greater funding reductions necessitating larger savings than identified. In seems unlikely that the savings would be less than forecast unless there is a radical change in the deficit reduction strategy.

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.

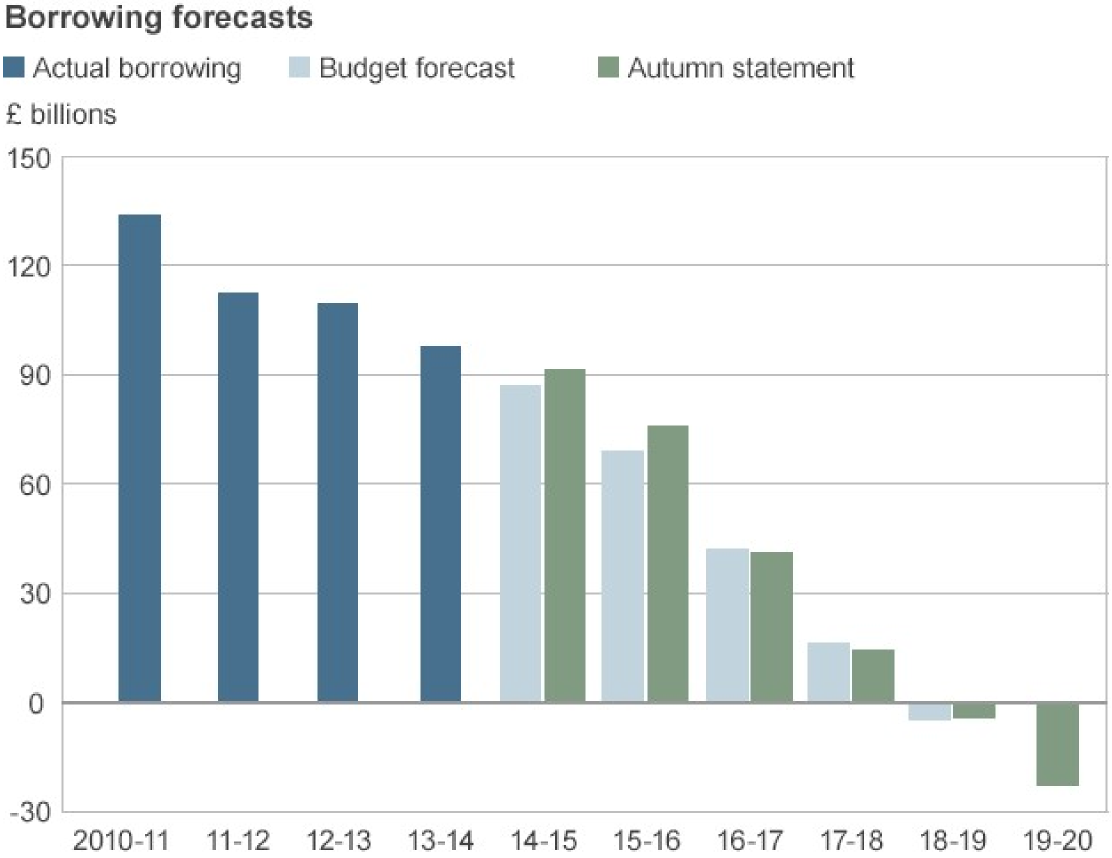
The Economy

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 will not be met by 2015-16, even though some progress has been made on reducing the deficit. This was first recognised in the Autumn Statement 2012 and subsequently re-enforced following the 2013 Spending Round when the target was reset to reduce the deficit over a 5 year rolling programme.

2.4 The latest forecast by the Office for Budget Responsibility (OBR) in the December 2014 report "Economic and Fiscal Outlook" is that the budget deficit will be eliminated by 2018-19 (when a small surplus will be achieved) if the Government adheres to their current plans. This is demonstrated in chart 1 below. This chart shows that the deficit reduction for the current year (2014-15) is predicted to be less than previously forecast in March 2014 and the deficit will be £91.3bn (5% of GDP). This is a reduction in the overall deficit of £6.3bn on the previous year. Similarly the forecast reduction for 2015-16 is less than previous forecasts with significant reductions in 2016-17 and 2017-18 in order to achieve the surplus by 2018-19.

Chart 1



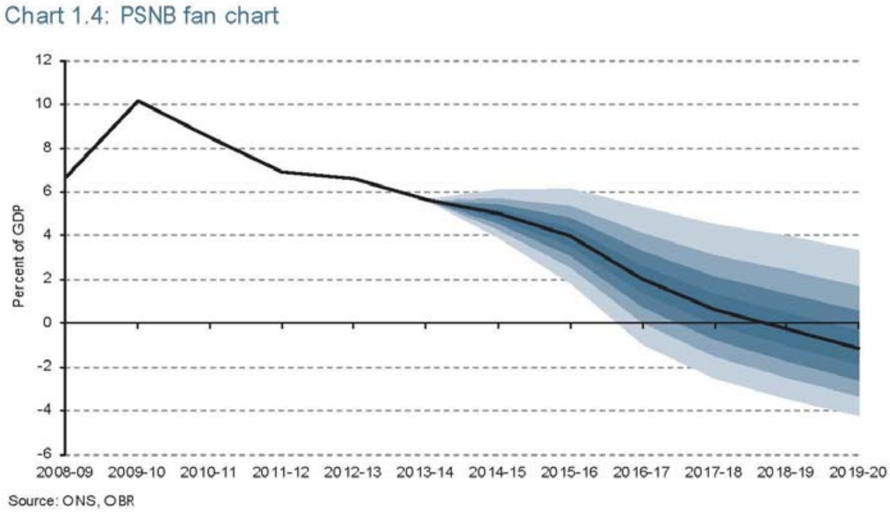
Excludes Royal Mail pension transfer, Asset Purchase Facility and public sector banks.

Source: ONS and OBR

2.5 At this stage we have no spending plans on how these forecasts will be achieved and therefore any predictions are speculative. Nonetheless, the forecasts generated a lot of this speculation and predictions of massive reductions in public spending at the time of the Autumn Statement. The OBR report itself included significantly more analysis than previous years including predictions for local government, this more detailed OBR analysis is covered later in this section.

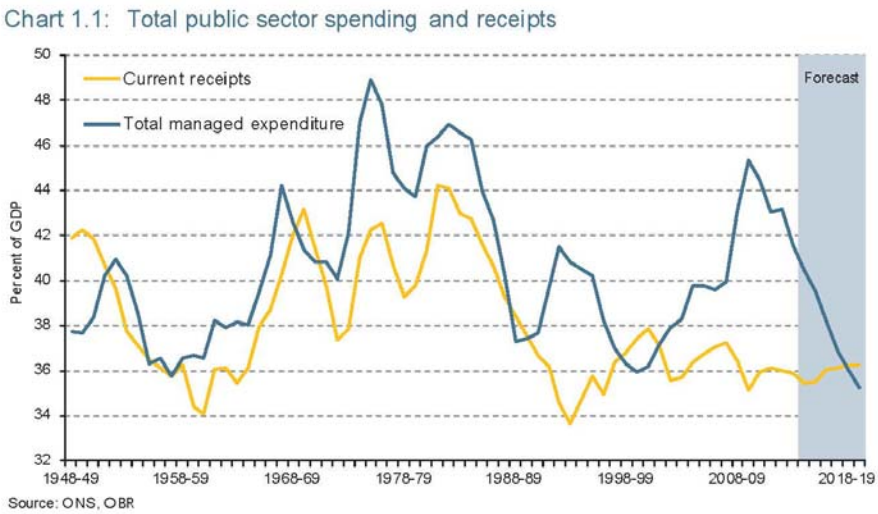
2.6 The OBR recognises that forecasts are uncertain and applies a “fan chart” showing the probability of variations from their main forecast. These variations are derived from the pattern of previous forecast errors being a reasonable guide to future forecast errors. The fan graph for variations in the budget deficit forecast is shown in chart 2.

Chart 2



2.7 The OBR reported that the main reason for the smaller reduction in the deficit was that although the economy is forecast to grow by more than previous estimates and unemployment is lower than previous estimates, wage and productivity growth are disappointing and this has not yielded growth in tax revenues. This is demonstrated in chart 3 which also provides a graphic representation of the Chancellor of the Exchequer's 80/20 rule for eliminating the deficit i.e. 80% would be cleared 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 public spending necessary to achieve a balanced budget.

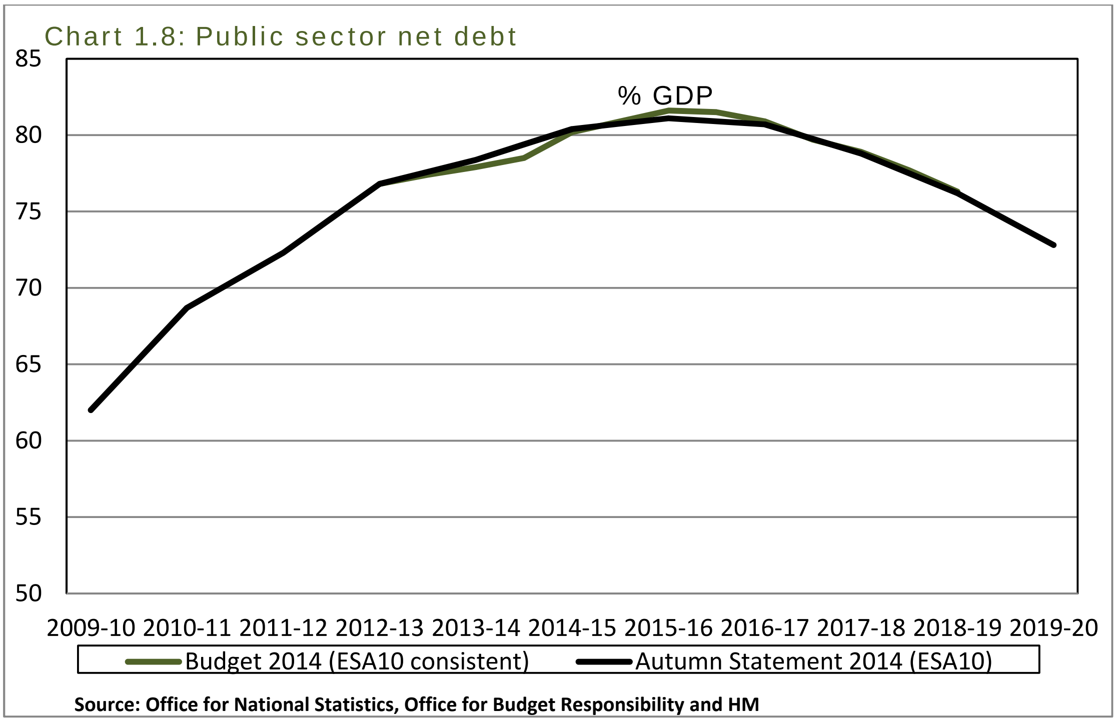
Chart 3



2.8 The forecast for the deficit reduction will be influenced by a combination of economic recovery (GDP growth), public spending reductions and 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 and tax receipt growth remain important facets in determining how much money is available in future government settlements. It is also worth noting that the definition of GDP has changed as a result of adopting the 2010 European System of Accounts ESA(10), the main consequence of which has been to include additional areas of activity in GDP, increasing it by around 6% compared to previous measures. This makes historical comparisons more difficult.

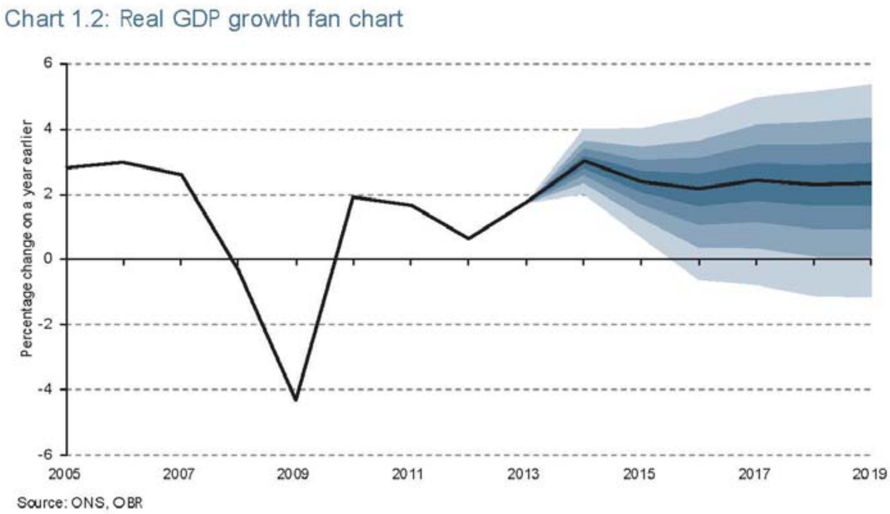
2.9 The overall level of public debt as a % of GDP is still rising (*due to the current level of the budget deficit being in excess of the overall growth in the economy*). In his Autumn Budget Statement 2014 the Chancellor estimated that net debt is forecast to peak at 81.1% of GDP (marginally lower than the recalculated forecast from the March 2014 budget using the new ESA(10) standard). Thereafter net debt is forecast to fall each year to 72.8% of GDP by 2019-20 as a consequence of both reducing/eliminating the deficit and as a result of GDP growth. This is demonstrated in chart 4 taken from the Autumn Statement.

Chart 4



2.10 The UK economy picked up more strongly during 2014 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 2014 is 3% (up from 2.7% in the March Budget). However, the OBR expects that the economy will lose momentum in 2015 due to weaker external demand and a slowing in consumer spending growth closer to forecast wage growth. Chart 5 shows the OBR fan graph for economic growth from its December 2014 report (as with the deficit reduction graph the fan shows the probability of variation).

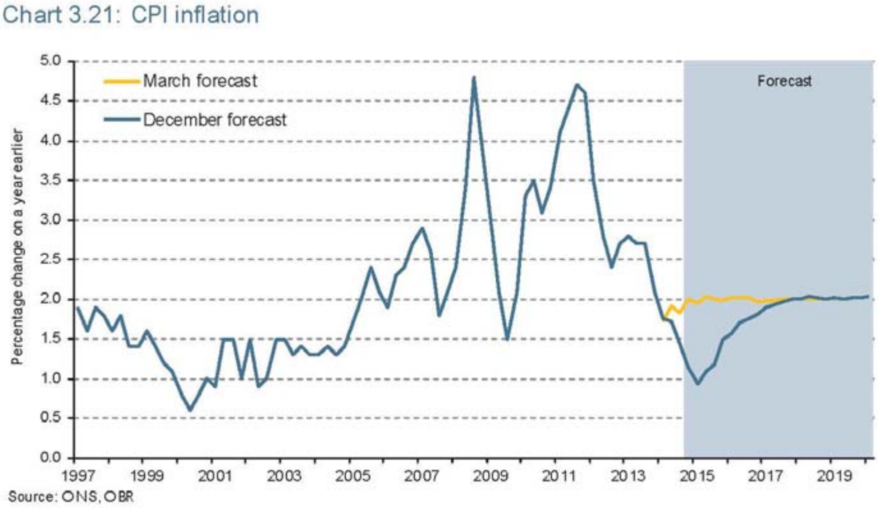
Chart 5



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 below the target figure since December 2013.

2.12 CPI in the year to September 2014 showed an increase of 1.2% (0.3% down on August), RPI was 2.3% (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 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 announced in his Autumn Statement that the 2% cap introduced in 2014-15 would be extended until April 2016.

Chart 6



2.13 The October indices showed a slight increase in CPI and no change in RPI compared to September (CPI 1.3% and RPI 2.3%). OBR expects inflation to continue to decline into 2015 reaching a low of 0.9% in the first quarter before gradually increasing but not reaching the target level of 2% until late 2017. The OBR forecasts are shown in chart 6. This forecast is similar to the bank of England and is factored into the price inflation forecasts in KCC's revenue strategy.

2.14 The unemployment rate has fallen sharply during 2014, which at the end of the second quarter stood at 6% of the economically active population (down from 7.6% at the same point last year). The number unemployed as at September 2014 stood at 1.96m (down 115k since the first quarter and 529k since the same time last year). This is the first time unemployment has been below 2m since October 2008. In total 30.79m people were in employment (73% of the population aged 16 to 64).

2.15 The latest release from the Office for National Statistics shows that average weekly earnings (excluding bonuses) for the second quarter (3 month average) rose by 1.3% compared to the same time last year before tax and other deductions. Average weekly wage was £455 (excluding bonuses) and £481 (including bonuses). There are some differences between the private and public sectors:

- Average earning in private sector £447 excl. bonuses (up 1.6%)
- Average earning in private sector £479 incl. bonuses (up 1.1%)
- Average earning in public sector £488 excl. bonuses (up 1.0%)
- Average earning in public sector £492 incl. bonuses (up 0.8%)

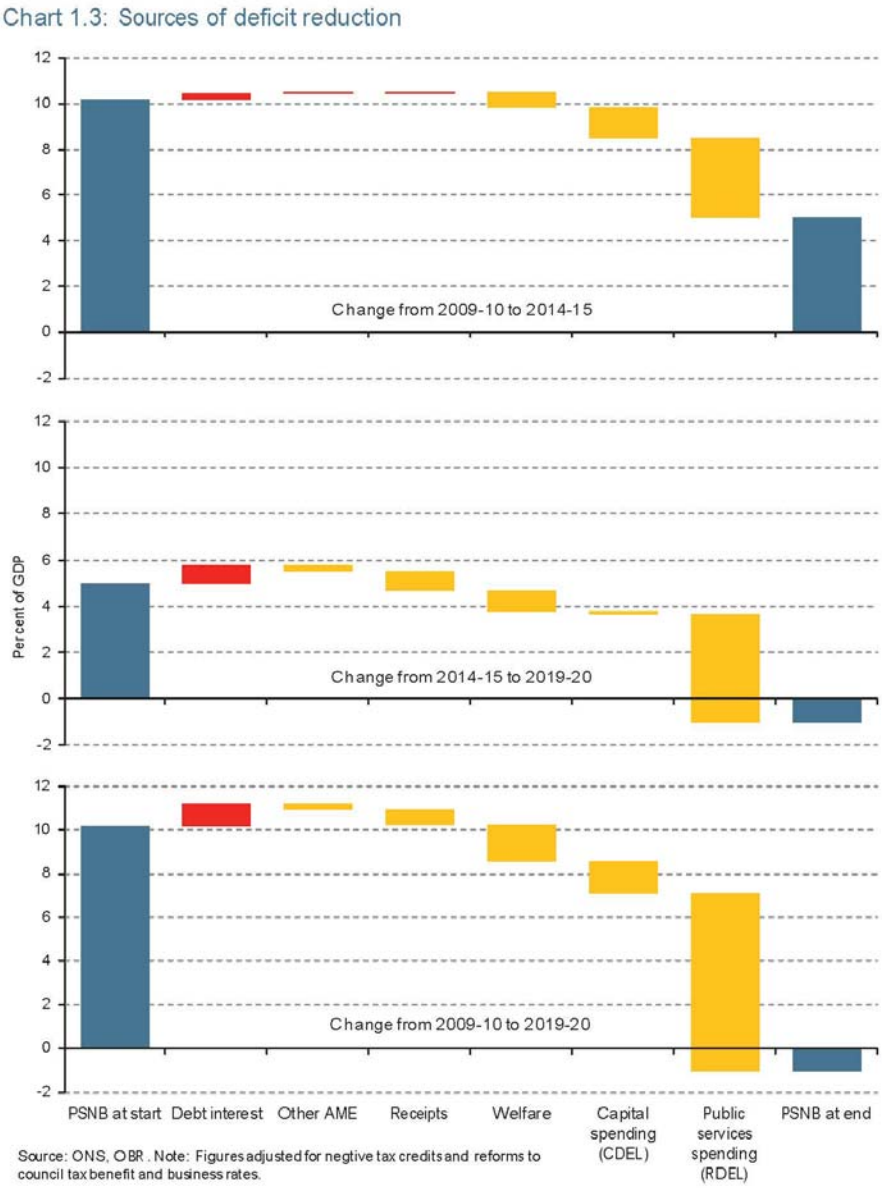
The Autumn Statement included a reference to continued reform of public sector pay but included no specific details or pay restraint targets which have featured in previous statements.

Office for Budget Responsibility Forecasts

2.16 As previously indicated the OBR report includes much more analysis of their predictions and speculation for the future reductions in public spending if the government's targets are to be met. These predictions merit further examination in the absence of detailed spending plans. Chart 7 provides an overall summary in a "waterfall" diagram of how deficit reduction has been achieved to date and where further reductions might be achieved over the next 5 years.

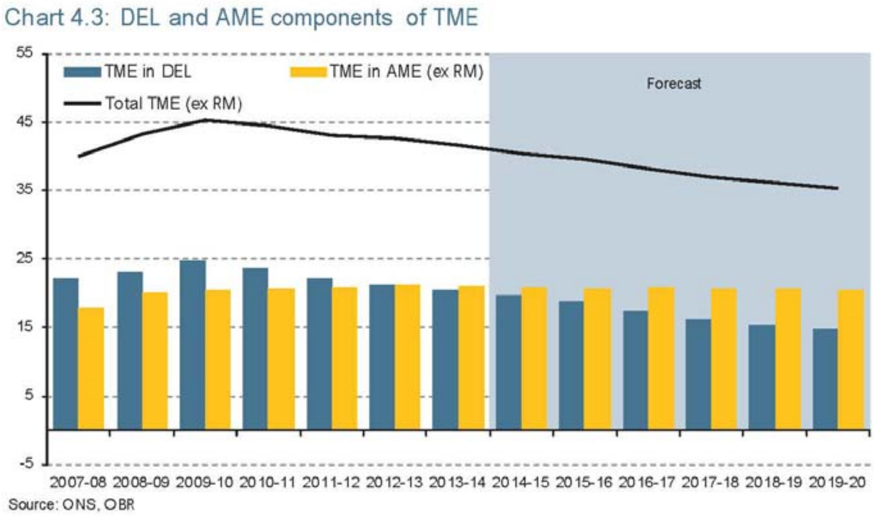
2.17 The projections shown in chart 7 indicate that the vast majority of the deficit reduction will come from further reduction in government departmental spending (referred to as Resource DEL) with much smaller contributions from welfare reductions, receipts from taxation changes, other annually managed expenditure (AME) and capital spending.

Chart 7



2.18 If the OBR's predictions are correct then the reductions in Resource DEL would be greater in the period 2015-16 to 2019-20 (4.7% of GDP) than they have been in the period 2009-10 to 2014-15 (3.7% of GDP). Resource DEL includes the spending by local government funded by government grants and if some departments continue to be protected, the reductions for unprotected departments could be even greater than reductions to date. This is further graphically demonstrated in chart 8 below which sets out the OBR forecast for totally managed expenditure (TME) as % of GDP over the next 5 years and the elements for Resource DEL (diminishing significantly) and AME (including benefits) which remains largely constant.

Chart 8



2.19 The OBR forecast in chart 8 is based on the government's stated assumptions for totally managed expenditure (TME). As already indicated, the government has no published spending plans beyond 2015-16 and therefore projections based on spending assumptions is the best indication of future spending plans.

2.20 The TME assumptions are based on real terms reduction in 2016-17 and 2017-18 at the same rate as the current spending round i.e. 2010-11 to 2014-15, and flat-lining in 2018-19 and 2019-20 (although due to growth in the economy even this flat-line would see TME falling as a % of GDP). The projections would see TME fall from a peak of 45.3% of GDP in 2009-10 to 40.5% in 2014-15 and 35.2% in 2019-20.

2.21 The OBR have forecast changes in AME based on real terms reductions in welfare payments as working-age benefits are uprated by less than earnings growth and caseloads reduce as a percentage of overall population, pensions forecasts are subject to the triple lock. Debt interest is assumed to increase slightly in 2016-17 and 2017-18 before stabilising. Locally-financed current expenditure (largely Council Tax) is assumed to remain reasonably constant % of GDP (OBR foresee Council Tax increases in line with inflation beyond 2015-16) as does other spending within AME and investment. This means that in the OBR forecast virtually all the reduction in TME is borne by Resource DEL. The OBR assumptions are set out in table 1.

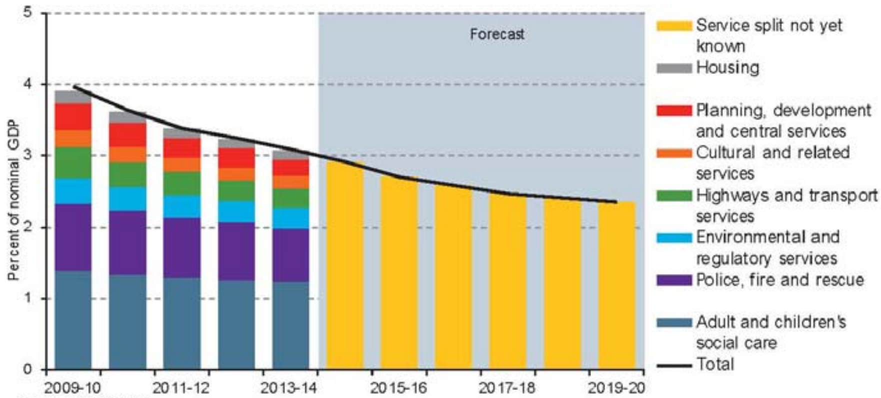
Table 1	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
TME as % of GDP	41.5%	40.5%	39.5%	38.2%	36.9%	36.0%	35.2%
of which							
Resource DEL	20.6%	19.7%	18.9%	17.3%	16.1%	15.4%	14.8%
AME	21.0%	20.8%	20.6%	20.8%	20.8%	20.6%	20.4%
of which							
Welfare	11.9%	11.8%	11.6%	11.4%	11.2%	11.0%	10.9%
Debt Interest	2.1%	2.0%	2.1%	2.4%	2.7%	2.7%	2.7%
Locally-financed	2.0%	1.9%	2.0%	2.0%	2.0%	2.1%	2.0%
Other expenditure	3.7%	3.8%	3.6%	3.7%	3.6%	3.6%	3.7%
Investment	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%	1.1%

2.22 We have looked in depth at these OBR forecasts as these are the best indicators and it is important to understand some of the analysis which prompted some of the headlines immediately after the Autumn Statement. If these forecasts prove to be accurate then the scale of reductions for local government over the next 4/5 years could be greater than we have previously estimated. However, at this stage we have not updated the estimates for 2016-17 and 2017-18 in the revenue strategy for KCC until we have more detail around the government's spending plans.

2.23 The OBR have included detailed forecasts for local government spending, income and reserves. Chart 9 shows the reductions in spending up to 2013-14, and the reductions in the main service areas. Chart 9 also shows the OBR projection up to 2019-20 taking account of the changes in Resource DEL and locally financed expenditure from above. OBR have assumed similar levels of Council Tax increase in 2015-16 as 2014-15 (around 0.9%) and thereafter increases in line with CPI. The chart shows spending as % of GDP and thus includes some impact for additional spending demands, particularly inflation, but does not include some of the very specific demands e.g. pressure on Learning Disability factored into KCC MTFP assumptions.

Chart 9

Chart 4.5: Local authority current spending in England



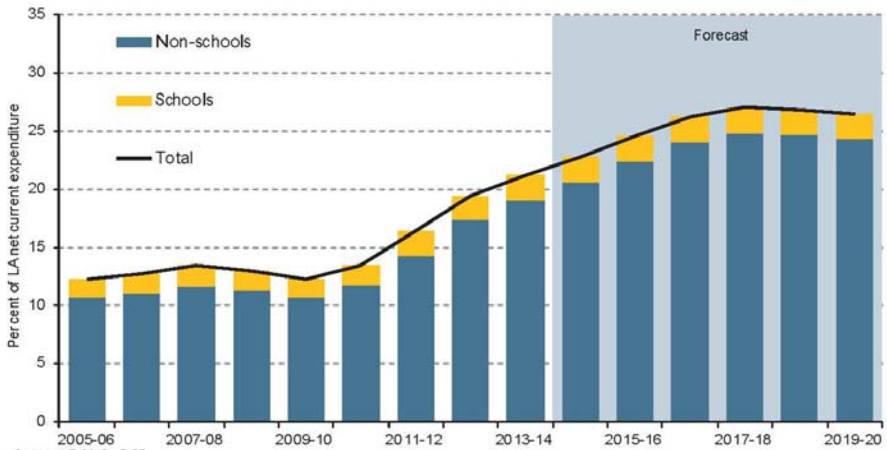
Source: DCLG, OBR

1. Total current spending excludes education and public health, where data are not comparable across years, and also excludes housing benefit, which is largely funded by central government. 2. Total spending from 2016-17 derived on the assumption that central government grants to local authorities decline in line with total implied PSCE in RDEL

2.24 OBR have also analysed the extent to which local authorities have been adding to reserves during the current period of budget reductions. One conclusion drawn by the OBR is that authorities have been building "ear-marked" reserves to help manage the impact of expected future funding reductions. Our experience backs this conclusion although OBR have not made the obvious reference that this is sound financial management in a period when budgets have become significantly more risky, as outlined in KCC's risk strategy. The OBR has also concluded that there are differences in the financial conditions and pressures across local authorities in the country. Chart 10 shows the OBR analysis and predictions for future reserve levels as a % of current expenditure.

Chart 10

Chart 4.6: Local authority current reserves in England, relative to net current expenditure

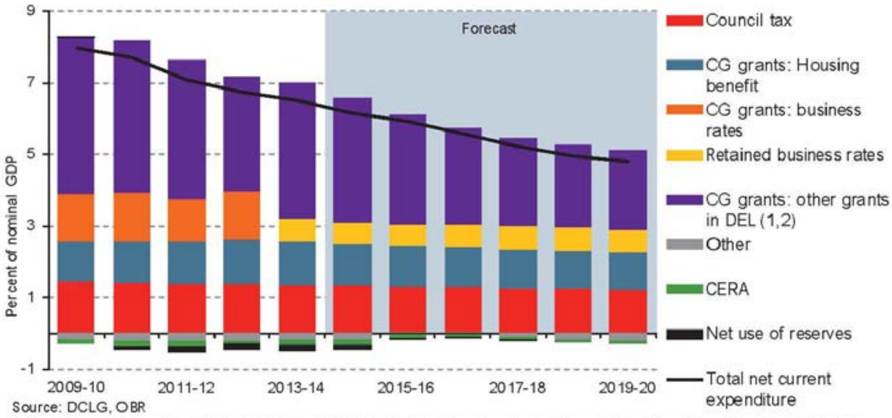


Source: DCLG, OBR

2.25 The final part of the OBR analysis includes the projected funding drawn from the assumptions in Resource DEL, Council Tax, business rates and reserves. In this analysis the OBR have not anticipated the impact of any change in the allocation of responsibilities between central departments and local authorities (although the scale of reductions in Resource DEL would mean that the central government share of business rates would exceed the grants to local government, and therefore some reallocation would be necessary to meet the requirement that the proceeds from business rates are spent on local services). Chart 11 shows the OBR forecasts for the various sources of funding for local government.

Chart 11

Chart 4.7: Composition of local authority financing in England



Source: DCLG, OBR

[1] Central government grants in DEL from 2013-14 includes funding for business rates not retained by local authorities.

[2] Figures for central government grants to local authorities in DEL after 2015-16 are assumed to decline in line with total implied PSCE in RDEL

2.26 We have included a much fuller analysis of the OBR forecasts for public spending and the impact for local government than in previous years. This is partly because we have no Government spending plans and partly because it provides a stark illustration of what might be in store and the need for further significant spending reductions in both real and cash terms until 2019-20.

The Autumn Budget Statement

2.27 The Chancellor of the Exchequer made his Autumn Statement on 3rd December 2014. 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 last two years the Chancellor took the opportunity not only to respond to the economic forecasts, but also to announce some tax and public spending changes.

2.28 As already outlined above even though the economic forecasts are more encouraging than previous forecasts, in the March 2014 Budget Statement the deficit recovery is slower than previously forecast. This means that the recovery in 2016-17 and 2017-18 will have to be greater in order to stay on track. Table 2 summarises the key economic indicators from previous Budget Statements and latest Autumn Budget Statement.

Table 2	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Budget Deficit (£bn)											
June 2010 Budget	154.7	149.1	116	89	60	37	20				
March 2011 Budget	156.4	145.9	122	101	70	46	29				
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	96.0	78.7	51.1	23.4	-2.2	
March 2014 Budget				114.8	107.8	95.5	75.2	44.5	16.5	-4.8	
March 2014 Budget (ESA10)					99.3	86.4	68.3	41.5	15.8	-3.7	
December 2014 AS forecast (ESA10)					97.5	91.3	75.9	40.9	14.5	-4.0	-23.1
Debt as % of GDP											
June 2010 Budget		61.9	67.2	69.8	70.3	69.4	67.4				
March 2011 Budget	52.7	60.3	66.1	69.7	70.9	70.5	69.1				
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	
March 2014 Budget			70.9	74.2	74.5	77.3	78.7	78.3	76.5	74.2	
March 2014 Budget (ESA10)					77.9	80.2	81.6	80.9	78.9	76.3	
December 2014 AS forecast (ESA10)					78.8	80.4	81.1	80.7	78.8	76.2	72.8
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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		
December 2013 AS forecast				0.1	1.4	2.4	2.2	2.6	2.7	2.7	
March 2014 Budget				0.3	1.8	2.7	2.3	2.6	2.6	2.5	
December 2014 AS forecast					1.7	3.0	2.4	2.2	2.4	2.3	2.3
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		
December 2013 AS forecast				2.8	2.6	2.3	2.1	2.0	2.0	2.0	
March 2014 Budget				2.8	2.6	1.9	2.0	2.0	2.0	2.0	
December 2014 AS forecast					2.6	1.5	1.2	1.7	2.0	2.0	2.0

2.29 As previously identified in paragraph 2.8 the accounting standard has been changed affecting the size of the deficit and net debt as % of GDP. The Autumn Statement includes a comparative figure from the March 2014 budget on the new basis from 2013-14 onwards. Previous years on a comparative basis have not been recalculated.

2.30 The Autumn Statement included a number of announcements on tax reductions, the most significant being:

- Increase in personal income tax allowance for 2015-16 to £10,600 and the 40% threshold to £42,835 reducing tax yield by approx. £600m per annum;
- Reform of Stamp Duty Land Tax (SDLT) to be more progressive with only the value above each threshold taxed at a higher rate rather than the previous system where the total value was taxed at the same rate on a stepped scale. This reduces the tax yield by around £800m per annum
- Extension of the reliefs on business rates for 2014-15 for a further year in 2015-16 (doubling the relief on small business and capping

the increase in the multiplier to 2%). An increase on the discount for retail premises shops, pubs and restaurants from £1,000 to £1,500 for 2015-16 was also announced. These measures reduce the business rate yield by an estimated £755m (we assume the impact on local authority share of business rates will be compensated by additional grant as in 2014-15). The Autumn Statement also announced a fundamental review of the structure of business rates to be completed by March 2016, although it was recognised this would have to be fiscally neutral.

2.31 The tax reductions are largely financed by further measures to tackle tax avoidance and in particular a new "diverted profits tax" to counter the use of aggressive tax planning techniques used by multinational enterprises to divert profits from the UK. The Autumn Statement also announced a new restriction on bank loss relief which would limit the amount of banks' profits which can be offset by carried forward losses to 50%. On average the combination of all additional tax measures would yield around £1.9bn per annum. The Autumn Statement introduced a new exemption from income tax and national insurance on travel expenses paid to local authority elected councillors although the cost to the Exchequer has been assessed as negligible.

2.32 The Autumn Statement did not include any significant changes in public spending for 2015-16 other than additional spending on front-line NHS services (see below). The statement did announce an intention for a further £10bn of efficiency savings by 2017-18 but did not include any detail other than a review would be led by the Cabinet Office working closely with HM Treasury and government departments.

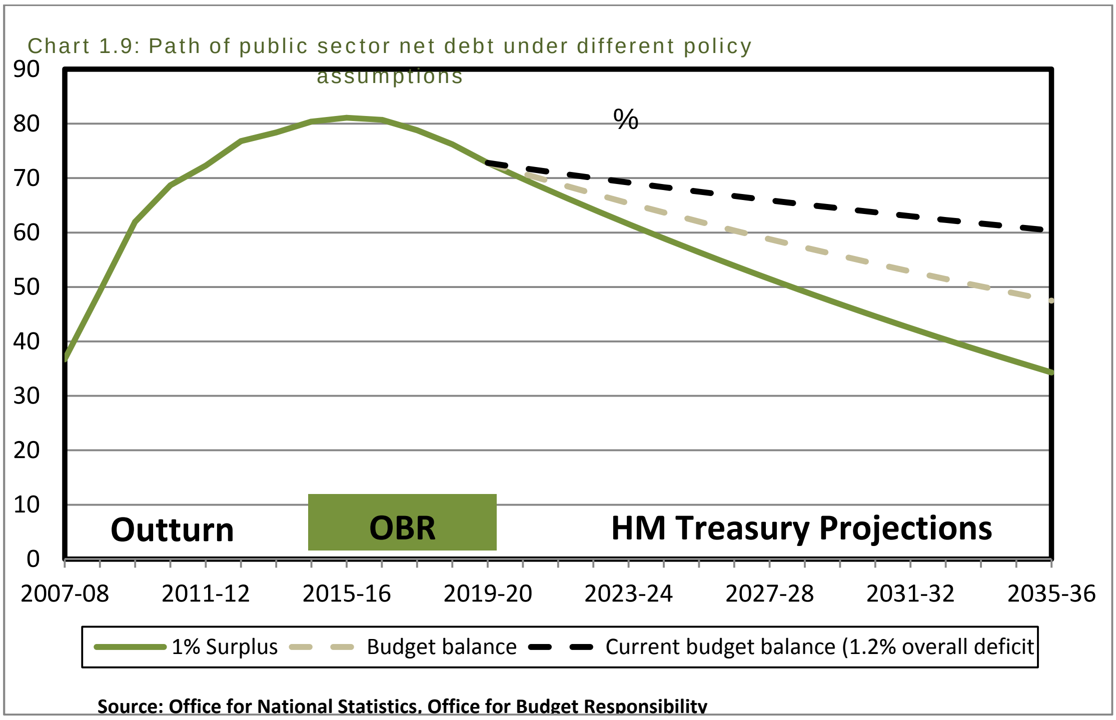
2.33 The statement also identified the government's intention to continue reform and restraint of public sector pay although included no details. The statement confirmed the government's commitment to continue to prioritise capital investment including announcement of around £30bn for road improvement/maintenance, flood defences, and science infrastructure over the next 6 years.

2.34 The NHS “Five Year Forward View” outlines the vision for a more sustainable, more integrated health service that cares for people closer to home. The Autumn Statement provides an additional £2bn for health services in 2015-16 including £1.5bn for front-line patient care and a £200m transformation fund to improve the integration of GPs, community services and hospitals. The statement also included the establishment of a £1bn fund to improve GP services using money raised from fines collected from banks that broke foreign exchange rules. This fund is to be used over 4 years.

2.35 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 reductions which have been made between 2010-11 to 2014-15 in order to meet the deficit reduction target. The fiscal assumption for 2018-19 and 2019-20 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 and we have explored the OBR assessment of the impact at length in this year’s MTFP.

2.36 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 12 shows these projections.

Chart 12



2.37 The overall package within the Autumn Statement reaffirms the government's commitment to meeting its fiscal mandate and rebalancing of the economy; to stimulate economic growth; to equip the economy and UK workforce to succeed in the global market place; to invest in infrastructure and improve the functioning of the housing market; to deliver a fairer society which rewards employment and investment, and tackles inequities in the tax system and takes further steps to reduce tax evasion and avoidance. The statement recognises that UK performance on economic growth, inflation and employment has been encouraging but the deficit remains too high (in spite of it being reduced by half as a proportion of GDP) and productivity is too low

KCC's assessment of the economic position

2.38 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 and that the recovery had 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.

2.39 This year's MTFP recognises the further progress on the economic recovery but highlights the concern that this recovery has not yet been reflected in increased yields through income tax/corporation tax etc., and progress on eliminating the deficit remains behind target despite substantial reductions in public spending. The potential further reductions in public spending which may be required under new spending plans beyond 2015-16, as highlighted in the OBR report, are of particular concern.

2.40 Subject to the outcome of any incoming Government's Spending Review, the reductions for local government funding could be even greater than those between 2010-11 and 2015-16. At this stage, and in the absence of detailed spending plans, we have not revised our forecast reductions for 2016-17 and 2017-18. This means our best estimate based on the assertion in the Autumn Statement that reductions in 2016-17 and 2017-18 will be of a similar magnitude to recent reductions. We have included the impact of the 2015-16 provisional settlement and remain concerned (as previously reported) that this is significantly higher than the headline 10% reduction.

2.41 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 continued improvement in consumer confidence and that income increases are starting to catch-up or even exceed inflation. The Cabinet proposed in its budget consultation launched in October 2014 that the County Council's element of Council Tax should be increased up to the referendum limit (assumed to be 1.99%) for the foreseeable future.

2.42 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 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, and a growing number of respondents would support an even bigger increase in order to protect vital services. Cabinet Members have recognised that larger increases would require a referendum but remain concerned that the cost of holding this is disproportionate to the additional benefit.

2.43 In general, Cabinet is in favour of Council Tax increases in line with inflation/wage increases. Inflation forecasts for 2015-16 are less than the 2% target for CPI for most of next year. However, for 2015-16 the council faces a 13.1% reduction in the settlement from central government and therefore feels justified to seek a slightly above inflation increase in order to protect valued services. County Councillors should be aware that Council Tax is not a buoyant tax and does not automatically increase in line with inflation/wages (unlike other taxes) and therefore increases get more prominence than they really deserve.

2.44 Levels of inflation continue to present additional spending pressures for the Council. Recent reductions in headline rates of inflation and in particular fuel prices mean we have been able to reduce additional spending demands due to inflation compared to estimates in the consultation. Nonetheless, the Council still has to meet inflationary increases on its spending in spite of reduced cash settlements from central government and minimal Council Tax increases. A significant element of our external 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 and wage increases in the private sector paid by contractors.

2.45 Generally unemployment in the county is below the national average (1.7% of the population claiming Job Seekers Allowance) compared to 2.2% nationally and 2.1% for England. However, even though unemployment is falling in all districts it is still at or above the England average in 5 districts. The Council is also concerned about high levels of youth unemployment and through our "Kent Jobs for Kent Young People" programme we will continue to look to generate training and employment opportunities in the county.

2.46 The Council continues to be concerned about the impact of welfare benefit restrictions and changes. Local schemes for Council Tax Support generally seem to be working well and districts are collecting Council Tax from working age people who have had to pay a discounted bill. Most districts in Kent require working age recipients to pay 18.5% compared to the previous Council Tax benefit arrangements as a result of the cut in Council tax support funding. The current 3 year agreement with districts comes to an end on 31st March 2016 and we have embarked on a review of Council Tax support arrangements, particularly as funding is no longer transparent in the local government settlement. 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.

2.47 The County Council has made representation that the funding arrangements for welfare provision provided through the Kent Support and Assistance Service (KSAS) should be preserved. The indicative settlement for 2015-16 included the removal of this funding although the Government issued a further consultation in the autumn considering alternative arrangements. The provisional settlement published in December included a new allocation of £129.6m for welfare provision, but this did not represent a replacement or preservation of the existing funding arrangements as it was funded by a consequential reduction the upper tier allocation for other services within the overall settlement. The government responded to criticism of these arrangements by returning £74m to the upper tier element in the final settlement.

2.48 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 efficiency savings (doing the same for less) and by transforming the way we provide essential front-line services so that services are still 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 the Council's reserves in order to manage the impact of funding reductions, although we have to recognise this only provides a short term solution and we will need to replace this with long term sustainable savings.

2.49 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

2.50 The outcome of the Spending Round 2013 (SR2013) was announced on 26th June 2013. This set out the total departmental expenditure limits (Resource DEL) for 2015-16 of £23.5bn. This represented a £2.1bn reduction (8.2% in cash or 10% in real terms) on 2014-15. However the amount included in the indicative baseline settlement for local government reduced from £23.79bn to £20.65bn, a reduction of 13.2%. This larger reduction was due to the creation of new funding streams as well as the expansion of New Homes Bonus which were funded out of the overall settlement for local government. This means the reduction in core funding through Revenue Support Grant/Business Rate baseline was more than the headline 10%. Table 3 sets out the totals for 2014-15 and 2015-16 for England and Kent. More detail on how the DCLG Resource DEL is translated into the local government settlement in the Revenue Strategy (section 3).

Table 3	KCC			England		
	RSG	Business Rates	Total	RSG	Business Rates	Total
	£m	£m	£m	£m	£m	£m
2013-14 Adjusted	252.5	164.1	416.7	15,357.9	10,898.6	26,256.4
2014-15	213.1	167.3	380.4	12,674.8	11,110.9	23,785.6
Year on Year change	-15.6%	1.9%	-8.7%	-17.5%	1.9%	-9.4%
2015-16 Indicative	158.7	172.0	330.7	9,233.3	11,417.5	20,650.8
Year on Year Change	-25.5%	2.8%	-13.1%	-27.2%	2.8%	-13.2%

2.51 As previously identified 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. We have estimated that this would mean a reduction in the baseline of around 10% per annum. This could be over optimistic if the OBR predictions prove to be realistic.

2.52 The reduction in 2016-17 is likely to be a bit less than 10% (or whatever % is announced following the Spending Review) as we anticipate that some separate grants will be transferred into the baseline e.g. Council Tax Freeze, Business Rate Compensation, etc., as has been the case in the past. Transferring previously separate grants into the baseline means that they effectively become funded out of business rates and are not necessarily protected from the overall reductions in future years.

Local Government Finance Settlement

2.53 The provisional Local Government Finance settlement for 2015-16 was announced on 18th December 2014. The final settlement was published on 3rd February (after we had printed the republished budget books for County Council on 12th February). Details of the final settlement were reported to County Council and tables in this final version of the MTFP have been updated to reflect the final settlement.

2.54 The local government final settlement 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). Overall the settlement was largely unchanged from the indicative amounts identified at the time of the 2014-15 settlement other than some minor transfers e.g. the business rate baseline reduced as a consequence of the additional reliefs on business rates announced in the Autumn Statement but this was offset by additional Business Rate Compensation grant. Table 4 sets out all the changes between the indicative 2015-16 figures included in the budget consultation and the final 2015-16 settlement at both a national and local level.

Table 4	RSG	Business Rate	Top-Up	Local Share	Total	RSG	Business Rate	Total
	£m	£m			£m	£m	£m	£m
Original Indicative Settlement December 2013	158.7	172.0	124.0	48.0	330.7	9,233.3	11,417.5	20,650.8
Adjustments in Final Settlement								
Transfer of 2014-15 Council Tax Freeze	0.0					145.2		145.2
Transfer of Efficiency Support Grant	0.0					9.4		9.4
Increase in Rural Services Grant	0.0					6.0		6.0
Change in Carbon Reduction Commitment	0.0					-6.4		-6.4
Change in Fire Pensions	0.0					-2.2		-2.2
Impact of Reduced New Homes Bonus topslice	0.8					50.0		50.0
Additional Welfare Provision	1.5					74.0		74.0
Impact of 2% cap on business rates		-1.4	-1.0	-0.4			-94.4	-94.4
February 2015 Final Settlement	161.0	170.5	122.9	47.6	331.5	9,509.4	11,323.2	20,832.5

2.55 The Settlement Funding Assessment (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 (more detail on the calculation of tariffs and top-ups is included in section 3 of this year's MTFP).

2.56 The year on year changes in RSG and business rate elements for different classes of authority are set out in table 5 below. The headline reduction (12.4%) is less than the original reduction identified from the indicative settlement (13.2%) and the provisional settlement (12.7%). However, the impact of some of the changes set out in table 4 are transfers rather than additional cash, and will be mirrored by changes in other grants outside the main settlement e.g. the reduction for business rate discounts will be compensated by additional section 31 grant (amount yet to be confirmed). This means the impact on local authority funding through the settlement in terms of real spending power is effectively 12.9%.

Table 5	SFA Total	RSG	Business Rate		Change in		
			Baseline	Top-up / (Tariff)	RSG	SFA	
						Headline	Effective
	£m	£m	£m	£m			
2014-15							
Shire Counties	5,407.9	3,033.0	2,374.9	1,696.9			
London Boroughs	4,355.4	2,386.4	1,969.0	13.5			
Metropolitan Districts	6,095.3	3,344.7	2,750.6	799.1			
Unitary Authorities	4,930.4	2,713.8	2,216.6	14.0			
Shire Districts	1,093.7	583.2	510.6	-2,366.7			
Other	1,902.8	613.7	1,289.1	-145.9			
Total	23,785.6	12,674.8	11,110.9				
2015-16							
Shire Counties	4,771.0	2,350.7	2,420.3	1,729.3	-22.5%	-11.8%	-12.4%
London Boroughs	3,764.6	1,758.0	2,006.7	13.7	-26.3%	-13.6%	-14.1%
Metropolitan Districts	5,245.3	2,442.1	2,803.2	814.3	-27.0%	-13.9%	-14.2%
Unitary Authorities	4,271.2	2,012.2	2,259.0	14.3	-25.9%	-13.4%	-13.8%
Shire Districts	942.7	422.4	520.3	-2,412.0	-27.6%	-13.8%	-15.4%
Other	1,837.7	524.0	1,313.7	-148.7	-14.6%	-3.4%	-3.5%
Total	20,832.5	9,509.4	11,323.2		-25.0%	-12.4%	-12.9%
(memo excl Other)					-25.5%	-13.2%	-13.7%
(memo two tier total)					-23.3%	-12.1%	-12.9%

2.57 The provisional settlement included one other presentational change. As outlined in paragraph 2.47 the original indicative settlement for 2015-16 included the removal of the separate DWP grant for welfare provision used to fund KSAS. A separate sum of money has now been identified in the RSG provisional settlement for welfare provision, however, this is not the re-instatement or transfer of this grant, as it has been created by removing a corresponding amount from the upper tier element of RSG. This means that effectively the welfare provision grant has still been removed and adds to the funding reduction for upper tier authorities compared to 2014-15. This has been partially compensated in the final settlement with the allocation of an additional £74m to upper tier element of RSG.

2.58 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 by the old Formula Grant elements for upper tier, lower tier and fire authorities and Early Intervention Grant). 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 13.2% headline reduction (13.7% effective reduction) for 2015-16 has been allocated i.e. excluding the other classes of authority.

Table 6	RSG and Business Rates Baseline						RSG Only				
	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	2013-14 Council Tax Freeze Grant	2014-15 Council Tax Freeze Grant	Local Welfare Provision	Other (including Rural, Efficiency Support, CRC)	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
2014-15											
Shire Counties	4,022.4	215.1	511.4	0.0	4.8	566.1	76.7	0.0	0.0	11.5	5,407.9
London Boroughs	3,688.0	75.1	296.6	35.3	4.4	225.6	24.6	0.0	0.0	5.8	4,355.4
Metropolitan Districts	5,227.1	103.3	397.5	8.1	4.4	322.2	24.6	0.0	0.0	8.1	6,095.3
Unitary Authorities	4,067.7	122.6	370.5	14.9	6.9	312.2	26.2	0.0	0.0	9.3	4,930.4
Shire Districts	1,028.7	32.5	0.0	20.5	0.0	0.0	8.5	0.0	0.0	3.5	1,093.7
Total	18,034.0	548.6	1,576.0	78.8	20.6	1,426.1	160.6	0.0	0.0	38.1	21,882.8
2015-16											
Shire Counties	3,366.1	214.3	465.8	0.0	4.8	563.9	76.7	41.6	32.3	5.5	4,771.0
London Boroughs	3,076.2	74.8	270.2	35.1	4.4	224.8	24.6	31.3	24.4	-1.2	3,764.6
Metropolitan Districts	4,356.9	102.9	362.1	8.1	4.4	321.0	24.6	24.1	41.9	-0.7	5,245.3
Unitary Authorities	3,393.1	122.2	337.5	14.8	6.9	311.1	26.2	26.4	30.9	2.1	4,271.2
Shire Districts	859.6	32.4	0.0	20.4	0.0	0.0	8.5	9.1	0.0	12.6	942.7
Total	15,052.1	546.6	1,435.5	78.5	20.5	1,420.8	160.6	132.5	129.6	18.3	18,994.8
Change	-16.5%	-0.4%	-8.9%	-0.4%	-0.4%	-0.4%					

2.59 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 (including increased Better Care Fund). It also includes an estimated increase in the Council Tax base (it does not include any estimate for changes in local share of business rates).

2.60 The headline change in Spending Power between 2014-15 and 2015-16 is quoted as -1.7%. This compares with the 12.9% in table 5 (13.7% excluding the "other" classes of authority). Table 7 sets out the Spending Power calculation for all local authorities. The equivalent figure published for KCC is +0.6%.

Table 7	Adjusted 2014-15	2015-16	Change
	£m	£m	
Council Tax Base	20,579.7	20,737.5	0.8%
Settlement Funding Assessment (excl. GLA)	22,947.6	19,678.6	-14.2%
Compensation Grant for Business Rate Cap	107.7	150.8	40.0%
Efficiency Support Grant	0.0	2.2	
Council Tax Freeze 2015-16	0.0	239.4	
New Homes Bonus Grant	917.0	1,167.6	27.3%
New Homes Bonus Adjustment Grant	33.0	32.4	-2.0%
Council Tax Support New Burdens	34.8	12.5	-64.2%
Housing Benefit/Council Tax Support Admin	363.3	329.1	-9.4%
Public Health Grant	2,793.8	2,801.5	0.3%
Adult Social Care New Burdens	285.0	285.0	0.0%
Better Care Fund	1,665.0	3,460.0	107.8%
Other	69.2	54.1	-21.9%
	49,796.1	48,950.6	-1.7%

2.61 The main issue with the Spending Power calculation is that it includes additional funding which brings with it additional spending expectations and in particular the substantial increase in the Better Care Fund (BCF). BCF is controlled by Clinical Commissioning Groups (see paragraph 2.75 below). 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)

2.62 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.

2.63 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 early year's amount per pupil for 2015-16 is the same as 2014-15 although the total early years funding now includes pupil premium for early years announced in October. At this stage the early years block does not include the funding for disadvantaged two year olds as this will be allocated during the year based on actual participation.

2.64 The schools block per pupil has been increased for the 69 least fairly funded authorities as per the Minister's announcement in July (Kent is not one of these), the largest increase being £470.40 per pupil. The schools block per pupil has been reduced for all authorities by £7.51 towards Carbon Reduction Commitment. The amount per pupil for 3 authorities (including Kent) has been adjusted for inconsistencies in recoupment for academies. The schools block DSG per pupil for Kent in 2015-16 is £4,362.93, a net reduction of £4.56 compared to 2014-15. These adjustments mean the schools block average per pupil for all LA's has increased marginally from £4,550.54 in 2014-15 to £4,612.11. The schools block has also been increased for most authorities to reflect previously non recoupable academy transfers (those in the first wave). These academy adjustments will be reflected in the baseline schools block per pupil figure from 2016-17 onwards.

2.65 The schools and early years blocks allocations are based on the October 2014 pupil numbers. The schools block will be adjusted for any increase in reception aged pupils between October 2014 and January 2015. The early years block will be recalculated for any increase in January 2015 numbers, and will be recalculated again based on January 2016 pupil numbers with the final allocation based 5/12 on January 2015 numbers and 7/12 on January 2016.

2.66 The high needs block consists of schools and post schools sub blocks and is allocated according to agreed high need place numbers in mainstream schools, special schools, pupil referral units and academies. The high needs block will be adjusted during the year to reflect places funded directly by the Education Funding Agency to academies and non-maintained schools and post 16 places funded through the sixth form grant to local authorities.

2.67 As in 2014-15 the final DSG allocations are subject to addition for induction of Newly Qualified Teachers (NQTs). Individual authority allocations are subject to a 2% cash floor to protect from falling pupil numbers. Table 8 sets the main block amounts and changes compared with 2014-15.

Table 8	2014-15			2015-16		
	Pupil Numbers	£m	£m	£m	£m	Pupil Numbers
Schools Block	6,729,790		30,654.0		32,127.9	6,800,683
Change in Pupil Numbers				333.0		
69 Least Fairly Funded				427.8		
Carbon Reduction Commitment				-51.1		
Academies Recoupment				764.2		
Early Years Block	494,349		2,118.6		2,233.9	510,002
Change in Pupil Numbers				65.5		
Early Years Pupil Premium				49.7		
Disadvantaged 2 Year Olds						
High Needs Block			5,092.1		5,245.1	
Additionals and Deductions			714.8		10.2	
2 Year Olds		755.0				
NQTs		10.2		10.2		
CRC		-50.5				
2% Floor		0.2		0.0		
Total			38,579.6		39,617.1	

2.68 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 from losing 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.

2.69 A separate Pupil Premium was introduced in 2011-12. This grant settlement for 2015-16 has not yet been announced but we are anticipating no change to the individual 2014-15 funding rates for eligible pupils, other than the introduction of a pupil premium for early years (as mentioned in paragraph 2.63).

2.70 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 grant is paid to both local authorities and academies and replaces the previous Local Authority Central Share Equivalent Grant (LACSEG). The grant is recalculated on a quarterly basis to take account of academy transfers.

2.71 The local authority amounts per pupil, the 3rd quarter allocation for 2014-15 and provisional allocations for 2015-16 are set out in table 9. Academies receive higher rates of at least £140 per pupil for mainstream, £525 special and £595 PRUs in 2014-15. For 2015-16 ESG includes the impact of the £200m reduction announced as part of the Spending Round 2013. This reduction was subject to consultation during 2014 and the government announced its decision to reduce the standard mainstream payment for local authorities and academies to £87. Academies will also receive transitional protection to mitigate reductions against previous higher allocations.

	2014-15			2015-16		
Table 9	National amounts per pupil	Quarter 3 Allocation to all Local Authorities 2014-15	Quarter 3 Allocation to KCC	2015-16 per pupil	Provisional Allocation to All Local Authorities	Provisional Allocation 2015-16
	£s	£m	£m	£s		£m
Local Authority Allocations						
Pupils aged 3 to 19 in mainstream schools	113.17	556.4	13.7	87.00	427.9	10.4
Planned places in special schools	480.97	40.3	1.5	369.75	32.0	1.2
Planned places in PRUs	424.38	8.5	0.3	326.25	6.7	0.2
All pupils	15.00	114.2	3.3	15.00	115.7	3.3
Total for Local Authorities		719.3	18.9		582.3	15.1

Other Government Grants and Funding

2.72 A separate grant is available in 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 £274.3m. This will be paid to qualifying authorities as the equivalent of a 1% tax increase.

2.73 In 2014-15 Adoption Reform Grant totalling £50m and Special Educational Need & Disability (SEND) Grants totalling £70m 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. For 2015-16 the SEND grant has reduced to a total of £31.7m. At this stage we have had no notification of whether Adoption Reform Grant will continue or how DfE intends to use the balance of the EIG originally transferred into its departmental budget.

2.74 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 from £950m in 2014-15 to £1.25bn in 2015-16 with further funds transferred from RSG/business rate mechanism. Provisional announcements totalling £1.167m have been issued for local authorities based on the formula for new homes, empty homes brought back into use and affordable homes premium. Any unallocated funds are repaid as NHB adjustment grant pro rata to each authority's SFA.

2.75 Public Health Grant allocations have previously been announced at the same level as 2014-15 (£2.79bn nationally). In addition a new £5m Health Premium Incentive Scheme will be piloted. From October 2015 responsibility for commissioning public health services for 0-5 year olds will transfer to local authorities. An additional £425m has been identified for the part-year funding of this additional responsibility. Public Health funding is a ring-fenced grant to enable local authorities to discharge public health functions and has to be separately accounted for.

2.76 The NHS support for social care is being increased and transferred into new arrangements under the Better Care Fund (BCF). In 2014-15 local authorities received funds from Clinical Commissioning Groups (CCGs) totalling £900m to improve social care and health services. BCF will be worth £3.8bn in 2015-16 and be available to CCGs. £1.9bn will be identified from within the NHS budget together with £1.1bn (£0.2bn increase on 2014-15 funding) which would otherwise have been available to allocate to local authorities plus Carers' Break Fund, CCG re-ablement, and capital funding (including Disabled Facilities Grant). Allocations from BCF will be agreed with individual CCGs and a large element will be conditional on reductions in acute admissions.

2.77 Additional funding has been made available to local authorities to implement new responsibilities which come into force in 2015-16 under the Care Act. These new responsibilities relate to the following:

- £146m from DCLG towards the additional assessment costs in advance of the introduction of universal cap on personal care costs from April 2016
- £83.5m from DCLG to support the introduction of a universal deferred payments scheme towards care costs from April 2015
- £55.5m from DCLG to cover the additional costs in relation to new rights for carers from April 2015 and towards general costs incurred by local authorities in implementing the Care Act
- £11.2m from DoH in relation to new responsibilities to assess and provide for social care needs in prisons

2.78 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, running the road network, etc. 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 financial plan.

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 national 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 the next three years has proved difficult due to unknowns around the settlement beyond 2015-16 as no government spending plans have been published. 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 together with other un-ring-fenced grants remains a significant factor in our financial planning and account for over 25% of gross spend and 38% of our net budget requirement for 2014-15. Specific grants account for a further 15% of gross spend.

3.5 When the 2014-17 MTFP was agreed in February 2014 we had an indicative baseline settlement for 2015-16 (consisting of both RSG and business rates elements). We were confident that this gave us a realistic guide and that we faced a 13.1% reduction in our main funding through RSG and business rates for 2015-16, although there were a number of unknowns around other grants e.g. Education Services Grant, welfare provision, etc., which were subject to consultation during the year.

3.6 We launched a consultation on KCC's 2015-16 budget and three year spending plans on 9th October 2014. The consultation set out the equation as summarised in table 1 below. This strategy explores in more depth the underlying assumptions behind each of the headings in table 1. The final budget and MTFP proposals will take account of responses to the consultation as well as any supplementary updates, including the provisional settlement announcement on 18th December.

Table 1	2015/16		3 years	
Grant Reductions	£55.8 m	-15.40%	£118.0 m	-32.60%
Council Tax/Business Rates	-£11.5 m	1.99%	-£42.0 m	7.20%
Spending Demands	£48.9 m	5.20%	£130.0 m	13.80%
Savings	-£93.2 m	-9.90%	-£206.0 m	-21.90%
Savings if we do not increase Council Tax	£103.8 m		£239.0 m	

Government Grant Funding Estimates

3.7 Grant funding estimates are 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 the local government settlement. Where possible estimates are based on indicative figures provided by government (these are not always available and sometimes estimates have to be based on trend analysis).

3.8 Government grants included in the funding estimate are all the un-ring-fenced allocations i.e. those which the local authority has discretion over how the money is spent including those related to provision of statutory services. The most significant element of un-ring-fenced funding are the Revenue Support Grant (RSG) and Business Rates Top-up, these are considered in more detail in paragraphs 3.24 to 3.31. Ring-fenced specific grants are treated as income to offset spending, with the level of funding and spending largely dictated by the government department. The funding estimate also includes Council Tax and the local authority's share of business rates, explored separately in sections 3.19 to 3.23.

3.9 A more detailed breakdown of the forecasts of the available funding assumed in the consultation launched in October is set out below in table 2. These show the estimated reduction in central government funding of £55.8m for 2015-16 (£117.7m over 3 years) and an increase in local taxation from Council Tax and business rates of £11.5m (£41.5m over 3 years). The additional funding assumed from increasing Council Tax up to the referendum level each year is shown separately in table 2.

Table 2	2014-15 Budget £000s	2015-16 Estimate £000s	2016-17 Estimate £000s	2017-18 Estimate £000s
Council Tax				
Tax Base (incl previous year tax increase	529,125	531,771	545,097	558,768
Assumed annual increase		10,614	10,892	11,173
Collection Fund Balance	4,018			
Local Share of Business Rates				
Business Rate Share	46,924	47,978	49,200	50,400
Collection Fund Balance	-1,236			
Un-ring fenced grants				
Revenue Support Grant	213,092	158,726	127,000	92,000
Business Rate Top-up	120,634	123,964	127,000	130,000
New Homes Bonus (incl adjustment)	6,610	7,967	8,800	8,800
Education Services Grant	17,000	13,000	13,000	13,000
Business Rate Compensation	2,000	2,000	0	0
Other Grants	2,146			
Total	**940,313**	**896,018**	**880,989**	**864,141**

3.10 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. This final version of the Budget Book and MTFP includes the final Local Government Finance Settlement and business rate tax base as reported to the February County Council meeting.

3.11 The New Homes Bonus (NHB) Grant is funded within the overall Resource DEL for local government. The grant was introduced in 2011-12 and was planned to roll-out over 6 years up to 2016-17. This means NHB accounts for an increasing share of Resource DEL over this period (and conversely RSG and other CLG grants account for a reducing share). Each authority's NHB is determined according to growth in the Council Tax base. Any balance left over within the overall amount earmarked within the Resource Del for NHB is paid as an adjustment grant pro rata to each authority's baseline assessment. Indicative allocations are not announced in advance but for consultation we assumed KCC's grant would increase by approximately £1.4m to £7.4m. This estimate proved to be reasonably accurate when the provisional settlement was announced as per table 3 below which shows the NHB allocations for all districts and the county together with the growth. The adjustment grant is also close to the £0.567m we estimated.

Table 3	2014-15		2015-16		
	Year 3 Rollout	Total	Year 4 Rollout	Total	Growth
	£000s	£000s	£000s	£000s	
Ashford	436.3	2,866.6	283.7	3,150.4	9.9%
Canterbury	1,022.3	2,526.8	475.9	3,002.7	18.8%
Dartford	613.3	1,939.0	717.3	2,656.3	37.0%
Dover	396.4	1,295.9	274.7	1,570.6	21.2%
Gravesham	428.2	1,365.8	262.3	1,628.1	19.2%
Maidstone	792.0	3,740.4	565.9	4,306.3	15.1%
Sevenoaks	413.4	1,389.0	429.5	1,818.4	30.9%
Shepway	253.6	1,290.4	312.2	1,602.6	24.2%
Swale	505.7	2,268.7	542.2	2,810.8	23.9%
Thanet	561.7	2,009.6	424.6	2,434.2	21.1%
Tonbridge & Malling	759.7	2,395.9	705.3	3,101.2	29.4%
Tunbridge Wells	96.4	1,084.0	135.5	1,219.5	12.5%
Kent County Council	1,569.7	6,043.0	1,282.2	7,325.3	21.2%

3.12 The provisional Education Services Grant (ESG) for 2015-16 has been announced, and is higher than the amount we included in consultation. Our £13m forecast included our estimated share of the impact of the £200m reduction announced as part of Spending Round 2013 (the detail of which was not determined until summer 2014 following consultation) and the estimated impact of academy conversions. The provisional settlement is based on the October 2014 pupil census and as in previous years will be adjusted quarterly to reflect the actual number of pupils in maintained schools and academies. The higher settlement figure for ESG is due to fewer academy conversions than we anticipated during this year and means we will receive a better than expected ESG in both 2014-15 and 2015-16. This is exemplified in table 4 showing the provisional and latest ESG notifications. In the proposed budget for 2015-16 we have included a lower ESG figure than the provisional settlement to include estimated impact of future academy conversions and the recalculation of grant during the forthcoming year.

Table 4	Original Provisional Grant 2014-15	Revised Quarter 3 Grant 2014-15	Provisional Grant 2015-16
Pupil Numbers			
Maintained Schools aged 3-19	133,770	121,043	119,903
Maintianed Special Schools	3,216	3,216	3,172
Pupil Referral Units	803	803	540
All Schools (incl. Academies)	219,683	219,683	221,769
Grant Allocations			
Maintined schools	£17,026.3k	£15,586.0k	£11,780.6k
Residual functions for all schools	£3,295.2k	£3,295.2k	£3,326.5k
Total	£20,321.5k	£18,881.3k	£15,107.1k

3.13 The Autumn Budget Statement announced that business rates will only be increased by 2%[1] in 2015-16 (instead of the 2.3% 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 grant. However, local authorities will be compensated by an additional un-ring-fenced grant (although allocations for individual authorities were not notified as part of the provisional settlement and we have included an estimate in the MTFP at this stage). This compensation grant also includes other temporary reductions in business rates (doubling of relief on small businesses, discounts for retail premises, etc.).

3.14 The provisional/final Local Government Finance Settlement also includes the separate Council Tax Freeze grant relating to 2014-15 being rolled into RSG for 2015-16 (this does not affect Kent) as well as a number of other minor transfers mentioned in paragraph 2.53 (including a reduced top-slice to fund NHB which does impact on KCC). The overall impact is that the provisional RSG settlement for 2015-16 is slightly higher than originally estimated, however, after taking account of the consequential changes in other grants the overall impact is as we had anticipated for the consultation.

3.15 At this stage we have not revised the forecasts for 2016-17 and 2017-18 in spite of the predictions included in the OBR outlook outlined in section 2 as it would be pointless to keep changing the estimates prior to the outcome of the future Spending Review. However, it should be noted that future settlements could be worse than we have forecast to date (and thus the need for savings could be even 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 £0.471 to £0.480 (without the cap the multiplier would have been £0.482) resulting in a 1.91% increase

3.16 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. We also ignored the small grants for Lead Local Flood authorities in Inshore Sea Fisheries for consultation as these are not material.

3.17 The final Council Tax base from district councils shows a 1.7% increase over 2014-15. This compares to 0.5% assumed for the consultation. The detail for individual districts is shown in section 2 of the Budget Book 2015-16. Initial analysis indicates that this larger than expected increase is due to a combination of more households being included on the valuation list and fewer discounts being applied (particularly Council Tax Support) although we are undertaking a fuller analysis to inform future tax base estimates. We have also received notification of the excess Council Tax collected during 2014-15 through the collection fund balance as shown in the final Budget Book and the share of business rate tax base as reported to County Council.

Table 5	2015-16 Draft £000s	2016-17 Estimate £000s	2017-18 Estimate £000s
Base Budget included in consultation	896,018	880,989	864,141
Council Tax			
Tax Base (incl. previous year tax increase)	538,290	551,779	565,619
Assumed annual increase	10,744	11,026	11,310
Collection Fund Balance	7,079	0	0
Local Share of Business Rates			
Business Rate	49,227	50,400	51,600
Business Rate Collection Fund (deficit)	451	0	0
Un-ring-fenced grants			
Revenue Support Grant	161,005	130,000	95,000
Business Rate Top-up	122,939	126,000	129,000
Business Rate Compensation Grant	3,342	0	0
New Homes Bonus (incl adjustment)	7,886	8,800	8,800
Education Services Grant	13,750	13,000	13,000
Other Grants	1,766	0	0
Revised total included in MTFP	916,479	891,005	874,328

3.18 Table 5 sets out the revised funding assumptions in the 2015-18 MTFP which account for the change in total funding between the consultation and MTFP. This funding includes provisional and estimated amounts which could still be subject to change. The most significant change from the figures used for consultation (as shown in table 3) is the higher than anticipated Council Tax base and collection fund balance (paragraph 3.17).

Council Tax and Local Share of Business Rates

3.19 The strategy for the forthcoming MTFP is built on the assumption that the County Council element of Council Tax will be increased up to the referendum level each year. This provides the Council with a sustainable source of income and should mean the tax rate keeps pace with inflation and pay. We have assumed the referendum limit will be 2% each year.

3.20 The forecast Council Tax also includes 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. This estimate for 2016-17 and 2017-18 will be revised in light of the fuller analysis of higher than expected tax base increase between 2014-15 and 2015-16.

3.21 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. This close collaboration is reflected in the larger than anticipated increase in the provisional tax base for 2015-16.

3.22 The local share of business rates continues to be a marginal source of income for the county council although we have seen an increase in the tax base compared to 2014-15. As reported to County Council we need to do more work to establish how much of this increase is due to growth and how much relates to the outcome of outstanding appeals. We have also received our share of the surplus on business rate collection funds during the year.

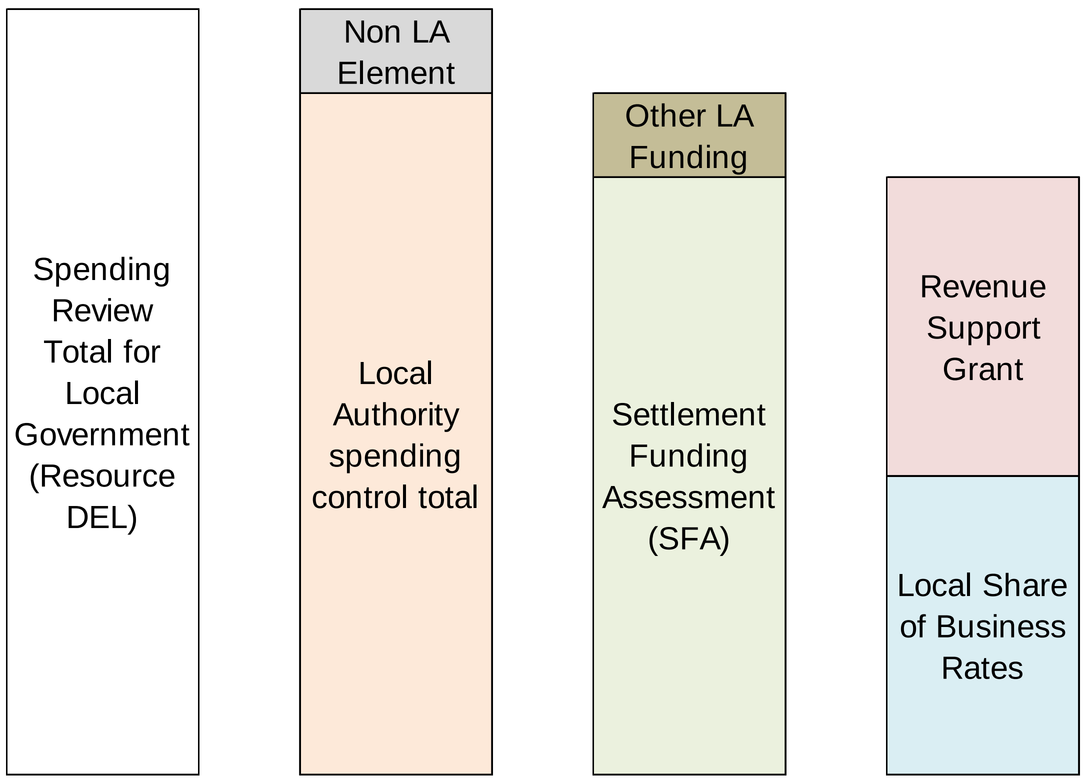
3.23 In the Autumn Statement the Chancellor announced a fundamental review of the business rate system and until we have the outcome of this review it is prudent to assume minimal change. We have joined in a business rate pool with 10 Kent districts and the Fire and Rescue authority. The pool is an annually renewable arrangement and any proceeds from the pool will be treated as income rather than funding.

Revenue Support Grant and Business Rate Baseline

3.24 The main source of central government funding through the redistribution of business rates has 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 the main government un-ring-fenced funding.

3.25 The new business rates model was introduced in 2013-14 and was described in detail in previous year's MTFP publications. 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 2.50). This is subject to a number of adjustments for local government expenditure outside local authority control e.g. Valuation Office Agency, and other elements of local authority funding outside the main settlement e.g. NHB and other held-back sums (paragraph 2.50 in section 2). This leaves the net amount of funding for local authorities, referred to as the baseline or Settlement Funding Assessment (SFA).

Figure 1



3.26 This baseline/SFA is split between business rates and Revenue Support Grant (RSG). The business rate element is based on the previous year's amount uplifted by the increase in the NNDR multiplier (1.91% for 2015-16) and the RSG is the balance of the net amount available for local government in the SFA. Figure 1 shows a demonstration of this stage in the process

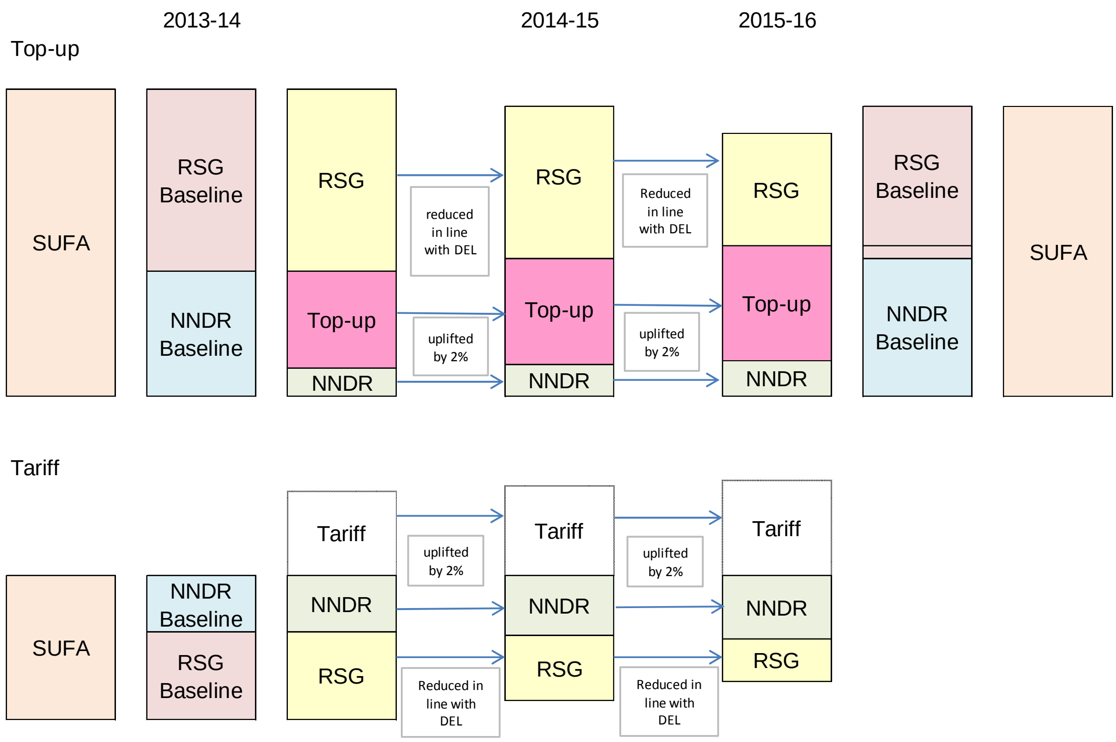
3.27 The first SFA in 2013-14 formed the starting point for the new arrangements and established each authority's RSG and business rate baseline (in 2013-14 this was referred to as the Start-up Funding Assessment (SUFA)). The calculation of this initial SUFA was described at length in the 2013-14 MTFP and does not need to be repeated. The business rate baseline was split between the local share and the tariff/top-up. In two tier areas 80% of the local share goes to the lower tier (districts), 18% to the upper tier and 2% to the fire authority. The tariff and top-up arrangements ensured that the 2013-14 SUFA for each authority equalled the historical share of funding.

3.28 In subsequent years the business rate baselines (including the historical local share and tariff and top-up) have been inflated by the increase in the NNDR multiplier (1.95% for 2014-15 and 1.91% for 2015-16). The RSG for each authority is reduced pro rata according to the individual elements within it (see previous years MTFP for details of the separate grants rolled into RSG and table 6 in section 2 of this year's MTFP), with some elements afforded greater protection than others. For 2015-16 a separate amount for Welfare Provision has been identified although this has been created out of the overall RSG which would otherwise have been included in the Formula Grant element for upper tier authorities i.e. the previous Welfare Provision funding has effectively been removed and not replaced. The final settlement included an increase of around £1.5m to the Formula Funding share as part of an additional £74m for upper tier authorities to address outstanding issues in relation to welfare provision. Table 6 shows how KCC's RSG and NNDR baselines and top-ups have changed since 2013/14 under these arrangements.

Table 6	Formula Funding	Council Tax Support Funding	Council Tax Freeze 2011-12	Council Tax Freeze 2013-14	Early Intervention Funding	Lead Local Flood Authorities Funding	Learning Disability and Health Reform	Returned	Welfare Provision	Total	Of which Business Rate Top-up
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
2013/14 Start-up Funding Assessment											
RSG Element	149.450	42.053	8.613		24.484	0.156	21.977			246.733	
Business Rate Baseline	99.425	27.977	5.730		16.288	0.104	14.621			164.145	118.329
Total	248.875	70.030	14.342		40.772	0.260	36.598			410.878	
2014/15 Settlement Funding Assessment											
RSG Element	155.193	Included	8.437	5.776	21.005	0.150	22.041	0.490		213.092	
Business Rate Baseline	129.884	in	5.841		16.606	0.106	14.906			167.342	120.634
Total	285.076	Formula	14.278	5.776	37.611	0.256	36.947	0.490		380.434	
2015/16 Settlement Funding Assessment											
RSG Element	105.285		8.271	5.776	17.335	0.147	21.617		2.574	161.005	
Business Rate Baseline	132.365		5.953		16.923	0.108	15.191			170.540	122.939
Total	237.650		14.224	5.776	34.258	0.255	36.808		2.574	331.545	

3.29 This approach means the reductions in 2015-16 RSG for individual authorities are marginally different. This approach to reducing RSG on a pro rata basis on the individual elements means that those authorities with the largest historic RSG baselines face the biggest reductions (the authorities with the largest proportionate grants under previous arrangements). It also means that RSG is not recalculated for changes in population or other factors (e.g. relative deprivation) until the next reset. The next reset is not scheduled until 2020. This approach also means that funding which has been transferred into RSG particularly from the previous Formula Grant, Early Intervention Grant and Council Tax Support is not protected from the overall reductions inherent within the SFA, and effectively these elements bear the brunt of the overall reductions. Figure 2 illustrates how the business rate baseline (local share and tariff/top-up) and RSG have changed since 2013-14 for tariff and top-up authorities.

Figure 2



3.30 As identified in paragraph 3.22 the local share of business rates included in the final 2015-16 budget is based on the County Council's share of the business rate tax base from notified by districts. A system of levies and safety nets ensures that gains and losses from changes in business rates compared to the baseline are manageable. The safety net ensures that no authority can lose more than 7.5% of their overall share of business rates.

3.31 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 rate tax base will benefit by around 20% of any increase i.e. 50% of their 80% share of the half retained locally. The County and Fire authorities will retain all of their 18% and 2% shares.

As identified in paragraph 3.23 a pool has been established between a number of Kent districts, the County Council and the Fire Authority. The pool has a much lower levy rate than individual districts (1%) but also has a lower safety net threshold should the business rate tax base decline.

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 2014-15 budget are also shown as additional spending demand. For 2015-16 we have also included a new section to realign budgets where the underlying activity levels in the 2014-15 have proven to be under stated (any overstated activity levels are shown as savings). This ensures budgets are “right-sized” to reflect current activity.

3.33 At the time of the budget consultation we estimated the following additional spending demands:

- £13.8m in 2015-16 for pay and price rises (£52.1m over 3 years)
- £3.9m arising from government and legislative decisions (£4.5m over 3 years)
- £12.5m arising from additional demand and demographic changes, comprising £4.0m of “right sizing” for current activity and £8.5m future demand, (£38.1m over 3 years)
- £5.6m financing the capital programme (£12.5m over 3 years)
- £12.7m to replace one-off savings in the 2014-15 budget (£22.3m over 3 years for further one-offs in 2015-16 budget)
- £0.5m for other minor demands (£0.5m 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. The most significant relate to the allocation of significant additional ring-fenced grant for Public Health and announcements on funding for the implementation of the Care Act. These are material changes which need to be reflected in both spending and income but have nil effect on KCC’s net budget. Confirmation of the funding changes relating to welfare provision must also be factored into the MTFP (we could ignore this for our consultation purposes pending the outcome of Government decisions). The spending demand estimates have been updated for the latest activity information from the second quarter’s budget monitoring and latest inflation indices and forecasts.

3.35 The final proposed budget has the following additional spending demands:

- £11.4m in 2015-16 for pay and price rises (£47.9m over 3 years)
- £31.5m arising from government and legislative decisions including impact of loss of grants used for specific purposes (£42.3m over 3 years)
- £18.8m arising from additional demand and demographic changes, comprising £9.8m of “right sizing” for current activity and £8.6m future demand, (£44.0m over 3 years)
- £5.3m financing the capital programme (£12.0m over 3 years)
- £12.6m to replace one-off savings in the 2014-15 budget (£27.6m over 3 years for further one-offs in 2015-16 budget)
- £0.5m for other minor demands (£0.7m over 3 years)
- £2.5m additional contribution to general reserves from collection fund balance (£2.5m over 3 years)

3.36 Full details of the additional spending demands for 2015-16 are set out in appendix A (ii) of the MTFP (this has been presented with more narrative to explain the reasons for additional spending) and over the 3 year plan in appendix A (i). All managers in the County Council must do all they can to find ways to reduce and avoid additional spending demands as this reduces the need to find savings to offset the impact of estimated future funding reductions. This will need to be a more significant feature of future revenue budget strategy i.e. to avoid the need to find money to fund additional spending demands.

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 separate sections covering transformation savings (providing the same or better outcomes from alternative approaches at less cost), income generation, efficiency savings (doing the same for less), financing savings and policy savings (things we accept we can do less of or stop altogether).

3.38 At the time of the consultation we estimated the need to make £93.2m of savings in 2015-16 (£206.2m 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 £103.8m (£239m over 3 years).

3.39 The final MTFP identifies £106.3m of savings and income in 2015-16 (£197.4m over 3 years). There are estimated further savings of £45.5m needed to be found in 2016-17 and 2017-18 based on our original forecasts for funding reductions (as previously identified these forecasts may be over optimistic pending the outcome of future Spending Review).

3.40 Excluding the impact of the additional Public Health and Social Care Act grant income and the removal of base budget for welfare provision the savings for 2015-16 total £81.2m, this is comparable to the £93.2m needed at the time of the consultation. The consultation included an unidentified savings target which we have been able to cover by a combination of reducing price pressures, work with district councils to improve the Council Tax base and additional savings on contracts and procurement. We have also reduced or re-phased some other savings since the consultation in light of the better than anticipated Council Tax funding, RSG settlement and local share of business rates, in particular we have been able to reduce the proposed £10.7m drawdown from earmarked reserves by £4.5m. This leaves capacity in reserves for additional invest to save activity as reported to County Council. As a result of the the additional RSG for welfare provision we have also been able to increase the proposed budget for KSAS.

3.41 Details of all the savings proposals for 2015-16 are set out in appendix A (ii) of the MTFP (which as with the spending demands includes enhanced narrative to support savings proposals) 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 2015-16 proposals as they affect each directorate. A directorate based presentation was introduced in 2014-15 to better reflect the way that the council’s finances are managed and reported through the budget monitoring during the year.

3.43 We have endeavoured to allocate all budgets to directorates and hold no unallocated provisions. Inevitably there will need to be some minor changes to reflect individual managerial decisions and some virements may be necessary during the year. These will be reported in budget monitoring in the normal way. 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 2015-16 will be presented in the existing A to Z format.

Budget Consultation and Engagement

3.45 The budget consultation opened on 9th October 2014 with a press launch. Throughout the 51 day 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 should respond. The main consultation sought views on 3 simple questions and was supported by an on-line budget modelling tool which enabled respondents to identify their priorities for £1,000 of council spending.

3.46 The consultation was open for a longer period than the previous years, and we hoped to get similar levels of engagement throughout this extended period. In total we received 1,979 responses to the 3 questions and 853 responses to the on-line tool, this compared to 3,163 and 487 respectively last year. The slightly lower level of engagement was disappointing and we will be assessing the underlying reasons for this. The greater use of the on-line budgeting tool is encouraging and we will look to how we can further develop this in future years.

3.47 The first question was about Council Tax. 44% of respondents supported the proposed 1.99% increase i.e. up to but not exceeding the referendum threshold. 25% preferred no increase with the council making further savings to balance the budget, while 23% supported an increase between 2% to 5%, and 8% over 5% in order to provide more protection for services. These responses are consistent with last year. In summary 75% of respondents support an increase in Council Tax.

3.48 The consultation was backed up by in-depth market research. This research supported the responses to consultation and indicated that they can be relied upon as being representative. In particular the majority of those involved in this research recognised the need for a modest Council Tax increase broadly in line with inflation, and that the cost of holding a referendum was disproportionate to the amount which could be raised. Market research also suggested a more fundamental review of Council Tax bands and discounts would be supported.

3.49 The second question sought views on how the Council should go about making savings necessary to close the gap between anticipated funding and current spending forecasts. Respondents could choose more than one option to this question. 34% favoured transformation of services, 26% efficiency savings, 26% supported reducing or removing the least valued services, 9% from restricting access and 5% none of the approaches offered. The responses support the mixed approach adopted in the MTFP with greatest emphasis placed on transformation but with significant amounts from efficiency and policy savings. Restricting access to services is consistently the least favoured approach and mirrors previous consultation feedback.

3.50 The market research on savings was broadly consistent with the consultation responses. In particular the market research showed an understanding of the imperative to make savings although generally people supported protecting those services used by most by them or their families. There are perceptions of unnecessary spending, particularly relating to organisational costs/redundancy payments, spending which disrupts day to day lives e.g. repeated road works, and some services where reviews would be more acceptable (libraries, customer contact and gateways, waste recycling). Staff tended to have more ideas where organisational savings could be made.

3.51 The third question dealt with closing the £7.4m gap for 2015-16. 43% of responses supported raising additional income either through charges or tackling Council Tax avoidance, 19% through delivering more savings, 12% adopting a pay/price freeze, 9% further Council Tax increase (over and above 1.99% proposed), 9% use of reserves, and 9% other. We have taken account of these responses as outlined in paragraph 3.40.

3.52 Response to the budget modelling tool ranked social care services for older people and vulnerable adults as the most important to residents, followed by social care for vulnerable children, and then highway services for adverse weather and road maintenance. Children's centres, waste disposal/recycling, street lighting and subsidised bus routes were ranked in the middle. Lowest ranking services were young persons' travel (including home to school), libraries, customer contact, support for failing schools and support for younger people. Generally the responses to on-line survey were consistent with the market research findings.

3.53 A separate report from Lake Market Research was available prior to the County Council meeting on 12th February 2014. The final budget proposals reflect views expressed in consultation and in particular 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). One of the main conclusions from the consultants is likely to be that we need to improve resident's understanding of the Council's budget, the financial challenge from reductions in Government funding, and the role Council Tax plays.

Response to the 2015-16 Provisional Settlement

3.54 The provisional settlement was announced on 18th December and we have responded by 15th January deadline. This is an exceedingly tight timescale at the same time we were analysing the response to our own consultation and preparing the final budget. Whilst we recognise the difficulty Ministers face in providing settlement information before The

Autumn Budget Statement, we continue to urge earlier notification and a 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 a late stage would be extremely difficult for authorities to manage, and therefore even if changes are justified they should not be made. We also welcomed that the settlement is largely unchanged from the indicative settlement published last year.

3.55 The provisional settlement sought specific views on the following issues:

- The identification of funding within the RSG for Welfare Provision (even though this is not new money and has been top-sliced from RSG for other services)
- Continued funding within the overall settlement for the Improvement and Development Agency for Local Government
- Reduced hold-back for the New Homes Bonus
- Additional funding for rural authorities
- Adjustment for Firefighter's pension schemes
- Compensation for capping business rates increase to 2%

3.56 As well as the timing of the settlement and the specific issues identified above we also expressed our support and reservations about certain other aspects of the settlement. These included the additional funding for the implementation of the Care Act, the lack of protection for certain aspects of previously guaranteed funding, Council Tax referendum thresholds, and the continued publication of an inappropriate spending power figure which does not adequately reflect the magnitude of the financial challenge which local authorities face. We also re-iterated our concern that the RSG arrangements have effectively crystallised the previous redistribution of grants (which we have repeatedly challenged as favouring London and Urban authorities) and takes no account of authorities with a growing population.

3.57 The full response is available as a background document for Cabinet and County Council meetings.

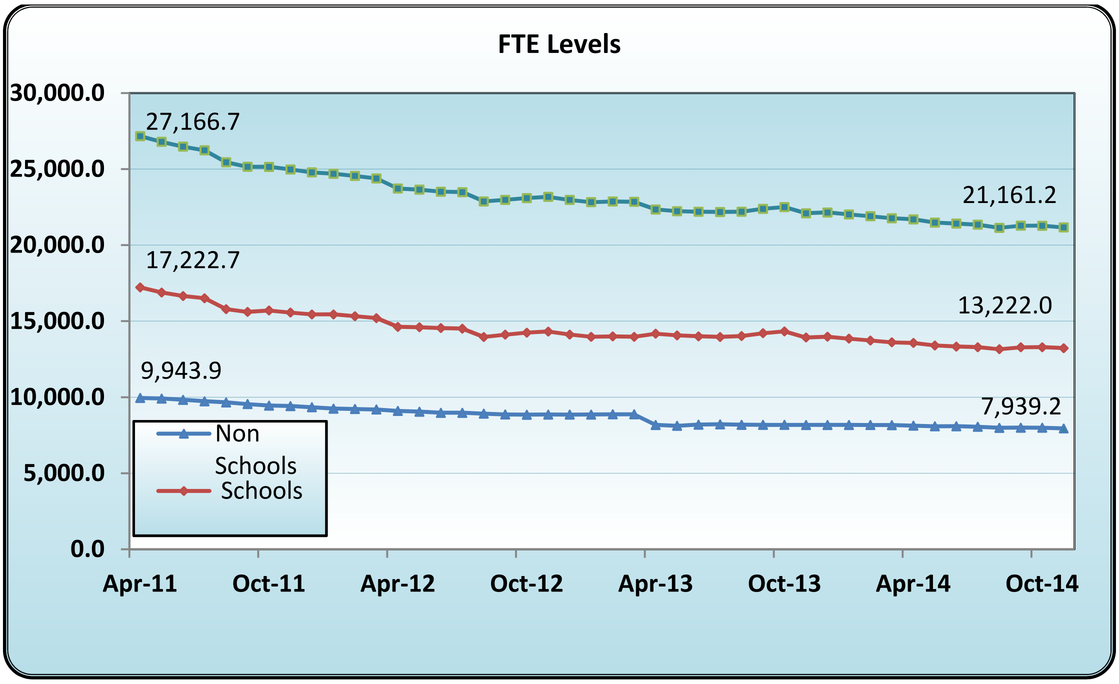
Workforce Strategy

3.58 The aim is 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 ensure the alignment of our people, structure and processes to maximise the capacity and performance of the management structure and decision making accountability.

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 November 2014 the Authority's workforce decreased by over 6,000 full-time equivalents (FTE).

Non-schools:

- Approximately one third of the reduction was from the Non-schools sector (2,004.7 FTE) and changes included:
- Commercial Services leaving the Authority in April 2013, resulting in a reduction of around 470 FTE.
- Pupil Referral Units being reported under the 'Schools' sector from April 2013, accounting for a decrease of 265 FTE.
- 1,261 redundancies in the non-schools sector during the period April 2011 to November 2014.
- Sickness levels in the Non-schools sector, calculated as an annual rolling average, showed a reduction from 7.8 days lost per FTE in April 2011, to 7.08 days lost per FTE in November 2014.

Schools:

- The number of staff in the schools sector decreased by around 4,000 FTE in the period April 2011 to November 2014.
- 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 (85 schools since April 2012).

3.61 There continues to be a reduction in staffing numbers overall, however we still have a large staff population that need effective mechanisms to recruit, retain and performance manage. 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. In some instances this may be in the form of Alternative Service Delivery Models (ASDM's). All of which 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 in table 7 below, showing the amount of KCC investment together with the value of other funds secured and anticipated.

Table 7	**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

Proposed Budget 2015-16

3.63 Our budget proposals provides for the following major new investments for 2015-16:

- Additional £4.75m into Specialist Children's Services to fully fund the current and anticipated cost of placements for children in care.
- Additional £7.2m into Adult Social Care to meet anticipated increases in client numbers (particularly adults with learning disabilities and those with mental health).
- Additional £1.8m into SEN transport to cover increased numbers and cost of specialist transport
- Additional £5.3m for financing the capital programme to ensure we continue to deliver new facilities and improved infrastructure for our residents, businesses and visitors
- Additional £1.3m to fund additional assessment cost to prevent deprivation of liberty safeguards
- Additional £1.0m to cover the full cost of increasing adoption and special guardianship payments in line with foster payments
- Additional £1.0m into waste disposal/recycling to reflect impact of increased waste tonnage collected from households by district councils
- Additional £1.0m in Young Persons Travel Pass to reflect higher than anticipated usage under new scheme introduced from September 2014
- Additional £1.26m to offset Adoption Reform grant which has not yet been announced for 2015-16
- An additional £10.8m into commission of public health services for 0-5 year olds (funded by grant)
- An additional £12.4m into implementing aspects of the Care Act in 2015-16 (mainly funded by grant)

3.64 Our budget includes the following major areas for £87.8m savings and income (including welfare provision but excluding additional grant income) in 2015-16:

- Adults transformation programme £14.7m
- Children's transformation programme £5.6m
- Library trust £1.0m
- Streetlight LEDs £0.7m
- Waste recycling income £1.0m
- SEN transport transformation £1.5m
- Support service review £2.3m
- Staffing efficiencies £9.5m
- Procurement efficiencies £16.0m
- Premises running costs/income £2.9m
- Kent Support and Assistance Service £1.9m
- Community Wardens £0.7m
- Full year impact of previous policy savings £2.1m
- Other savings £1.0m
- Income generation £3.8m

- Drawdown of specific reserves £6.2m
- Reduction in contributions to reserves £11.3m

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;

3.66 Our budget reflects:

- A small increase in Council Tax (1.99%)
- A decrease in the net budget (excluding schools) of 2.5%
- A decrease in government un-ring-fenced grants of 15.1% on like for like basis.
- Need for savings of £83.1m excluding specific grant income (8.8% of net spending excluding schools)
- Increase in general reserves up to 4% of net revenue budget

Sensitivity Analysis

3.67 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.

3.68 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 will be £38.387m which equates to around 3.5% of net expenditure. This includes the proposed increase to reflect the increased risk assessment detailed in Appendix F.

3.69 We are proposing to drawdown a further £10.7m from earmarked reserves in 2015-16 in addition to previous year's drawdown and borrowing against long term reserves (with further estimated drawdown of £3.4m in subsequent years). As a general rule we would not recommend using such reserves to balance the budget but in difficult times this is necessary until we can achieve long-term benefits from transformation programmes.

Conclusion

3.70 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.

3.71 Our forecasts for future savings will be dependent on the outcome of any Spending Review as we have no Government spending plans beyond 2015-16. At this stage we have not changed the forecast from that outlined in our budget consultation ahead of any review. We note that OBR produced a more detailed financial outlook which suggested larger reductions in departmental spending (including local government) than previously forecast if the Government is to meet its deficit reduction objectives. This could mean future savings would have to be even larger than currently forecast (which include a large element unidentified at this stage).

KCC Medium Term Financial Plan

SECTION 4

Capital Strategy

CAPITAL STRATEGY

4. Overview

Introduction

4.1 The capital strategy has been in place for two years, 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 the forthcoming KCC Strategic Commissioning Plan and Outcomes Framework (KCC's strategic statement from 2015-16 onwards).

4.4 In recent years KCC has spent an average of £224m per year on capital projects. We plan to invest £728m over the next three years and to finance 14.5% 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. The "squeeze" from Central Government continues to be felt across the Local Government sector and the recent unprecedented increase in construction inflation has significantly added to the pressure on the capital programme. Therefore, it remains 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 ongoing 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 2018-19 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 and move towards becoming a strategic commissioning authority. 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 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 priorities in the forthcoming Kent and Medway Growth Strategy 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 South East Local Enterprise Partnership's Strategic Economic Plan. 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 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 for the academic year 2015-16 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** aims to integrate services around the life cycle of client groups. This means our services will be organised around the needs of service users and residents and not the priorities of the service provider or service professionals. This coupled with national drivers such as the integration of health and social care 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 to 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. This will enable us to resolve issues as early as possible and provide a consistent quality of service through joined up working and by facilitating the sharing of information between partners.

4.22 We recognise that capital investment can be a key enabler for high quality design which helps to deliver more vibrant community assets. We want to maximise the potential to use our assets to create community based services which increase the social connections of our service users, carers and families and help to reduce social isolation.

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, 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 under £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 46% 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 the grant provided for the intended purpose but realise we must also meet our statutory obligations. Therefore where the grant is not sufficient, other sources of external funding such as Central Government grants and CIL will be explored first, before tapping into KCC resources of capital receipts and borrowing.

Developer Contributions: Community Infrastructure Levy (CIL)/S106

4.30 Developer contributions continue to be a challenging issue and need careful handling and consideration when put forward to fund major projects. The CIL charging schedules have only been adopted by two authorities to date, with the S106 process continuing at the other

Districts. Developer contributions 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 the funding. 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 developer contribution 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.

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 do the objectives of the bid achieve KCC's key corporate strategies, 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 ongoing 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 ongoing 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 2015-16

Introduction

5.1 In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

5.2 In addition, the Department for Communities and Local Government (DCLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

5.3 This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DCLG Guidance.

5.4 The Council has borrowed and invested substantial sums of money and therefore needs to be aware of the financial risks including the possible loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

5.5 The changes to the regulatory regime for UK and European banks in January and July 2015 make bank deposits which have been the bedrock of our investment strategy far riskier than previously and mean that bank positions will need to be reduced and the strategy of diversifying into other asset classes taken further.

External Context

Interest Rate Forecast

5.6 The Council's treasury advisor Arlingclose forecasts the first rise in official interest rates in quarter 3 2015 and a gradual pace of increases thereafter, with the average for 2015-16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. This is a position which Arlingclose have held for a considerable time and increasingly the consensus view amongst forecasters has moved towards interest rates being lower for a longer time.

5.7 The Eurozone weakness and the threat of deflation have increased the risks to the recovery of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year.

5.8 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Annex 1

Credit Outlook

5.9 UK and European Governments have been working on options to avoid a repeat of the “bail out” of banks which we have seen since 2008. This has been replaced with the concept of “bail in” where classes of owners or depositors in the bank take the first tranches of any losses. The impact of this is reinforced by the likely downgrading of the credit ratings of banks as the impact of Government support is removed from the ratings in 2014 and 2015.

5.10 The implementation of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The Bank Recovery and Resolution Directive promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast Deposit Guarantee Schemes Directive includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.

5.11 The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Council.

Borrowing Strategy

5.12 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.

5.13 As at 31 October 2014 long term borrowing was £1,008m including £41m attributable to Medway Council. The Council has undertaken no new borrowing since 2011 and does not expect to undertake any new net borrowing in 2015-16.

5.14 The Council’s chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans in the future is also an important consideration.

5.15 Given the significant reductions in public expenditure and in particular in local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

5.16 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 use internal resources. This is known as internal borrowing where the Council uses its cash balances instead of Prudential borrowing to support its capital programme. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. At the end of March 2014 the level of internal borrowing was £170m. The level of internal borrowing will be closely monitored moving forward and reported to members on a regular basis. In this way we can ensure that we avoid the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise.

5.17 The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Kent Superannuation Fund)
- capital market bond investors
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues

5.18 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

5.19 The Council holds £441.8m of Lender's Option Borrower's Option (LOBO) 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. LOBO loans were taken out at lower rates than could be achieved through the Public Works Loan Board and were also used for large scale debt rescheduling which produced revenue budget savings for the Council. Our view is that lenders are unlikely to exercise their options in the current low interest rate environment. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so or should there be an identifiable financial advantage to early repayment.

5.20 The Council retains the ability to take short-term and variable rate loans.

5.21 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. Other 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 cost saving or a reduction in risk. The current structure of PWLB rates makes it prohibitively expensive to do this.

Investment Strategy

Approach

5.22 The Council holds significant invested funds, averaging £421m year to date representing income received in advance plus balances and reserves held.

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

5.24 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, expanding to bank deposits and Certificates of Deposit with systemically important UK banks, adding Australian and Canadian banks in 2012, then in September 2013 establishing a core investment portfolio for a maximum of £75m and for 2014-15 introducing the options of covered and supranational bonds. The Council already has one of the most diversified investment strategies of any local authority. All of these changes have been discussed at Treasury Management Advisory Group, agreed by Cabinet or Council and reported to Governance and Audit Committee.

5.25 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2015-16. This will mean less of the Council's total deposits being held with banks on an unsecured basis. A reduced use of bank deposits is the prime reason why it is recommended that the Council starts the use of Money Market Funds which provide good liquidity and appropriate security.

Counterparty Selection

5.26 The Council will make use of the following:

(1) **Government:** Loans, bonds and bills issued or guaranteed by national governments and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

(2) **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks with a minimum credit rating of A-. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investments with banks rated BBB or BBB- are restricted to overnight deposits at the Council's current account bank NatWest.

(3) **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

(4) **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

(5) **Money Market Funds:** These are pooled investment funds managed by major financial institutions. Short Term Money Market Funds that offer same-day liquidity will be used as an alternative to instant access bank accounts. They have become widely used by local authorities and extensive use is already made by the Council for managing Pension Fund cash.

(6) **Investment Portfolio:** This currently has a total allocation of £75m with a maximum for each investment of £5m, with the exception of the Church Charities Local Authorities (CCLA) Property Fund with £10m. Given the increasing size of the CCLA Property Fund and its strong performance it is proposed to increase the maximum limit to £20m but with KCC never having more than 5% of the total fund. Investments can be made in pooled funds including Absolute Return Funds, Equity Income Funds, Fixed Income Funds and other advantageous investments.

Risk Assessment and Credit Ratings

5.27 Credit ratings are obtained and monitored by the Council's treasury advisors, 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.

5.28 Where a credit rating agency announces that a credit 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, 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.

Other Information on the Security of Investments

5.29 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.

5.30 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 credit 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 or invested in government treasury bills for example. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments

5.31 The DCLG 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".

5.32 The Council defines "high credit quality" organisations and securities 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.

Non-specified Investments

5.33 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. The Council will have the ability at its discretion to use banks and corporate bonds with a BBB+ rating to a maximum of £10m.

Proposed Counterparties

5.34 At this stage there are limited proposed changes to the bank counterparties although the available names may reduce as banks are downgraded over the coming months. The Deputy Leader and Cabinet Member for Finance and Procurement and Corporate Director of Finance and Procurement may add banks that meet our credit rating requirement. The proposed names are:

- Debt Management Office (DMO)
- Barclays Bank Plc
- HSBC Bank Plc
- Lloyds Banking Group – Lloyds/Bank of Scotland
- Santander UK Plc
- Nationwide Building Society
- Svenska Handelsbanken
- Leeds Building Society
- Close Brothers
- Specific small UK building societies

- Standard Chartered Bank Plc
- Australia 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

5.35 Highly rated overseas banks (unsecured deposits), to be determined with Arlingclose and having a minimum credit rating of A+ compared with A- for UK banks, for example JP Morgan Chase Bank, Deutsche Bank, ING Bank.

5.36 The permitted forms of investment will be:

- Treasury Bills
- Call accounts / Notice accounts
- Term deposits
- Certificates of deposit
- Covered bonds
- Reverse Purchase agreements (Repos) with collateral of AA or better
- Supranational bonds AAA rated and issued by the World Bank, European Investment Bank, European Bank for Reconstruction and Development or Nordic Investment Bank.
- Corporate bonds in companies with a minimum credit rating of BBB+
- Money Market Funds
- Pooled Investment Funds

Counterparty Limits

5.37 In 2014-15 bank counterparty limits were reduced to 10% and higher group limits for Lloyds Banking Group and RBS/NatWest were no longer applied. Given the bail in risk, Arlingclose now propose a maximum of 5% for unsecured investments with financial institutions; this limit will be 10% only if bank investments have security/collateral (e.g. covered bonds and reverse repurchase agreements). The Council will move to a 5% limit on unsecured bank deposits at its discretion depending upon the assessment of individual counterparties.

5.38 The recommended counterparty limits are:

• UK Government	£450m
• Money Market Funds	£10m each
• Major UK banks / building societies	£40m then £25m each
• Leeds Building Society	£10m
• Close Brothers	£10m
• Australian and Canadian banks (£40m country limit)	£20m each
• Other major international banks (£40m country limit)	£20m each
• Small UK building societies meeting Arlingclose criteria	£1m each to a maximum of £15m
• Supranational bonds	£40m
• Covered bonds	£150m with £20m each
• Repos (With collateral of AA or better)	£40m each

Several of the categories of deposits or investments can be unsecured or secured. The type of deposit or investment will be made clear in the reporting.

Duration of Investments

5.39 The maximum duration for unsecured term deposits and Certificates of deposit will be 13 months. For secured investments the maximum duration will be 5 years.

Treasury Advisors

5.40 The Council has appointed Arlingclose Limited as its treasury advisors and receives advice on investment, debt and capital finance issues.

KCC Governance

5.41 The Corporate Director of Finance and 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.

5.42 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 and Cabinet Member for Finance and Procurement, Deputy Cabinet Member for Finance and Procurement, Chairman Policy and Resources Cabinet Committee, Chairman Superannuation Fund Committee, Leader UKIP Group, Finance Spokesman Labour Group and Finance Spokesman Liberal Democrat Group.

5.43 TMAG's agreed terms of reference are that it "will be responsible for advising the Cabinet and Corporate Director of Finance and 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.

5.44 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 and Procurement and the Deputy Leader and Cabinet Member for Finance and Procurement or Cabinet where a change in policy is proposed.

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

ARLINGCLOSE INTEREST RATE FORECAST

Underlying assumptions:

The UK economic recovery has continued. Household consumption remains a significant driver, but there are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP throughout this year.

We expect consumption growth to slow, given softening housing market activity, the muted outlook for wage growth and slower employment growth. The subdued global environment suggests there is little prospect of significant contribution from external demand.

Inflationary pressure is currently low and is likely to remain so in the short-term. Despite a correction in the appreciation of sterling against the US dollar, imported inflation remains limited. We expect commodity prices will remain subdued given the weak outlook for global growth.

The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.

Nominal earnings growth remains weak and below inflation, despite large falls in unemployment, which poses a dilemma for the MPC. Our view is that spare capacity remains extensive. The levels of part-time, self-employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.

However, we also expect employment growth to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure.

In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term.

The continuing repair of public and private sector balance sheets leave them sensitive to higher interest rates. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.

While the ECB is likely to introduce outright QE, fears for the Eurozone are likely to maintain a safe haven bid for UK government debt, keeping gilt yields artificially low in the short term.

The probability of potential upside risks crystallising have waned a little over the past two months. The primary upside risk is a swifter recovery in the Eurozone.

ARLINGCLOSE INTEREST RATE FORECAST

Forecast:

Arlingclose continues to forecast the first rise in official interest rates in Q3 2015; general market sentiment is now close to this forecast. There is momentum in the economy, but inflationary pressure is benign and external risks have increased, reducing the likelihood of immediate monetary tightening.

We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.

The short run path for gilt yields is flatter due to the deteriorating Eurozone situation. We project gilt yields on an upward path in the medium term.

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Dec-17	Mar-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.50**	**1.50**	**1.75**	**1.75**
Downside risk				0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
3-month LIBID rate													
Upside risk	0.05	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.55**	**0.60**	**0.65**	**0.85**	**1.00**	**1.15**	**1.30**	**1.45**	**1.60**	**1.75**	**1.85**	**2.05**	**2.15**
Downside risk	0.10	0.15	0.20	0.30	0.40	0.55	0.65	0.75	0.85	-0.95	-0.95	-0.95	-1.00
1-yr LIBID rate													
Upside risk	0.10	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.95**	**1.00**	**1.05**	**1.20**	**1.35**	**1.50**	**1.65**	**1.80**	**1.95**	**2.10**	**2.20**	**2.40**	**2.50**
Downside risk	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80	-0.80
5-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	**1.70**	**1.75**	**1.90**	**2.00**	**2.10**	**2.20**	**2.30**	**2.40**	**2.50**	**2.60**	**2.70**	**2.90**	**2.95**
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.70	-0.70
10-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	**2.40**	**2.45**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**3.05**	**3.10**
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60
20-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	**2.90**	**2.95**	**3.05**	**3.10**	**3.15**	**3.20**	**3.25**	**3.30**	**3.35**	**3.40**	**3.45**	**3.50**	**3.55**
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.50	-0.55	-0.55	-0.60	-0.60	-0.60
50-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	**3.00**	**3.05**	**3.10**	**3.15**	**3.20**	**3.25**	**3.30**	**3.35**	**3.40**	**3.45**	**3.50**	**3.55**	**3.60**
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60

KCC Medium Term Financial Plan

SECTION 6

Risk Strategy (Draft)

Subject to Member approval

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, achieve better value for money and demonstrate compliance with the Local Audit & Accountability regulations.

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.

Context

6.5 Ongoing public sector austerity measures mean that KCC, like all local authorities, continues to face serious financial and operational challenges. This will mean that KCC is exposed to significant and increasing levels of risk in its operating environment, with less resource to manage those risks. Therefore the Authority is likely to be required to accept or tolerate greater levels of risk in conducting its business as it seeks to innovate and transform in order to protect the quality of services for services users and residents of Kent.

6.6 The Council's desire to move towards a Strategic Commissioning Authority requires reviewing of the Council's governance arrangements, including the risk management framework, which will evolve as the Authority evolves. This is expected to require a focus on all elements of the risk framework.

Risk Management Objectives

6.7 In support of the Council's move towards a strategic commissioning authority and achievement of KCC's desired outcomes, the Council aims to:

- manage risks in line with its risk appetite, and thereby enable it to achieve its 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, anticipating and responding proactively to social, environmental and legislative changes and directives that may impact on delivery of our objectives;
- eliminate or reduce the impact, disruption and loss from current and emerging events;
- harness risk management to identify opportunities that current and emerging events may present and maximise benefits and outcomes;
- ensure effective intelligence sharing and collaboration between risk management disciplines across all Council activities;
- benefit from consolidating ongoing learning and experience through the collation and sharing of risk knowledge; demonstrate a consistent approach to the management of risks when embarking on significant transformational activity; and
- ensure sound and transparent risk management arrangements are operated in partnership and commissioner / provider situations, underpinned by a culture that supports collaboration and the development of trust ensuring clear effective lines of communication and the management of relationships.

6.8 Over the period of this medium term financial plan, the risk management aims will be achieved 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;
- using 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* and wider Leadership & Management Development Framework;
- highlighting and promoting our attitude and approach to risk as one of the nine key service design principles to enable change;
- 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;
- working collaboratively with partners and providers (both internal and external) to develop effective risk ownership and risk sharing arrangements;
- striking a proportionate balance of oversight of risks of providers / partners without being over-constrictive.

Risk Appetite

6.9 The *Facing the Challenge – whole council transformation* (July 13) document outlined the intention for the council to have "a mature approach to the management of risk, one that has moved beyond the traditional local government approach centred on a risk-averse culture that seeks to mitigate risk beyond all reasonable doubt, to managing risk based on an appropriate balance of probabilities in regards to the likelihood of risk occurring and the impact a risk issue might have".

6.10 Kent County Council recognises that risk is inherent in delivering and commissioning services and does not seek to avoid all risk, but instead aims to have an 'open' approach to risk, with risks managed in a proportionate manner.

6.11 It is not realistic for the County Council, with its diverse range of services and duties, to have just one definitive application of risk appetite across the entire organisation. Instead, risk appetite should be set with reference to the strategy for service delivery in each particular area. However, examples of risks that would be seen as intolerable are those that are likely to:

- Negatively affect the safety of our service users, residents or employees;
- Severely damage the Authority's reputation;

- Lead to breaches of laws and regulations;
- Endanger the future operations of the County Council (i.e. by exceeding the risk capacity of the organisation – the amount of risk that the Authority can bear).

Roles and responsibilities

6.12 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 key roles and responsibilities are set out below:

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 Strategic & Corporate Services (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.

6.13 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.

Embedding of Risk Management

6.14 The Governance & Audit Committee reviews and approves the Council's Risk Management Policy & Strategy annually, and its implementation is endorsed by the Council's Cabinet Members and Corporate Management Team. Management guidance is in place to aid effective implementation of the Policy and is published on our intranet site.

6.15 A dedicated Corporate Risk Team is in place to promote awareness of risk management throughout the organisation and ensure that it is widely understood, and in particular works closely with Risk and Control / Action Owners, in addition to a network of risk management contacts.

Appendix A (i) - High Level 2015-18 Budget Summary

2014-15 (revised)			2015-16		2016-17		2017-18	
£000s	£000s		£000s	£000s	£000s	£000s	£000s	£000s
	954,304	**Revised Base Budget**		**940,313**		**916,479**		**891,005**
		Additional Spending Pressures						
11,472		Pay & Prices	11,363		20,121		16,365	
10,487		Demand & Demographic	9,600		9,800		15,200	
14,369		Government & Legislative	27,891		10,785		0	
0		Base Budget pressures from previous year	9,210		195		0	
20,215		Service Strategies and Improvements	8,275		3,076		3,798	
0		Reduction in grants used for specific purposes	4,676		0		0	
	56,543	**Total Additional Spending**		**71,014**		**43,976**		**35,363**
	24,870	Replacement for use of One-Off Savings		12,557		12,379		2,700
	81,413	**Total Pressures**		**83,571**		**56,355**		**38,063**
		Savings & Income						
		Transformation Savings						
-13,050		Adults Transformation Programme	-14,725		-9,194		-5,088	
-10,622		Children's Transformation Programmes	-5,583		-11,700		-7,600	
-12,708		Other Transformation Programmes	-6,990		-3,922		-3,311	
-5,217		Income Generation	-4,216		-3,865		-3,631	
-14,001		Increases in Grants & Contributions	-24,313		-10,785		0	
		Efficiency Savings						
-9,800		Staffing	-9,512		-2,607		-1,030	
-422		Premises	-2,522		-956		-1,056	
-13,102		Contracts & Procurement	-16,316		-2,565		-4,040	
-3,000		Other	-1,004		-7,010		-50	
-8,861		Financing Savings	-17,440		-2,700		-1,700	
-4,621		Policy Savings	-4,785		-3,765		-4,535	
	-95,404	**Total Savings & Income**		-107,405		-59,069		-32,041
	0	Unidentified		0		-22,760		-22,699
	940,313	**Net Budget Requirement**		**916,479**		**891,005**		**874,328**
		Funded by						
529,125		Council Tax Yield	549,034		562,805		576,928	
4,018		Council Tax Collection Fund	7,079		0		0	
46,924		Local Share of Retained Business Rates	49,227		50,400		51,600	
-1,236		Business Rate Collection Fund	451		0		0	
		Un-ring-fenced Grants						
213,092		Revenue Support Grant	161,005		130,000		95,000	
120,634		Business Rate Top-Up Grant	122,939		126,000		129,000	
27,756		Other Un-Ring-Fenced Grant	26,744		21,800		21,800	
	940,313	**Total Funding**		**916,479**		**891,005**		**874,328**

Appendix A (ii)
Detailed 2015-16 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total In Three Year Summary
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
2014-15 Base	Approved budget by County Council on 13th February 2014	92,686.8	466,735.5	170,909.8	81,209.9	128,770.6	0.0	940,312.6	
Base Adjustments (internal)	Approved changes to budgets which have nil overall affect on net budget requirement.	-10,377.1	5,254.4	8,509.4	-931.5	-2,455.2	0.0	0.0	
Base Adjustments (external)	Approved changes to budgets from external factors e.g. grant changes and may affect net budget requirement.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Revised 2014-15 Base		**82,309.7**	**471,989.9**	**179,419.2**	**80,278.4**	**126,315.4**	**0.0**	**940,312.6**	**940,312.6**
Additional Spending Pressures									
Pay and Prices									
Pay and Reward	Additional contribution to performance reward pot and impact on base budget of uplifting pay grades in accordance with single pay reward scheme.	0.0	0.0	0.0	0.0	0.0	4,000.0	4,000.0	11,362.8
Specific Price Increases:									
Business Rates	Index linked uplift in NNDR multiplier for KCC premises	0.0	0.0	0.0	116.3	0.0		116.3	
Energy	Price increases on energy contracts as notified by Commercial Services	0.0	0.0	618.2	213.7	0.0		831.9	
Highway Contracts	Index linked increases on maintenance, technical services and traffic management	0.0	0.0	545.5	0.0	0.0		545.5	
Waste Contracts	Index linked increases to composting, haulage & transfer stations, household waste recycling centres, landfill, landfill tax, recycling and waste to energy contracts	0.0	0.0	1,644.1	0.0	0.0		1,644.1	
Non specific price provision	Non specific provision for inflation on other negotiated contracts without indexation clauses	100.0	4,000.0	25.0	100.0	0.0		4,225.0	
Demography	*Additional spending associated with increasing population and demographic composition of the population*								
Adults with Learning Disabilities & Mental Health	Additional client numbers arising from children progressing into adulthood (transitions) and older adults previously cared for by families (provisionals).	0.0	7,200.0	0.0	0.0	0.0		7,200.0	9,600.0
Specialist Children's Services	Impact on children's services of current year placements of children in care	0.0	1,400.0	0.0	0.0	0.0		1,400.0	
Waste Tonnage	Impact on base budget (up to 14,000 tonnes) of additional waste anticipated due to rise in tonnage in 2014-15 excluding one-off factors in that year	0.0	0.0	1,000.0	0.0	0.0		1,000.0	

Appendix A (ii)
Detailed 2015-16 Budget Plan by Directorate

Heading	Description	E&YP £000s	SCH&W £000s	GET £000s	S&CS £000s	FI £000s	U £000s	Total £000s	Total In Three Year Summary £000s
Government & Legislative									
Funded by Grants and Contributions									
Public Health	Transfer of 0-5 children's public health commissioning from Health to Local Authorities from 1 October 2015	0.0	11,894.0	0.0	0.0	0.0		11,894.0	27,890.5
Care Act Implementation	New costs associated with the implementation of provisions in the Care Act in relation to carers and prisoners which come into force during 2015-16. Funded by new grant income from DCLG and DoH.	0.0	1,904.6	0.0	0.0	0.0		1,904.6	
Care Act Preparation	New costs associated with additional assessment activity in advance of provisions in the Care Act in relation to cap on care costs and universal deferred payments which come into force in 2016-17. Funded by new grant income from DCLG.	0.0	6,947.9	0.0	0.0	0.0		6,947.9	
Better Care Fund (BCF)	Additional support for carers, advocacy and related activity funded out of KCC's element of the BCF pool for Social Care Act	0.0	3,566.0	0.0	0.0	0.0		3,566.0	
Other									
Deprivation of Liberty Safeguards	Estimated additional assessment costs following Supreme Court judgement in March 2014 in relation to the Mental Capacity Act 2005 or Mental Health Act 1983	0.0	1,300.0	0.0	0.0	0.0		1,300.0	
Adoption and Special Guardianship Fees	Revised financial allowances for the provision of support for children, their families and carers as they relate to Child Arrangements Orders, Special Guardianship Orders and Adoption Orders.	0.0	1,000.0	0.0	0.0	0.0		1,000.0	
Transfer of equipment costs to revenue due to capital grant funding changes	Increase in revenue costs due to general capital funding for adult social care being reduced requiring a revenue contibution to capital to fund minor occupational therapy equipment.	0.0	1,028.0	0.0	0.0	0.0		1,028.0	
Growth and Infrastructure Plan	New responsibilities aimed at speeding up the planning process in order stimulate major infrastructure developments and increase housing approvals	0.0	0.0	250.0	0.0	0.0		250.0	
Removal of Grants									
Welfare Provision	Removal of specific DWP grant used to fund Kent Support and Assistance Service	0.0	3,418.0	0.0	0.0	0.0		3,418.0	4,675.8
Adoption Reform Grant	Removal of specific Adoption Reform Grant income on the assumption that it will not continue in the absence of any announcement from the DfE	0.0	1,257.8	0.0	0.0	0.0		1,257.8	

Appendix A (ii)
Detailed 2015-16 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total In Three Year Summary
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Budget Realignment	*Necessary adjustments to reflect current and forecast activity levels from in-year monitoring reports*								
SEN Transport	Higher than budgeted number of pupils travelling and higher overall costs as a result of other factors such as distance and type of travel.	1,800.0	0.0	0.0	0.0	0.0		1,800.0	
Specialist Children's Services	Unachievable prior year savings	0.0	3,350.0	0.0	0.0	0.0		3,350.0	
Early Retirement enhancements	Additional costs from restructuring within OPPD Division and Double Day Lodge residential care home.	0.0	238.6	0.0	0.0	0.0		238.6	
Insurance Premium and Excess	Increased costs of running the Kent insurance fund	0.0	0.0	0.0	0.0	320.0		320.0	
Waste income	Loss of income from sale of textile waste	0.0	0.0	150.0	0.0	0.0		150.0	9,209.6
Domiciliary Care	Realisation of transformation savings now profiled over a longer time period	0.0	800.0	0.0	0.0	0.0		800.0	
Young Person's Travel Pass	Estimate of potential impact of higher than antipated usage of the new pass introduced from September 2014 (evaluation of usage pattern is still ongoing)	0.0	0.0	1,000.0	0.0	0.0		1,000.0	
Commercial Services dividend	Impact of reduced dividend in 2014-15	0.0	0.0	0.0	0.0	1,391.0		1,391.0	
Other	Unachievable prior year savings	0.0	0.0	160.0	0.0	0.0		160.0	
Service Strategies & Improvements									
Capital Financing	Additional borrowing necessary for new/revised projects identified in capital investment programme. Overall revenue cost of financing borrowing to fund capital programme is limited to 15% of net revenue budget	0.0	0.0	0.0	0.0	5,280.0		5,280.0	
Coroners Officers	Cost of supporting transfer of Coroners Officers from Police	0.0	0.0	147.0	0.0	0.0		147.0	
Implementation of transformation projects	Revenue investment necessary to deliver transformation projects and savings	0.0	0.0	210.0	0.0	0.0		210.0	8,275.3
Contribution to general reserve	Balance of KCC share of net surplus from District collection funds after funding final changes in re-published draft budget	0.0	0.0	0.0	0.0	2,488.3		2,488.3	
Waste site	Revenue implications of investment in Church Marshes site	0.0	0.0	150.0	0.0	0.0		150.0	
Replace use of one-offs	Impact of not being able to repeat one-off use of reserves and underspends in approved budget for 2014-15	0.0	3,696.0	0.0	0.0	8,861.1		12,557.1	12,557.1
	Total Additional Spending Demands	**1,900.0**	**53,000.9**	**5,899.8**	**430.0**	**18,340.4**	**4,000.0**	**83,571.1**	

Appendix A (ii)
Detailed 2015-16 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total In Three Year Summary
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Savings and Income									
Transformation Savings									
Adults Phase 1 OP	Continued rollout of phase 1 transformation including improved assessment, care placement decisions and improved contract management	0.0	-9,527.6	0.0	0.0	0.0		-9,527.6	-14,725.3
Adults Phase 2 OP/PD	New initiatives aimed at promoting better integration with health services including better range of support services for clients leaving hospital	0.0	-4,347.7	0.0	0.0	0.0		-4,347.7	
Adults Phase 2 LD/MH	New initiatives aimed at reducing dependence on care services for vulnerable adults	0.0	-850.0	0.0	0.0	0.0		-850.0	
Specialist Children's Services	Reduction in the number and length of time children are in care following improved targeting of preventative services including reduction and improvement in assessment activity	0.0	-2,400.0	0.0	0.0	0.0		-2,400.0	-5,583.0
Children's Preventative	Range of initiatives across children's preventative services to ensure activities are better focussed including children's centres, youth services, supporting people and troubled families programme	-3,183.0	0.0	0.0	0.0	0.0		-3,183.0	
Libraries, Registration and Archives	Service re-design/transformation prior to transfer to proposed Trust model in future years. The majority of the saving will come from primarily a reduction in staffing, along with the full year effect of a reduction to the book fund.	0.0	0.0	-1,010.0	0.0	0.0		-1,010.0	-6,989.9
Street lighting	Commencement of project to convert streetlight network to more efficient LED technology and to implement a central monitoring system. Savings will also be made by reviewing existing maintenance arrangements.	0.0	0.0	-660.0	0.0	0.0		-660.0	
Waste recycling	Range of initiatives to convert existing recycling costs into income streams	0.0	0.0	-1,000.0	0.0	0.0		-1,000.0	
SEN Transport	Savings from initiatives aimed at increasing independence including developing independent travel training, direct payments to parents and delegation to schools. Savings also arising from review of specialist provision to provide more local places	-1,475.0	0.0	0.0	0.0	0.0		-1,475.0	
Support Services	Transfer of back-office support functions into integrated business service centre and planned Property LATCO	0.0	-143.0	0.0	-2,162.9	0.0		-2,305.9	
Integration of services with Police & Fire	Joint working on community safety and emergency planning	0.0	0.0	-250.0	0.0	0.0		-250.0	
Full year effect of previous savings		-289.0	0.0	0.0	0.0	0.0		-289.0	

Appendix A (ii)
Detailed 2015-16 Budget Plan by Directorate

Heading	Description	E&YP £000s	SCH&W £000s	GET £000s	S&CS £000s	FI £000s	U £000s	Total £000s	Total In Three Year Summary £000s
Income									
Trading	Increased income from trading with schools, academies and other local authorities & public bodies	-455.0	0.0	0.0	-676.0	0.0		-1,131.0	-4,215.6
Client Charges	Uplift in social care client contributions in line with benefit uplifts for 2015-16 and charges for other activity led services	0.0	-1,454.3	-450.0	-128.7	0.0		-2,033.0	
Enforcement Income	Increased contribution from penalty notices and proceeds of crime	-200.0	0.0	-75.0	0.0	0.0		-275.0	
Property Rental	Review of charges for renting space in KCC buildings to ensure where appropriate external tenants pay a market rent	0.0	0.0	0.0	-376.6	0.0		-376.6	
Commercial Services	Increased contribution from Commercial Services following business restructuring	0.0	0.0	0.0	0.0	-400.0		-400.0	
Increases in Grants & Contributions									
Public Health	Transfer of 0-5 children’s public health commissioning from Health to Local Authorities from 1 October 2015	0.0	-11,894.0	0.0	0.0	0.0		-11,894.0	-24,312.5
Care Act	Grants from DCLG and DoH for aspects of preparation and implementation of provisions in the Care Act 2014	0.0	-8,852.5	0.0	0.0	0.0		-8,852.5	
Better Care Fund (BCF)	Contribution from the BCF pool towards KCC's additional costs with the implementation of the Social Care Act	0.0	-3,566.0	0.0	0.0	0.0		-3,566.0	
Efficiency Savings									
Staffing									
Staff restructures	As a result of service re-design, integration of services and more efficient ways of working that there would be a reduction of staff costs that equates to the equivalent of approx. 250 to 400 fte. The delivery of which would be with appropriate and detailed consultations.	-3,129.0	0.0	-1,321.0	-3,017.0	0.0		-7,467.0	-9,512.0
Staff training	Adjustment to staff training budget to align with strategic training priorities	0.0	0.0	0.0	-655.0	0.0		-655.0	
Alternative funding sources	Identification of specific posts to be funded from specific grants and capital programme rather than base budget	-1,390.0	0.0	0.0	0.0	0.0		-1,390.0	
Property									
Established Programmes	Existing savings plans arising from rationalisation of office accommodation (New Ways of Working),facilities management, utility contracts, asset rationalisation and dilapidations	0.0	0.0	0.0	-2,522.0	0.0		-2,522.0	-2,522.0

Appendix A (ii)
Detailed 2015-16 Budget Plan by Directorate

Heading	Description	E&YP £000s	SCH&W £000s	GET £000s	S&CS £000s	FI £000s	U £000s	Total £000s	Total In Three Year Summary £000s
Contracts & Procurement									
Non front-line non staffing	Savings across a range of non staffing budgets including consultants, ICT infrastructure and contracts and other procured activities	0.0	-62.0	-474.0	-1,976.0	0.0		-2,512.0	-16,316.4
Coroners	Removal of one-off funding in 2014-15	0.0	0.0	-70.0	0.0	0.0		-70.0	
Savings from current year activity	Reduced in year spending on home to school transport, road safety, street lighting contracts and carbon reduction payments due to lower than anticipated activity and/or over delivery of savings	-700.0	0.0	-550.0	0.0	-200.0		-1,450.0	
Procurement efficiencies on contracts	Savings from the re-letting of highways, transport and waste contracts	0.0	0.0	-4,220.0	0.0	0.0		-4,220.0	
Concessionary Fares	Estimated reduction in the number of journeys being reimbursed. Efficiency saving from a four year programme for renewal of passes.	0.0	0.0	-800.0	0.0	0.0		-800.0	
Commissioning activity/income	Savings on commissioned activity under budgets managed by Director of Strategic Commissioning in Adult Social Care	0.0	-859.0	0.0	0.0	0.0		-859.0	
Public Health	Efficiency savings on activities commissioned through the public health team. Savings will enable Public Health Grant to be redirected to existing public health improvement programmes	0.0	-1,476.4	0.0	0.0	0.0		-1,476.4	
Highway maintenance	Renegotiation of highways maintenance contracts limiting remedial work to safety critical issues only and utilising available capital funding for long life permanent highway surface	0.0	0.0	-2,500.0	0.0	0.0		-2,500.0	
Procurement and commissioning	Detail still to be confirmed	0.0	0.0	0.0	-2,000.0	0.0		-2,000.0	
Supporting People	Efficiency savings on activities for vulnerable adults and older people through the Supporting People Commissioning Body	0.0	-429.0	0.0	0.0	0.0		-429.0	

Appendix A (ii)
Detailed 2015-16 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total In Three Year Summary
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Other									
Partnership with Parents	Revisions to the support and advice/guidance for parents accessing education services	-144.0	0.0	0.0	0.0	0.0		-144.0	
Turner Contemporary	Reduced support to Turner Contemporary Trust	0.0	0.0	-100.0	0.0	0.0		-100.0	
Academy conversions	Reduced support from legal services	-200.0	0.0	0.0	0.0	0.0		-200.0	
Economic Development	Review of contributions to external organisations	0.0	0.0	-110.0	0.0	0.0		-110.0	-1,004.0
Gateways	Review of contributions to Borough & District Councils for Gateway services	0.0	0.0	0.0	-150.0	0.0		-150.0	
Council Tax initiatives	Reduced activity as scope to increase Council Tax base is fully delivered with individual districts and underwriting of Council Tax Support schemes is unnecessary	0.0	0.0	0.0	-300.0	0.0		-300.0	
Financing Savings									
Drawdown reserves	Net reduction in earmarked reserves including Economic Downturn Reserves, directorate specific reserves and establishment of new reserve to invest to save initiatives	0.0	0.0	0.0	0.0	-6,200.0		-6,200.0	
Reductions in contributions to reserves	Removal of one-off contribution to reserves from 2013-14 Council Tax Collection Fund surplus plus reductions in contributions to reserves for workforce reduction, Regeneration Fund and Council Tax Support	0.0	0.0	0.0	0.0	-7,491.1		-7,491.1	-17,440.0
Revisions to MRP	Revised calculation of amount needed to repay prudential borrowing due to slippage in delivering capital programme and policy changes in MRP as outlined in appendix C of MTFP	0.0	0.0	0.0	0.0	-3,748.9		-3,748.9	
Policy Savings									
Full year effect of previous savings	Impact of previous decisions to remove discretions on home to school transport policy and Young Persons Travel pass	-398.0	0.0	-917.0	0.0	-833.0		-2,148.0	
Community Wardens	Outcome following consultation on the future provision of community warden service	0.0	0.0	-700.0	0.0	0.0		-700.0	-4,784.5
Kent Support and Assistance Service	Net effect of removal of specific DWP funding and creation of a new base budget from increased RSG	0.0	-1,936.5	0.0	0.0	0.0		-1,936.5	
Total savings and Income		**-11,563.0**	**-47,798.0**	**-15,207.0**	**-13,964.2**	**-18,873.0**	**0.0**	**-107,405.2**	
Proposed Budget		**72,646.7**	**477,192.8**	**170,112.0**	**66,744.2**	**125,782.8**	**4,000.0**	**916,478.5**	**916,478.5**

Appendix A (ii)
Detailed 2015-16 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total In Three Year Summary
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Funding									
Settlement	*Notification of funding from central government*								
Revenue Support Grant	Comprises share of previous Formula Grant, Early Intervention Grant, Learning Disability Grant, Council Tax Freeze Grant, etc. allocated as revenue support grant including impact of overall reductions in local government settlement							161,005.1	
Business Rate Top-up	Top-up derived by comparing local share of business rate according to historical average and business rate baseline share of previous grants including annual uplift in line with business rate multiplier							122,939.1	
Business Rate Baseline	Local share of business rates based on historical average with annual uplift in line with business rate multiplier							47,600.9	
Business Rate Compensation	Compensation for additional reliefs on business rates for small businesses, retail premises and reduction in multiplier paid as un-ring-fenced grant by DCLG							3,341.7	
Education Services Grant	DfE un-ring-fenced grant allocated on per pupil basis to local authorities and academies for central functions							13,750.0	
New Homes Bonus Grant	DCLG un-ring-fenced grant allocated according to increase in tax base							7,325.3	
New Homes Bonus Adjustment Grant	Balance of overall funds available for New Homes Bonus within settlement allocated according to overall baseline assessment							560.9	
Other Grants									
Extension of Free School Travel	DfE un-ring-fenced grant							1,301.4	
Inshore Sea Fisheries	DCLG un-ring-fenced grant							137.9	
Lead Local Flood Authority	DCLG un-ring-fenced grant for element not transferred into baseline							327.0	

Appendix A (ii)
Detailed 2015-16 Budget Plan by Directorate

Heading	Description	E&YP £000s	SCH&W £000s	GET £000s	S&CS £000s	FI £000s	U £000s	Total £000s	Total In Three Year Summary £000s
Local Taxation									
Council Tax Base	KCC band D equivalent tax base as notified by district councils based on 2014-15 Council Tax							538,290.0	
Council Tax Increase	Impact of 1.99% increase in Council Tax							10,744.0	
Council Tax Collection Fund	KCC estimated share of surpluses and deficits on Council Tax collection in 2014-15							7,078.5	
Business Rate Local Share	KCC 9% share of local tax base as notified by district councils less baseline share identified above							1,626.1	
Business Rate Collection Fund	KCC share of surpluses and deficits on business rate collection in 2014-15							450.6	
Total Funding								**916,478.5**	

Key:

E&YP	Education & Young People's Services
SCH&W	Social Care, Health & Wellbeing
GET	Growth, Environment & Transport
S&CS	Strategic & Corporate Services
FI	Financing Items
U	Unallocated

Appendix B
Prudential Indicators

1. Estimate of capital expenditure (including PFI)

Actual	2013-14	£219.458m
Estimate	2014-15	£286.905m
	2015-16	£308.909m
	2016-17	£208.300m
	2017-18	£211.128m

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 2014-15, 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

	2013-14 Actual £m	**2014-15 Forecast £m**	**2015-16 Estimate £m**	**2016-17 Estimate £m**	**2017-18 Estimate £m**
Capital Financing Requirement	1,435.263	1,391.673	1,382.620	1,347.949	1,305.828
Annual increase (decrease) in underlying need to borrow	(29.698)	(43.590)	(9.053)	(34.671)	(42.121)

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

Actual	2013-14	13.62%
Estimate	2014-15	13.53%
	2015-16	13.17%
	2016-17	13.65%
	2017-18	13.30%

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 31/03/2014	£m
Borrowing	1,010
Other Long Term Liabilities	254
Total	**1,264**

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

	2014-15 Approved £m	2014-15 Revised £m	2015-16 Estimate £m	2016-17 Estimate £m	2017-18 Estimate £m
Borrowing	1,033	1,033	1,023	1,024	1,026
Other Long Term Liabilities	254	254	254	254	254
Total	**1,287**	**1,287**	**1,277**	**1,278**	**1,280**

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

	2014-15 Approved £m	2014-15 Revised £m	2015-16 Estimate £m	2016-17 Estimate £m	2017-18 Estimate £m
Borrowing	1,078	1,078	1,064	1,064	1,064
Other Long Term Liabilities	254	254	254	254	254
Total	**1,332**	**1,332**	**1,318**	**1,318**	**1,318**

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

	2014-15 Approved £m	**2014-15 Revised £m**	**2015-16 Estimate £m**	**2016-17 Estimate £m**	**2017-18 Estimate £m**
Borrowing	993	993	983	984	986
Other Long Term Liabilities	254	254	254	254	254
Total	**1,247**	**1,247**	**1,237**	**1,238**	**1,240**

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

	2014-15 Approved £m	**2014-15 Revised £m**	**2015-16 Estimate £m**	**2016-17 Estimate £m**	**2017-18 Estimate £m**
Borrowing	1,038	1,038	1,024	1,024	1,024
Other Long Term Liabilities	254	254	254	254	254
Total	**1,292**	**1,292**	**1,278**	**1,278**	**1,278**

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.

	2014-15 Approved %	2014-15 Revised %	2015-16 Estimate %	2016-17 Estimate %	2017-8 Estimate %
Upper limit for Fixed interest rate exposure	100	100	100	100	100
Upper limit for Variable rate exposure	40	40	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	30
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	2014-15 Approved £m	2014-15 Revised £m	2015-16 Estimate £m	2016-17 Estimate £m	2017-18 Estimate £m
	175	175	175	175	175

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 £'000	Net Financing costs £'000	Total Revenue Spending £'000	%
2013-14	125,184	2,700	122,484	954,304	12.8
2014-15	121,070	2,700	118,370	940,313	12.6
2015-16	124,627	2,700	121,927	916,479	13.3

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

	Preceding September RPI %	KCC Council Tax increase %
2013-14	2.6	0
2014-15	3.2	1.99
2015-16	2.3	1.99
Three Year Average	2.7	1.33

3. Management and Operating Overheads should not exceed 10% of net revenue spending

	Management & Operating Overheads £'000	Net Revenue Spending £'000	%
2013-14 (revised)	95,402	954,304	10.0
2014-15 (revised)	92,122	940,313	9.8
2015-16	78,170	916,479	8.5

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

	Corporate & Democratic Core £'000	Net Revenue Spending £'000	%
2013-14 (revised)	11,044	954,304	1.2
2014-15 (revised)	8,637	940,313	0.9
2015-16	7,796	916,479	0.9

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

	Net income from Commercial Activities £'000	Overheads £'000	Contribution achieved %
2013-14 (revised)	4,899	95,402	5.1
2014-15 (revised)	7,691	92,122	8.3
2015-16	6,700	78,170	8.6

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

Other Financial Management Indicators

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

	General Reserve £'000	Gross Expenditure (exc. Schools) £'000	%
2013-14 (revised)	31,725	1,431,465	2.2
2014-15 (revised)	31,725	1,442,154	2.2
2015-16	37,213	1,468,811	2.5

7. Local Funding (External Income exc. Schools plus Local Taxation) as a percentage of Gross Expenditure (excluding Schools)

	Service Income (exc. Schools) + Council Tax £'000	Gross Expenditure (exc. Schools) £'000	%
2013-14 (revised)	755,909	1,431,465	52.8
2014-15 (revised)	780,874	1,442,154	54.1
2015-16	811,272	1,468,811	55.2

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 9	Better Care Fund (Health & Social Care Integration)	12	9
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 14	Development of Strategic Commissioning Authority Governance Arrangements	12	8
CRR 17	Future Operating & Financial Environment for Local Government	20	10
CRR 18	Public Service Network – Implications of Compliance with Code of Connection	6	4
CRR 19	Implications of the Care Act 2014	15	6
CRR 20	Banking Reform Act	8	4
CRR 21	Delivery of 2015-16 Savings	12	2

* 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.	Information security incidents resulting in loss of personal data or breach of privacy / confidentiality. Data Subject complaint upheld by Information Commissioners Office (ICO). Failure to achieve either annual PSN or NHS Information Governance certification.	ICO sanction (e.g. undertaking, assessment, improvement, enforcement or monetary penalty notice) issued against the Authority. Reputational damage Damages claims. Cost of remediation. Access to PSN and / or NHS connected services revoked or restricted resulting in significant interruption to services.	On behalf of CMT: Director Governance & Law Director ICT **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.	On behalf of CMT: Corporate Director Social Care Health & Wellbeing **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 Growth, Environment & Transport **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 harm or 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.	On behalf of CMT: Corporate Director Growth, Environment & Transport **Responsible Cabinet Member(s):** Community Services	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 Government's spending review in June 2013 announced an Integration Transformation Fund (now relabelled 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. Government announced in July 2014 that over 25% of the total BCF monies are being held back and ring-fenced to support acute hospital trusts where BCF activity fails to achieve targets to reduce emergency hospital admissions. This moves the burden of risk from hospitals into other sectors such as social care.	The new regulations may reduce the money available to support social care services through the BCF by 50%. Plans to reduce hospital admissions are destabilised. Governance arrangements for pooled budgets unclear.	Failure to maximise opportunities presented for health & social care integration, and ensure changes achieve maximum impact. Additional budget pressures.	Corporate Director Social Care Health & Wellbeing **Responsible Cabinet Member(s):** Education & Health Reform Adult Social Care & Public Health	Likely (4) **Target Residual Likelihood** Possible (3)	Significant (3) **Target Residual Impact** Significant (3)

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 Act, a recent Supreme Court ruling that may lead to increases in Deprivation of Liberty Assessments 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 Social Care Health & Wellbeing **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.	Children's services performance declines as demands become unmanageable. Failure to deliver statutory obligations and duties or achieve social value. Additional financial pressures placed on other parts of the Authority at a time of severely diminishing resources. Ultimately an impact on outcomes for children, young people and their families.	Corporate Director Social Care Health & Wellbeing Corporate Director Education & Young People's Services **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	CRR12	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. An increase in households falling below poverty thresholds with vulnerable people becoming exposed to greater risk. Increasing deprivation leads to increase in social unrest and criminal activity. Additional pressure on KCC services e.g. school places.	Corporate Director Social Care Health & Wellbeing **Responsible Cabinet Member(s):** 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	CRR14	Risk Title	Development of Strategic Commissioning Authority governance arrangements		
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 effective procurement, commissioning and contract management arrangements and may also involve establishment of alternative service delivery models, for which KCC would need appropriate levels of oversight.	Lack of understanding of what a commissioning authority is and how it should operate Too much or too little KCC oversight of any alternative delivery models introduced. Ineffective contract management – KCC fails to act as an 'intelligent client'. Lack of appropriate skills to facilitate a commissioning approach	Failure to secure optimum value for money from service providers and / or failure to secure achievement of desired outcomes. Loss of confidence in the Council and/or financial loss.	ALL Corporate Directors **Responsible Cabinet Member(s):** Business Strategy, Audit and Transformation	Possible (3) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

Appendix E – Corporate Risk Register

Risk ID	CRR17	Risk Title	Future operating & financial 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. It is estimated that on top of significant savings already delivered, another £206m are required between 2015-16 and 2017-18. There is uncertainty for Local Government over the next spending round.	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. Quality of services suffers as financial situation continues to worsen. Financial settlement from Government is less than anticipated for 2015 onwards. Strain on management capacity and / or managers not being 'equipped' to meet the different demands of their roles in the new environment.	Unsustainable financial situation. Reduction in resident satisfaction and reputational damage. Potential implications for staff wellbeing morale and engagement	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 – Implications of Compliance with Code of Connection		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Public Services Network 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 a number of local authorities need to make changes to current policies / ways of working that requires additional investment. Ongoing compliance with the standard will have a number of potential impacts on KCC objectives.	Additional investment in technology required to meet standards without commensurate increase in productivity.	Impact on "Doing things Differently" objectives – less technology choices available. Financial implications.	Corporate Director Strategic & Corporate Services Director ICT **Responsible Cabinet Member(s):** Corporate & Democratic Services	Unlikely (2) **Target Residual Likelihood** Unlikely (2)	Significant (3) **Target Residual Impact** Moderate (2)

Appendix E – Corporate Risk Register

Risk ID	CRR 19	Risk Title	Implications of the Care Act 2014		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Care Act 2014 establishes a new legal framework for care and support services. The new law marks the biggest change to care and support law in England since 1948. The changes will have significant implications for Kent residents and Kent County Council, in terms of both opportunities and risks.	Costs of implementation may not be fully funded. The effect of the changes in law on the existing cost differential between the Local Authority and a self-funder may erode. Significant increase in people coming forward for care and financial assessments. The public may not understand the reforms. Appropriate systems enhancement may not be completed within 2016 timescales.	Additional financial pressure. Increase in demand for services in addition to existing demand pressures (see CRR 10a risk). Confusion and dissatisfaction of residents and potential service users.	Corporate Director Social Care Health & Wellbeing **Responsible Cabinet Member(s):** Adult Social Care & Public Health	Possible (3) **Target Residual Likelihood** Unlikely (2)	Major (5) **Target Residual Impact** Significant (3)

Appendix E – Corporate Risk Register

Risk ID	CRR20	Risk Title	Banking Reform Act		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner(s)**	**Current Likelihood**	**Current Impact**
Bail in risk stemming from the enactment of the following legislation: - Banking Reform Act 2013 - Bank Recovery and Resolution Directive 2015 - Deposit Guarantee Scheme Directive 2015 Unsecured investments in a bank that fails are not protected. KCC may make unsecured deposits with various banks in accordance with its Treasury Strategy	KCC making an unsecured deposit is a financial risk. The Council losing a significant proportion of its unsecured deposits in the event of a bank failing is both a financial risk and reputational risk.	The immediate consequence for KCC of a bank failing could be illiquidity and KCC perhaps unable to pay its bills. It could borrow short term to cover its liquidity requirements but would be subject to interest rate exposure. This is a financing risk. The Council in due course could suffer a significant financial loss and possible reduction in its reserves. Potential impact on service delivery. Reputational damage.	Corporate Director Finance & Procurement **Responsible Cabinet Member(s):** Business Strategy, Audit & Transformation	Unlikely (2) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Moderate (2)

Risk ID	CRR21	Risk Title	Delivery of 2015-16 Savings		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner(s)**	**Current Likelihood**	**Current Impact**
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."	The required savings from key programmes or efficiency initiatives are not achieved.	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.	Corporate Director Finance & Procurement **Responsible Cabinet Member(s):** Business Strategy, Audit & Transformation	Possible (3) **Target Residual Likelihood** Very unlikely (1)	Serious (4) **Target Residual Impact** Moderate (2)

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.

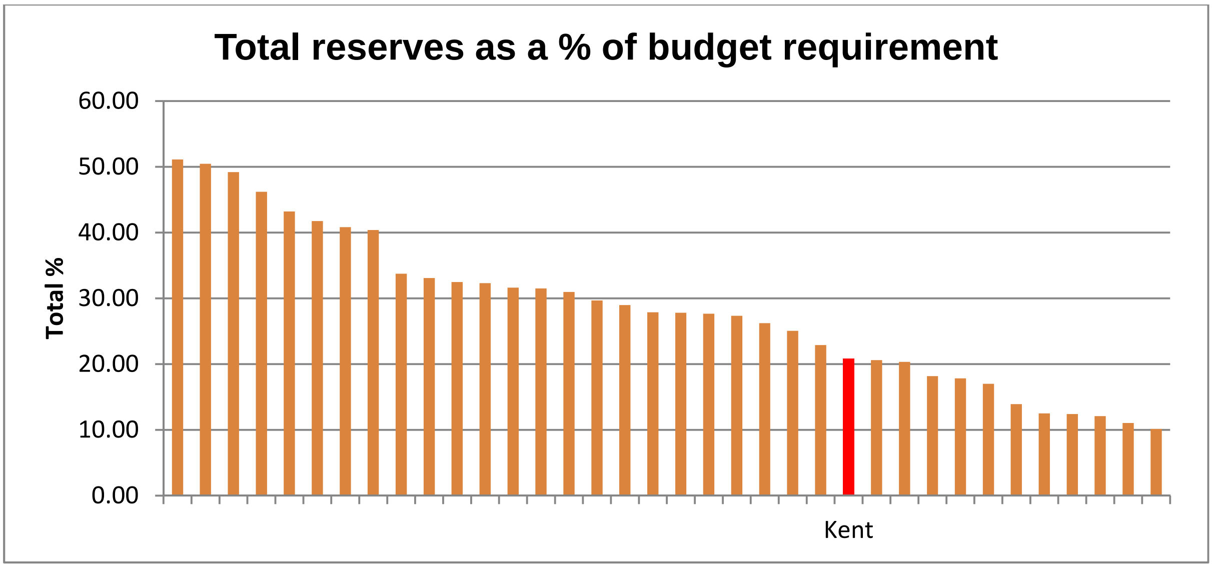
3 Comparison with other County Councils

There continues to be national scrutiny of Councils' reserves. As funding for local government continues to be cut, Councils are, perhaps naturally, protecting themselves from the impact of these cuts continuing until the end of the decade and possibly beyond. The result is that nationally reserves have increased rather than, as might be expected, reduced. The resulting 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.

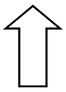
A graphical analysis of the 2013-14 reserves is shown below. Kent are ranked 25th out of 36 in terms of the percentage of reserves held

The range of reserves held as a percentage of budget is vast; the lowest authority at marginally over 10%, up to the highest at 51%. Kent's figure is 20.85%. The median figure is 27.85%.

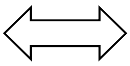


4 Analysis of Risk

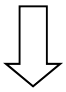
Listed in Section 2 of this appendix are the factors that CIPFA recommend should be taken into account when considering the level of reserves and balances. Below, each of those factors is given a 'direction of travel' indicator since last year's budget was set. An upward direction means an improved position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



- Assumptions regarding inflation and interest rates:
  Inflation has been steadily reducing and is now below the Government target of 2.0%. Interest rates are largely determined by base rate, which has been at 0.5% now since March 2009. There are suggestions this will increase, but it's likely to be a relatively small increase, if any, during the 2015-16 financial year. 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:
  Our reliance on capital receipts is significant, in order to fund our capital programme. Delivery against target is encouraging, but remains challenging.



- The capacity to manage in-year demand led pressures:
  As each year passes, with reduced funding and increased demand, our discretionary spend that can be 'turned-off' at short notice diminishes.

- Ability to activate contingency plans if planned savings cannot be delivered: Similar to the above risk. We do still have some ‘safety valves’ that can be turned off in an emergency, but these are reducing and they may be very unpopular and potentially expensive in the longer term.

- Risks inherent in any new partnerships:
  The major new partnership with Health (the Better Care Fund) has over £100m of joint funding from the Council and the Health sector, and will require close monitoring. However, it is an opportunity to create significant efficiencies as well as better outcomes for individuals.

- Financial standing of the authority (level of borrowing, debt outstanding etc.):
  Largely unchanged from 2014-15, although the proposal for use of reserves to support the 2015-16 revenue budget, and a re-designation of the Economic Downturn Reserve, does reduce our protection against a major unforeseen financial event, such as a significant in-year overspend.

- 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.

- The adequacy of insurance arrangements.

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

However, none of the above adequately reflects the risk attached to the approved savings plans. The budget for 2015-16 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 number and cost of looked-after children, and procurement savings. This brings additional risk and this has increased considerably in the past three 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 an increased risk profile since the 2014-15 budget, and will have a reduced level of earmarked reserves. This position should be reflected in our general level of reserves and we are proposing to transfer £2.5m from the council tax collection fund surplus into the general reserve to help mitigate this risk.

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.

A review of the earmarked reserves shows that it is possible to release some £10.6m of the earmarked reserves, mostly from the Economic Downturn Reserve, in order to support the 2015-18 Medium Term Financial Plan. This is expected to leave around £14m in this reserve. Given that the economy has generally recovered, it is now appropriate to 'close' this reserve and with the balance:

a) Put £3m into the General Reserve to also recognise the increased financial risk as set-out in section 4 above
b) Put the remainder, approximately £11m, into a more specific reserve in order to have funding available to support further transformation of services in order for the Council to be able to set future budgets that reflect continuing demand for services and reduced Government Grant. This reserve could be titled 'Responding to Government Deficit Reduction'.

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 should release £10.6m of reserves to support the 2015-16 Medium Term Financial Plan, transfer £2.5m of the one off council tax collection fund surplus to general reserves and re-designate the Economic Downturn Reserve to the Responding to Government Deficit Reduction Reserve which includes a further transfer of £3m from that reserve to our General Reserves to reflect our increased risk profile.

Appendix G
Glossary of Abbreviations

A to Z of Services	Presentation of KCC's annual budget according to services provided
AME	Annually Managed Expenditure - Central Government measure for money spent in areas outside DEL)
Autumn Budget Statement	Chancellor’s Annual midyear update to national budget
BoE	Bank of England
BCF	Better Care Fund
BSF	Building Schools for the Future
Budget	Annual spending plan for 2015-16
Business Rates (NNDR)	Local property tax levied on businesses and redistributed by the Government.
Capital Budget	Investment programme on infrastructure, property & IT improvements
CCG	Clinical Commissioning Group
CCLA	Church Charities Local Authorities – an investment portfolio
CFR	Capital Financing Requirement
CIL	Community Infrastructure Levy
CIPFA	Chartered Institute of Public Finance & Accountancy
CLG	Government Department for Communities & Local Government
CPI	Consumer Price Index - Government measure of inflation
DBS	Disclosure and Barring Service (formerly Criminal Records Bureau (CRB) and Independent Safeguarding Authority (ISA))
DDA	Disability Discrimination Act
DEFRA	Government Department for Environment, Food & Rural Affairs
DEL	Departmental Expenditure Limits - the amount that government departments have been allocated to spend
DfE	Government Department for Education
DfT	Government Department for Transport

DoH	Government Department of 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's Services 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
Facing the Challenge	The Council's strategic vision document
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
GLA	Greater London Authority
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

KSAS	Kent Support and Assistance Services
LAC	Looked After Children - children placed into care by the local authority
LACSEG	Local Authority Central Spend Equivalent Grant
LAMS	Local Authority Mortgage Scheme
LATCO	Local Authority Trading Company - a company created and either wholly or partially owned by a local authority to deliver existing or new services through a trading model.
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
PFI	Private Finance Initiative
PROW	Public Right of Way
PWLB	Public Works Loan Board
Repo	Reverse Purchase Agreements – a form of investment

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&PH	Social Care and Public Health Directorate
Schools' Funding Forum	Statutory body representing views of schools in relation to a number of financial matters
SDLT	Stamp Duty Land Tax
SEN	Special Educational Needs
SEND	Special Educational Need & Disability
SFA	Settlement Funding Announcement
SIP	Supporting Independence Programme
SORP	Statement of Required Practice - new KCC risk management tool
SR2010	Spending Review 2010
TMAG	Treasury Management 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
TME	Totally Managed Expenditure – national measure for the total amount that the government spends on public services
UASC	Unaccompanied Asylum Seeking Children
WCA	Waste Collection Authority
WDA	Waste Disposal Authority
VAT	Value Added Tax

Approved by County Council 12 February 2015

medium term financial plan

2015-18

This publication is available in other formats
Please email **alternativeformats@kent.gov.uk**

kent.gov.uk/budget

Kent County Council
kent.gov.uk