Medium Term Financial Plan

2012/15

Approved by County Council 9 February 2012

Kent County Council

Leader's Foreword to Budget & Medium Term Financial Plan

We are setting this Budget and Medium Term Financial Plan (MTFP) in the most difficult fiscal circumstances that we have faced for a very long time. The Government is committed to removing the UK's budget deficit through a combination of public spending reductions and steady/sustainable economic growth. However, recovery from the recession is taking much longer than anyone could have predicted and within the Eurozone the contagion of debt crisis is spreading further and further, posing significant risks to the UK economy.

For the foreseeable future the County Council faces diminishing funding at the same time there is increasing demand for services. In order to address this apparent conundrum the council will need to make significant year on year savings and find new ways to generate income. Any future growth in funding is unlikely to come in the form of government grants that we have become accustomed to and instead is likely to have to be earned from economic prosperity through attracting new businesses into the county or increasing the number of Council Tax payers through new housing.

The outlook for schools is a little more promising. The grant settlement for 2012/13 provides the same cash per pupil as 2011/12. We have also had confirmation that the Pupil Premium will increase from £488 per eligible pupil to £600, and will be allocated for more pupils. We are also heartened by the reforms being considered to school funding from 2013/14 and we will continue to lobby to get a fair settlement for all Kent schools.

We are not starting on the journey from scratch. We foresaw this scenario over two years ago when the impact of the recession first became clear and we started to develop plans to deliver better public services with less money. The council set out its ambitious vision in *Bold Steps for Kent,* which recognised that we would have to be financially strong in the face of diminishing resources and growing demand through reducing pressures and costs to an absolute minimum; effective commissioning and procurement to ensure contracts provide what we need at the right price; optimising income potential; delivering a lean efficient organisation; and as a last resort taking brave decisions on what the authority might have to stop doing or do to a lesser extent. These were encapsulated as "make, buy or sell" considerations for all of our services.

The annual budget and revenue and capital MTFPs have been developed to complement the three aims in Bold Steps:

- We will help the Kent economy to grow by directing our revenue resources towards helping businesses in difficult times, procuring more of our goods and services from within the county wherever possible, helping unemployed back into work (particularly by providing our young people with the skills they need to get work) and reducing burdens on business. Within the capital programme we are making provision for investment from the Regional Growth Fund as well as making County Council funds available to support regeneration, and we want to do more to stimulate the housing market through continuing the empty property initiative and we are working on a scheme to help those trying to get their first mortgage.

- We will look to put citizens more in control through the increasing localisation of services so that local communities can decide their priorities within the cash available; greater personalisation of budgets so that clients have greater choice rather than having a set menu of services; and making our budget decisions even more transparent. For the second year running we are proposing to freeze the County Council element of Council Tax, which will be welcome at a time when individual household budgets are being squeezed. This is not an easy decision as the support from government is only available in 2012/13 and we will need to make this sustainable in future years.

- Tackling disadvantage by putting more money into social care particularly for looked after children, the frail elderly and those suffering dementia, and adults with disabilities. Through our capital investments we will also seek to tackle disadvantage both through the modernisation of facilities such as making sure our special schools are fit for purpose and also by providing funds to work with partners to tackle housing issues in the areas of highest deprivation.

Of course we will continue to drive out as much efficiency as we can and over the four years from 2011/12 we will have taken more than £100m out of our budget through efficiencies in our back office functions, which means we provide as much if not more value for Kent residents for less money. We will continue with the Change to Keep Succeeding Programme which will continue to deliver more savings as we embed it throughout the whole organisation.

Our employees continue to be the most important resource and their dedication, responsiveness and ability to adapt to change in difficult times is admirable. We will continue to invest in them and their well being and are committed to see through the changes we have implemented to pay progression, which will deliver better rewards for those who go the extra mile and achieve excellent performance.

Paul Carter
Leader of the Council

KCC Medium Term Financial Plan

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KCC Medium Term Financial Plan

SECTION 1

Executive Summary

(including Bold Steps for Kent Executive Summary at Annex 1)

Executive Summary

National Context

1.1 In our Foreword, we have referred to the fact that we are in one of the most challenging financial periods ever faced by local government. The reality is that local government and the wider public sector must realign itself to a new and permanent financial reality. KCC made £95 million savings throughout 2011/12 and will need to deliver a further £100 million savings in 2012/13. We are likely to need to save £70 million to £80 million over each of the following two financial years (2013/14 & 2014/15).

1.2 The Government has set out its aim to eliminate the budget deficit, although the Chancellor has now recognised this will not be achieved by the end of this Parliament. The Spending Review 2010 (SR2010), Autumn Budget Statement and the Local Government Finance Settlement have all confirmed that significant savings are expected throughout the spending review period and beyond, with local government's contribution greater than other parts of the public sector. However, the weak economic recovery, rising unemployment, continued low rate of growth, relatively high inflation and uncertainty in both the banking sector and the eurozone present significant risks to the recovery plan and local authority budgets.

Local Context

1.3 In 2012/13, investments will be made by KCC in a number of essential areas including Children's and Adult Social Services, financing new facilities and in supporting economic growth. Demand across a range of services continues to increase at the time when grants from Central Government are being cut, particularly in children's and adult social care.

1.4 The short-term pressure resulting from the poor 2010 OfSTED inspection into KCC's Children's Social Services has led to significant financial pressures, which are expected to continue into 2012/13. However, the recent unannounced inspection from OfSTED shows this investment has made a significant impact on the quality of service. Throughout the next year the emphasis will be on placing the service on a more sustainable financial footing. There will be a greater focus on preventative activity, whilst maintaining an improved level of service, and looking to reduce the number of Looked After Children/length of time they are in care over the period of this medium term financial plan.

1.5 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 although we will need to monitor if it is sustainable and also monitor the impact of any changes to social care following the Dilnot review.

Treasury Strategy

1.6 Treasury management remains a key strategic issue for the Council, not least because of low interest rates, the downgrading of UK banks and limited investment opportunity. The latest Treasury Management Strategy is included in Section 5 and was approved by the County Council at the same time as the 2012/13 Budget and 2012/15 MTFP.

Risk Strategy

1.7 Effective risk management will be essential in ensuring we can deal with the difficult times ahead. The risk management function has been transferred to the Business Strategy division to improve the links between risk management and the performance management, business planning and business intelligence functions within KCC; further ensuring risk management supports the delivery of organisational priorities and objectives. The Risk Strategy can be found at Section 6.

Appendices

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

Council Tax

1.9 In this Budget and MTFP we have agreed a freeze on Council Tax for 2012/13, meaning the KCC precept for a Band D property remains the same as in 2010/11 and 2011/12, at £1,047.78 (the increases in the preceding two years were the lowest since Council Tax was introduced in 1993). The freezes mean that over the last 3 years Council Tax has risen by 2.1% whereas over a similar period inflation has been nearly 9%. The actual charge households pay will depend upon levies from other authorities including District Councils, Police Authority, Fire and Rescue and where applicable Parish and Town Councils. We are anticipating a small increase in Council Tax receipts, due to continued growth in the number of Council Tax payers in the County.

1.10 The freeze is supported by Government grant but unlike in 2011/12 this is only available for one year. KCC recognises that by accepting this additional grant and freezing Council Tax, it creates additional pressure on future years' budgets. This is because the equivalent monies must be found from savings or new income into the base budget.

1.11 One-off grants from central government do not support sustainable budget management. No announcement has been made regarding Council Tax grant beyond 2012/13. Should it be offered, we will have to carefully consider the short-term gain against the longer-term financial pressure a one-off grant places upon our budget. While the Council remains committed to keeping Council Tax increases to an absolute minimum, at this stage an increase for 2013/14 cannot be ruled out. Neither can the possibility of refusing further one-off Council Tax grant for 2013/14, should it be offered.

Revenue Medium Term Financial Plan Format

1.12 The Council's overall plan is set out in the document "Bold Steps for Kent" (Bold Steps). This MTFP supports this overall Plan. Bold Steps recognises that we will need to deliver our services with less funding and that the Council structure will have to be as efficient as possible. An executive summary of Bold Steps is included as Annex 1 to this Section.

1.13 The Government has announced the Local Government Finance Bill, which sets out the legal framework to change the way in which local authorities are funded from 2013/14. As a consequence we have concentrated upon 2012/13 and adopted a more high-level approach for subsequent years. Accordingly, the MTFP format has altered from previous years and we now have three separate sections to Appendix A:

a) A new high level three year MTFP summary – Appendix A(i)

   The new budget themes for 2012/13 (localism, personalisation, incentivisation and demand management) will be essential to the three year plan as managers are being asked to rethink their service strategies based around these four key themes.

b) A new more detailed one year MTFP summary – Appendix A(ii)

   This provides for the first time a summarised view for the whole council of all key additional spending demands and savings/ income, as it summarises common themes in individual Portfolio plans.

c) The traditional Portfolio by Portfolio format, although for one year only – Appendix A(iii).

Each Portfolio plan provides the detail of all the new spending demands and savings/income for 2012/13

1.14 In addition we have responded to the new financial reality by removing the "emerging pressures" category for 2013/14 from the MTFP. This reinforces the message to our managers that we must manage additional spending demands robustly and by adopting creative solutions. This does, however, create a financial risk that we will monitor very closely.

1.15 Through our new Make, Buy & Sell review process, services will be subject to greater challenge, review and market testing, including being opened up to bids through the new national Right to Challenge provision. A joint officer-Member Budget Programme Board has been convened by the Cabinet Member for Finance and Business Support. Meeting weekly, the Board's focus is on delivering the MTFP. It will provide oversight and challenge to all proposals for service reconfiguration, transformation and savings plans, and ensure proposals are robust and deliverable. This will allow careful and pro-active management of the risks to delivering the MTFP.

1.16 Within the MTFP at Appendix A we have included the following sections:

- *Base Budget Adjustments* – This section summarises the transfer of responsibilities either internally between Portfolios to reflect changed management arrangements, or externally to reflect changes in national funding arrangements. Since these adjustments are simple matters of fact we have not dwelt on the detail in the individual Portfolio MTFP presentations.

- *Additional Spending Pressures* – This section provides more information on the unavoidable pressures for increased spending being imposed on the Authority's services. These can arise from price increases on contracts and services we procure; legislative requirements putting additional burdens on the Authority; demand pressures such as increased numbers of vulnerable adults and elderly residents to whom we provide care and support; reductions in income through the loss of Government Grants; or local service strategies and improvements in response to local demands and priorities. We have included details of issues relevant to each Portfolio under each of these main areas.

- *Savings and Income* – This section provides more information on the additional income we propose to generate and the savings we need to make in order to balance the Budget to meet the challenge of increasing demands, reducing Central Government funding and freezing Council Tax. We have separated savings into efficiency savings (getting more or the same outcomes for less money), service reforms (changing the way we provide the services), one-off savings including the use of Council reserves in 2012/13.

Capital Budget Format

1.17 As with the revenue MTFP the most appropriate presentation remains in a Portfolio by Portfolio order. However the format for showing the individual schemes within each Portfolio has been revised.

1.18 The presentation moves away from showing forecast spend year on year but now combines the three year plan (2012/15) and details the funding of each project over this period. This rightly shifts the focus away from planned spending year by year and more towards the totality of spend and how this is financed. This will focus attention on the merit of schemes, their affordability and overall timeliness rather than the detail of phasing individual amounts between years. More importantly, it will allow the reader to see how the project is financed.

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

Conclusion

1.20 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 Grants, a slow economic recovery, increased demand for council services and a freeze on Council Tax increase for the second year in a row.

1.21 If the economy continues to show a slow recovery the indicative budgets set out in the MTFP for 2013/14 and 2014/15 could get worse and we could face further additional spending demands and/or further reduced/frozen income necessitating greater savings.

ANNEX 1

Delivering Bold Steps – The Medium Term Plan until 2014/15

Bold Steps for Kent is a very different plan for the challenging times we all face. It charts the County Council's ambition to radically transform how we deliver services for the people of Kent over the next four years, whilst achieving significant financial savings, through embracing localism and new ways of working. Underpinning Bold Steps is our delivery framework for meeting the County Council's three overriding ambitions:

- To help the economy to grow
- To tackle disadvantage
- To put the citizen in control

Within the delivery framework we have identified 16 priorities to focus on in order to achieve our ambitions and deliver the savings identified in the Medium Term Financial Plan.

We will help the Kent economy to grow by:

- **Improving how we procure and commission services**

Our procurement processes will be open, transparent and proportionate to reduce barriers to entry for SMEs. We will publish a Procurement and Commissioning register for all services by April 2012. A new strategic relationship is being developed with the voluntary and community sector, moving from the provision of direct grants to commissioning more services on a competitive basis. District based Locality Boards will play a key role in shaping service delivery.

- **Building a strong relationship with key business sectors across Kent**

Through 'sector conversations' we will ensure our economic development role is focused on practical issues where we can add value to support business growth. Our Connected Kent strategy will deliver innovative projects to secure better broadband provision across Kent, ensuring Kent businesses have access to the fastest broadband.

- **Responding to key regeneration challenges working with our partners**

We will help Kent remain an attractive and competitive location for inward investment by working with our partners in the Local Enterprise Partnership (LEP) and the Kent Economic Board. We will have maximised opportunities from the Pfizer site at Sandwich and a programme of development will have commenced at Manston Park and Eurokent in Thanet. We will have unlocked key sites in the Thames Gateway and other growth points across Kent, which will provide new homes and commercial opportunities.

- **Supporting new housing growth that is affordable, sustainable and with appropriate infrastructure**

Through the Kent Forum Housing Strategy, new housing growth will have been delivered intelligently with the right infrastructure in place through Local Development Frameworks. New investment in the private rented sector, new models of home ownership and better use of public assets will have improved affordability and housing choice. New homes will be brought back to use in Thanet and Dover through the No Use Empty Campaign. New infrastructure and regeneration schemes will have been funded through new financial mechanisms such as Tax Increment Financing, the Community Infrastructure Levy and business rate retention.

- **Delivering the Kent Environment Strategy**

We will use public sector resources more efficiently. Leading by example we will have established a Kent 'Green Deal' enabling the retrofitting of homes and the development of micro renewable energy generation to create vibrant low carbon, energy and water efficient communities. We will deliver a targeted package of low carbon business support to stimulate the development of the green economy, with a focus on east Kent.

- **Delivering 'Growth without Gridlock'**

By 2014/15 we will have a fully costed package of strategic transport infrastructure projects to promote greater economic growth. This will include an affordable solution for Operation Stack and the overnight lorry parking problems along the channel corridor and a cost effective scheme to dual the A21 between Tonbridge and Pembury. Working with the LEP, we will have influenced the DFT decision on the location and funding package for a third lower Thames Crossing and the early delivery of the DFT's short-term capacity improvements such as free flowing tolling. The Rail Action Plan for Kent will have positively influenced a new rail franchise agreement, improving rail services for passengers. Working with Network Rail, funding will be agreed for line speed improvements between Ashford and Ramsgate, and a business case developed for a Thanet Parkway station.

- **Ensuring all pupils meet their full potential**

By 2014 our aim is to support a school system with greater choice, fair access for all pupils and families, and with performance moving above the national average. Schools will have greater control of their own budgets and our school trading arm, EduKent, will be successfully competing in the market for school support services. The Kent Association of Schools will be a strong advocate for all schools in Kent, helping to shape education policy, whilst providing a network of support and sharing best practice across all schools in Kent.

- **Shaping education and skills provision around the needs of the Kent economy**

Working with schools and Further and Higher Education providers, we will deliver a 14-24 Strategy that equips young people with the academic, vocational and life skills to succeed. More apprenticeships and work-based training will be available, with KCC delivering at least 350 additional apprenticeships and more gap year placements for Kent graduates. Adult Education will provide clear progression routes to further learning.

We will tackle disadvantage by:

- **Improving services for the most vulnerable people in Kent**

We will have reduced the number of children in care through new innovative preventative services and an increase in the number of children adopted, with specialist social worker teams overseeing better care planning. Educational outcomes for Looked After Children will have improved compared to the national average, and there will be greater stability in foster care placements. There will be improved arrangements with the NHS to secure timely and appropriate treatment or social care support for children and adults requiring mental health services.

- **Supporting families with complex needs and increasing the use of community budgets**

Community Budgets will be rolled out to families with complex needs across more communities in Kent. This will drive greater use of multi-disciplinary teams and pooled funding arrangements across the public sector, delivering better outcomes at lower cost to the tax payer. The concept will have been adopted across a range of other priorities, with Locality Boards increasingly responsible for oversight of delivery and performance.

We will look to put the citizen more in control through:

- **Improving access to public services and moving towards a single initial assessment process**

By 2014 our aim is to improve access to public services through delivering a range of options for residents, including accessing services online. There will be a single assessment process for a range of KCC and other public services allowing residents to quickly understand their entitlements, as well as signposting to additional help and support. We will have expanded the use of the Kent Card beyond social service provision into areas such as transport and libraries to provide more seamless access to KCC services.

- **Empowering social service users through increased use of personal budgets**

We will have a social care model which maximises the use of Personal Budgets by social care clients, giving them greater choice and control to commission and purchase services. The roll out of additional Enablement Services by April 2012 will provide intensive support so older persons can regain independence as quickly as possible and telehealth and telecare will be assisting more older people to live independently in their own homes.

- **Supporting the transformation of health and social care in Kent**

We will improve patient experience of health and social care by delivering care closer to home and fostering more choice through developing greater diversity of provision from social enterprises and the voluntary and community sector. The full Shadow Kent Health and Wellbeing Board will be established by April 2012, ensuring that services meet the needs of the people of Kent. An integrated Health & Social Care Commissioning Strategy will be in place by 2013 ensuring greater integration of health and social care services, and we will have seen a 5% shift in NHS budget in Kent from acute to community and primary health care. We will have reduced health inequalities by focusing on those communities with the poorest health outcomes.

- **Establishing a Big Society Fund to support new social enterprise in Kent**

By 2014/15 it will have provided over £5m funding for new social ventures that support new employment opportunities across Kent. It will have leveraged additional contributions from sources such as the Government's Big Society Bank. Loans made by the Kent Big Society Fund will be repaid allowing it to become recyclable and sustainable in the long term.

- **Ensuring the most robust and effective public protection arrangements**

We will have a model for vulnerable adults and children which ensures referrals are assessed quickly, with swift intervention where necessary. We will be recognised as an employer of choice for social workers in the South east, with the right number of experienced social workers using their professional judgement and expertise to protect vulnerable children and adults.

- **Promoting Kent and enhancing its cultural and sporting offer for residents**

We will have delivered a successful legacy for Kent from the 2012 London Olympic Games and the Cultural Olympiad with continued support for the school games. We will have inspired more residents to actively participate in sports, arts and music opportunities, so they can benefit from a higher quality of life. Kent will increasingly be indentified both nationally and internationally as a cultural destination, delivering a high rate of new economic growth to the Kent economy.

KCC Medium Term Financial Plan

SECTION 2

National Financial and Economic Context

National Financial and Economic Context

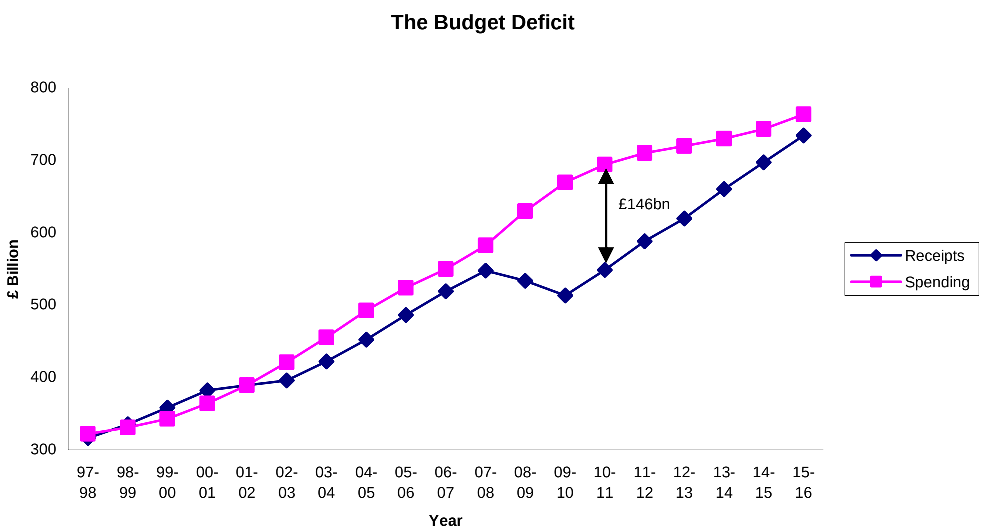
Introduction

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 has made it clear that one of its major priorities is to tackle and eliminate the national budget deficit. The Chancellor of the Exchequer outlined the Government's plans in his Emergency Budget within 6 weeks of the coalition being formed. In his plan he outlined that the deficit would have to be found 80% from spending cuts and 20% from tax rises. Chart 1 below shows how it was envisaged the deficit would be eliminated through slowing the growth in public spending and increasing tax yield (mainly arising from the recovery from recession).

Chart 1



2.3 The Chancellor made some minor changes to the forecast deficit in his 2011 Budget announced on 23rd March but has made some more significant revisions in his Autumn Statement of 29th November. In particular the forecasts for economic growth have been significantly reduced as recovery from the recession has been much slower than earlier predictions and the Gross Domestic Product (GDP) is still well below its 2008 pre recession peak and is only expected to grow at a low rate throughout 2012.

2.4 The low growth forecasts mean that tax receipts will be less than previously planned and as a consequence the budget deficit will not be cleared by the end of the current Parliament. The Chancellor has stuck with the spending plans announced in SR2010 and consequently borrowing will be higher than previously planned (although the cost of borrowing will be lower due to lower interest rates which means the cost of financing the additional borrowing will not make the deficit worse).

2.5 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 much higher than this throughout 2011. This has been ascribed to a number of factors including the impact of the VAT increase in January and volatility in commodity prices. Inflation is predicted to fall during 2012 (the impact of the VAT increase will cease to be a factor after January 2012) but CPI is not expected to reach the Government's target until into 2014.

2.6 CPI in the year to September 2011 showed an increase of 5.2% (up 0.7% on August), RPI was 5.6% (up 0.4% on August). The September indices are important as they are used to uprate benefits, tax credits and pensions. From 2012 CPI will also be used to uprate tax and national insurance thresholds. The uprating of benefits is important to the County Council as it is linked to the charges we make for social care. The October indices show a slight reduction to 5% (CPI) and 5.4% (RPI) due to food, air travel and fuel prices.

2.7 Table 1 shows the main economic indicators included in the Chancellor's statements based on the recommendations from the independent Office for Budget Responsibility (OBR).

Table 1

	2009	2010	2011	2012	2013	2014	2015
Growth % (GDP)							
Emergency Budget June 2010	-4.9	1.2	2.3	2.8	2.9	2.7	2.7
Budget March 2011	-4.9	1.3	1.7	2.5	2.9	2.9	2.8
Autumn Statement Nov 2011		1.8	0.9	0.7	2.1	2.7	3.0
Inflation % (CPI)							
Emergency Budget June 2010	2.1	2.7	2.4	1.9	2	2	2
Budget March 2011	2.2	3.3	4.2	2.5	2	2	2
Autumn Statement Nov 2011		3.3	4.5	2.7	2.1	2	2
Net Borrowing (£bn)							
Emergency Budget June 2010	154.7	149.1	116	89	60	37	20
Budget March 2011	156.4	145.9	122	101	70	46	29
Autumn Statement Nov 2011		137.1	127	120	100	79	53

2.8 The OBR assessment of the underlying and forecast levels of growth and inflation are shown in charts 2 and 3.

Chart 2

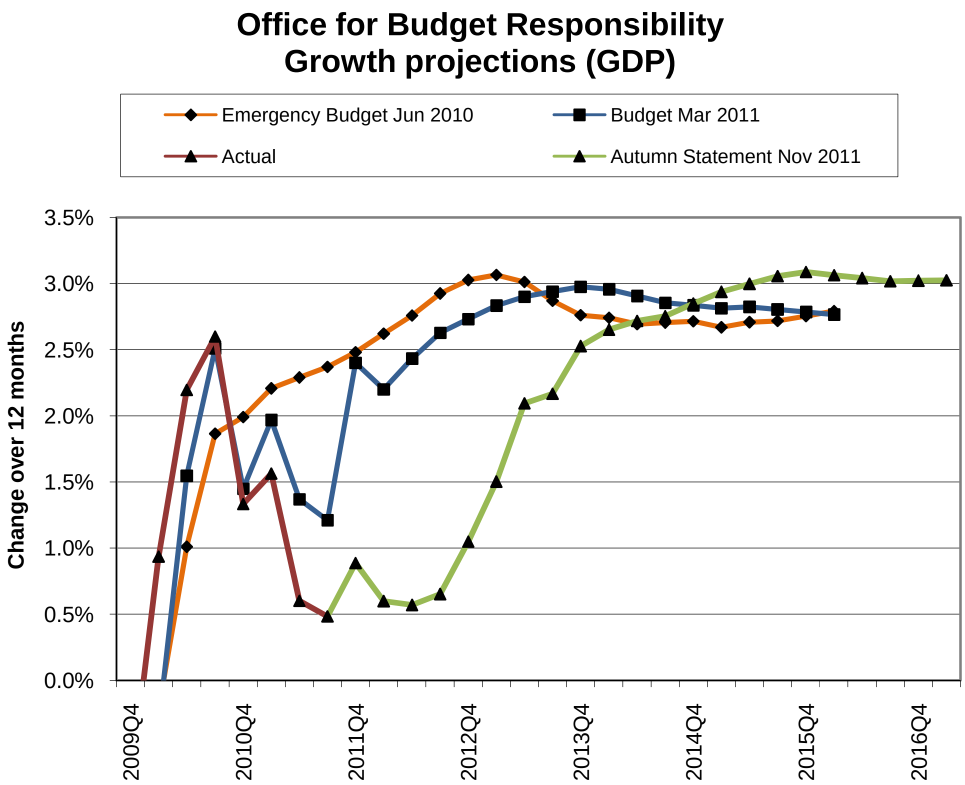
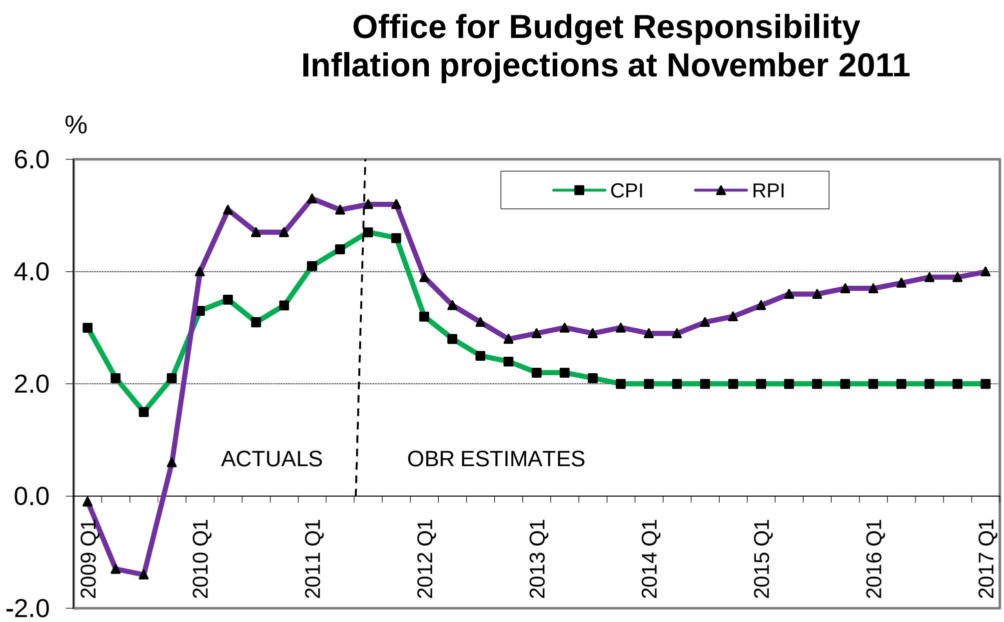


Chart 3



2.9 The Bank of England (BoE) is responsible for monetary and financial stability in the UK. The main tool at its disposal is to control the price of money through setting interest rates via the BoE base rate. The BoE responded to the recession with successive interest rate cuts in 2008 and 2009 and by March 2009 it was down to 0.5% where it has remained ever since. Many economic analysts are predicting that the rate will have to stay at this historic low for some time until the recovery is well established and growth levels are sustainable. It is feasible the BoE may have to consider further quantitative easing if growth continues to remain weak.

2.10 Good economic performance is essential if the Government is to meet its deficit reduction plan. This was based on a combination of recovering the overall tax yield following its decline during the recession and reducing public expenditure as a proportion of the nation's overall GDP. In reducing public spending the expectation was that the private sector would take up the extra capacity so there would not be an overall reduction in GDP. The sluggish recovery has delayed the deficit reduction plan and the government is now not expecting to meet its original target of eliminating the structural budget deficit by 2015/16.

KCC's assessment of the economic position

2.11 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 seemed to have emerged from recession but that recovery was slower than from previous recessions and had not yet returned to the pre 2008 levels. The budget and MTFP reflected the optimism that the economy would recover in 2011 and 2012 and inflation would stabilise.

2.12 As recognised in the Chancellor's Autumn Budget Statement the rate of recovery has slowed during 2011 and is likely to remain sluggish in 2012. Inflation throughout 2011 has been well in excess of previous predictions (mainly due to volatility in commodity prices) although it should fall significantly in 2012 as the effect of the VAT increase in January 2011 has worked through. Contagion of the Eurozone debt crisis presents one of the main risks to the UK economic recovery and the knock on consequences if countries in the EU return back into recession.

2.13 Overall, we are less optimistic about economic recovery than we were when last year's budget and MTFP were set. Although the Chancellor has confirmed the spending limits as per SR2010 we are concerned about the risks of further slow recovery and even a return to recession. We are pursuing a number of initiatives to support the local economy (these are set out in the next section as part of the revenue strategy) but we cannot insulate ourselves from the national economic picture.

Inflation also continues at a much higher rate than expected and we still have potential demand pressures over and above what is reflected in this budget as a result of the difficult financial situation families and businesses face. Finally we have still to agree the full programme of investment in health and social care prevention that has been funded by government grant. As a consequence we have set aside an additional £9.5m in two new reserves; to equalise the impact of one-off funding to support the Council Tax freeze, and invest to save initiatives to deliver substantial savings in future years budgets.

Public Expenditure

2.14 The outcome of the SR2010 was published on 20th October 2010. This set out the total departmental spending plans for 2011/12 to 2014/15. The SR2010 announcement for the Department for Communities and Local Government (CLG) showed some of the largest reductions for any government department, and that reductions in Formula Grant for local authorities would be front loaded with the biggest reductions in 2011/12. Table 2 below shows the spending review totals (note the 2010/11 baseline has been adjusted for the Area Based and Specific Grants transferring into the formula in 2011/12).

Table 2

	2010/11 Baseline £bn	2011/12 £bn	Annual Change %	2012/13 £bn	2013/14 £bn	2014/15 £bn
CLG Total Resource	28.5	26.1	-8.4	24.4	24.2	22.9
Formula Grant funding	28.0	25.0	-10.7	23.4	23.2	21.9

2.15 As already indicated the Chancellor has confirmed that he will stick with the SR2010 spending plans even though economic growth (and tax receipts) is lower than forecast when these plans were set. The Chancellor's Autumn Budget Statement confirmed a 1% pay cap for public sector pay in each of 2013/14 and 2014/15 and that the spending totals would be adjusted accordingly (presumably downwards) although we have no details at this stage.

2.16 The Autumn Budget Statement also included the overall public expenditure totals for 2015/16 and 2016/17. These showed cash increases of £10bn and £13bn respectively. It was stated that these represent a reduction of 0.9% per annum in real terms. The overall spending change is not dissimilar to the changes from 2011/12 to 2014/15 covered by SR2010 but we do not have any detail of the departmental totals to assess the potential impact for local government.

2.17 The overall picture for Formula Grant shows a reduction of an average 21.8% in cash terms over the four year horizon. Within the 2011/12 Formula Grant settlement, £19bn was funded from redistributed business rates and the remainder from Revenue Support Grant (RSG). It is anticipated that during the four year spending review period the annual yield from business rates will exceed the amount identified for Formula Grant. Since all business rates must be returned to local authorities by law it is anticipated the surplus will be used to replace other government grants rather than be available to supplement the Formula Grant settlement. The future of Formula Grant and business rates is considered at more length later in this report.

2.18 In addition to Formula Grant the CLG resource also includes funding for the Council Tax Freeze Grant, New Homes Bonus (NHB) Grant and Transitional Grant. The Council Tax Freeze Grant is fixed for four years to compensate Councils for not increasing Council Tax between 2010/11 and 2011/12 and has now been moved into Formula Grant.

2.19 Initially it was planned that there would be no extra grant to fund further freezes beyond 2011/12 although the Chancellor subsequently announced a one-off grant in 2012/13 to fund a second year of a freeze. The implications of a further freeze are considered later in this section. Transitional Grant was available to a limited number of authorities facing the largest reductions in grants between 2010/11 and 2011/12 (KCC did not qualify for transitional support). NHB grant is allocated to reward new house building and is considered further in paragraph 2.24 below.

2.20 The Council also receives a number of specific grants and un-ringenced grants from other departments which will also be influenced by spending reductions within departmental totals as a result of SR2010. Unlike CLG grants the totals for these grants have not been separately identified over the four year period and thus it is more difficult to predict likely funding levels beyond the 2012/13 settlement.

2.21 The Autumn Budget Statement included the announcement of national funding for an additional 130,000 childcare placements for the most deprived two year olds and incentives to support youth employment. We have identified the additional spending proposals for 2012/13 and we have received an increase in Early Intervention Grant (EIG) to cover this spending. We do not have indicative allocations of EIG for 2013/14 or beyond and we are still quantifying how much we will need to roll out the policy for 2 year olds.

2.22 The Autumn Budget Statement included £4.96bn of additional infrastructure expenditure on schools, green deal incentives, housing, economic growth, rail and roads & transport. At this stage we have not got details of additional capital grants from the spending departments to include in the capital programme.

Local Government Finance Settlement

2.23 The provisional Local Government Finance settlement for 2012/13 was announced on 8th December 2011 and the final settlement confirmed on 31st January 2012. This provides details of the grant allocations for individual authorities. The Formula Grant is the same as the provisional grant announced as part of the final grant settlement for 2011/12 but now also incorporates the 2011/12 Council Tax Freeze grant as a permanent addition. The final grant allocations for 2011/12 and provisional/final for 2012/13 are set out in Table 3 below. Final figures are still awaited for the 2012/13 Council Tax Freeze Grant and Community Safety Fund. The budget agreed by County Council was based on the December provisional settlement. The subsequent in the Learning Disability & Health Reform Grant in the final settlement will be included in the 2012/13 quarter 1 monitoring report to be presented to Cabinet in September. Indicative allocations for 2013/14 and 2014/15 have not been announced.

Table 3				
Grant Name	Govt. Dept.	2011/12 Final £m	2012/13 Prov £m	2012/13 Final £m
Un-Ringfenced Grants				
Formula Grant	DCLG	315.987	303.446	303.446
Council Tax Freeze Grant 2011/12	DCLG	14.342		
One off Council Tax Freeze Grant 2012/13	DCLG	n/a	14.446	tbc
New Homes Bonus	DCLG	1.379	2.839	2.839
Other un-ring-fenced grants				
Extended Rights to Travel	DfE	1.546	1.918	1.918
Inshore Fisheries	DEFRA	0.138	0.138	0.138
Lead Local Flood Authorities	DEFRA	0.260	0.750	0.750
Community Safety Fund	HO	1.246	0.631	tbc
Sub Totals		**334.898**	**324.168**	
Early Intervention Grant	DfE	50.286	54.883	54.883
Learning Disability & Health Reform Grant	DH	34.768	35.627	35.706
Specific Grants				
Dedicated School Grant	DfE	877.142		tbc
Pupil Premium Grant	DfE	11.976		tbc
Standards Fund	DfE	0.816		tbc
PFI	DfE	16.859		tbc
Environmental	DEFRA	1.205		tbc
Drugs Strategy	DH	2.272		tbc
Asylum	HO	15.111		tbc

2.24 KCC's NHB grant was used in 2011/12 to support the overall budget rather than for any specific purpose. Although the grant has grown significantly for 2012/13, this is part of a planned 6 year roll-out, the majority of which has been funded at the expense of Formula Grant. Therefore, once again the grant has been used to support the core budget as in effect most of the increase has been funded at the expense of Formula Grant.

2.25 The increases in Learning Disability and Health Reform Grant and Lead Local Flood Authorities were already factored into the income projections in the existing Medium Term Financial Plan (MTFP). At this juncture we are estimating that these grants will continue at the same levels as 2012/13 in real terms for 2013/14 and 2014/15. Most of the increase in the Early Intervention Grant was included in the existing MTFP although we have included the new responsibility for free entitlement for 2 year olds into the budget and MTFP. We will need to closely monitor EIG as it is feasible that further cuts could be applied in 2013/14 or 2014/15 together with a further round of transitional damping and additional funding for 2 year olds.

2.26 Overall the authority is facing a reduction in Formula Grant of £26.9m (8.1%) for 2012/13 (excluding the transfer of the 2011/12 Council Tax Freeze grant). Based on the SR2010 total we can expect a further reduction in Formula Grant in 2013/14 and 2014/15 (estimated £9m and £22m respectively) as well as potential reductions in other grants. The net reduction in grants which count towards KCC's overall funding (excluding those grants referred to in paragraph 2.25 which are treated as service income) i.e. Formula Grant, New Homes Bonus and Council Tax Freeze is £10.7m.

2.27 We will continue with the existing strategy that where there are reductions in specific grants we will have to reduce spending on a like for like basis as the authority cannot afford to substitute discretionary funding to replace lost specific grants.

Education Funding and Dedicated Schools Grant (DSG)

2.28 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). The grant is determined as a guaranteed unit of funding (GUF) per pupil with an overall cash floor.

2.29 The GUF for 2012/13 is the same as for 2011/12 i.e. £4,885.37. Schools have a Minimum Funding Guarantee (MFG) which ensures their overall grant cannot reduce by more than 1.5% per pupil. An overall grant which is the same cash per pupil and MFG of -1.5% per pupil allows some headroom for local variations in the distribution of grant to individual schools.

2.30 The local authority is responsible for determining the formula used to allocate funding to individual schools. The budgets for the majority of schools are still determined by the formula although the existence of MFG makes it difficult to make any significant changes or correct previous inequities (particularly in relation to the allocation of former Standards Fund, determined by government and not the local authority). The formula is agreed by the local authority following consultation with schools and the Schools' Funding Forum.

2.31 The budget for 2012/13 includes the delegation of an additional £11.4m to schools within the DSG. This delegation goes some way to ensuring that the budgets for KCC maintained schools are similar to the budgets for academies.

2.32 A separate Pupil Premium was introduced in 2011/12. This grant is passed on in full to schools and for 2012/13 equates to £600 per child eligible for a free school meal or looked after by the authority and £250 per child from armed service families. The number of children eligible for the Pupil Premium has been extended.

Possible Changes to the Local Government and School Funding arrangements from 2013/14

2.33 During the summer the Government launched three significant consultations affecting local authority and school funding. The deadlines for responses to all three consultations were all in October. The consultations cover the following issues:

- Business Rates Retention
- School Funding
- Localising Council Tax Benefit

Business Rates

2.34 The consultation on business rates retention proposed in effect to cement the existing national redistribution of business rates (as per the 2012/13 damped Formula Grant allocations) through setting each authority a baseline. Local authorities would be allowed to keep any additional business rates growth in future over and above the level assumed in the baseline. Under the proposals businesses would still pay the same rate of local tax which would continue to include the nationally set multiplier, valuations and reliefs. The Localism Bill may allow local authorities some further discretion to apply discounts but the impact would have to be funded out of a council's overall resources and would not attract central government funding.

2.35 Under the proposals the overall resources available for local government would still be constrained to the level set out in SR2010 (as above). This means the baseline would have to be scaled down from the 2012/13 levels and is likely to mean that in total the assumed level of the business rates within the baseline would be less than the business rates yield. The likely outcome is that for 2013/14 and 2014/15 the excess business rates would be used to fund other grants to local government rather than be available to supplement local government spending. Furthermore, the consultation suggested that from 2015/16 onwards the responsibilities of central and local government will need to be adjusted to reflect the level of business rates yield (this is likely to mean additional responsibilities for local government but these would have to be funded from business rate income rather than government grant). One of the crucial factors in the proposed new system will be the assumed level of business rates within these calculations.

2.36 The consultation proposals mean that individual local authorities would face potential volatility due to changes in business rates. As it stands the government is suggesting that the tariffs and top-ups would be adjusted for the impact of the annual changes to the national multiplier and mandatory reliefs, and the five yearly impact of the review of rateable values. If implemented, individual local authorities would only benefit/suffer from changes in the tax base. The consultation also suggested the introduction of a “shock pot” to help authorities that faced an unmanageable reduction in the tax base and/or low growth combined with significant additional spending needs. This shock pot would be funded either by a levy on all authorities or only from those with excessive increases in the business rate tax base.

2.37 The draft Local Government Finance Bill was introduced on 19th December following the conclusion of the consultation. The Bill provides for many of the aspects included in the consultation but will not come into effect until April 2013. At this stage the MTFP is based on our best estimate of the impact and with much of the detail still to be finalised.

Schools Funding

2.38 The Government has conducted a two stage consultation about reform of school funding. The consultation took place amid the backdrop of talk of a possible National Funding Formula. It now seems that the government is favouring a national framework with the ability for local variations (with the possibility of an expanded role for the Schools’ Funding Forum). The proposals also include a clearer and fairer approach to setting academy budgets.

2.39 The Department for Education have proposed that the current DSG system (which essentially provides a single amount per pupil) be replaced by a grant containing four blocks (schools, high needs pupils, early years and central services).

2.40 The schools block would presume full delegation to schools and academies although some defined services may be retained locally for maintained schools if approved by the Schools' Funding Forum. The schools block would either be built up based on a simple national "shadow" formula for each school or determined in a similar way to the current system as an amount per pupil. The actual budget for each school could still be determined by a local formula although the number of factors would be limited and set nationally and the government is considering setting a national ratio for secondary to primary school funding with limited scope for local variation.

2.41 The high needs block would provide additional funding for high cost special needs pupils including those in special schools, out county placements and alternative education. The government is considering a simple flat rate with top-ups according to need type. The early years block would cover payments for free entitlement for 3 and 4 year olds. The central services' block would cover those services funded out of DSG but not delegated to schools.

2.42 The outcome of this consultation is not expected until at least March 2012 with implementation from April 2013 which will include a long transitional period.

Localising Council Tax Benefit

2.43 The proposals in this consultation are likely to have a much greater impact on district councils than the County Council but need to be considered in setting out the budget strategy. Currently district councils assess eligibility for Council Tax benefit and claim the full cost of both the administration and the impact on their Council Tax collection funds. In effect this means the full cost of Council Tax benefit is funded by HM Treasury.

2.44 Under the consultation proposals local authorities would receive a single grant equivalent to current spending on Council Tax benefit in their locality less 10%. The districts would be responsible for determining their own criteria for eligibility for Council Tax benefit. The Government has proposed that the benefit for older people and other vulnerable adults would be protected.

2.45 The main benefits and risks will fall on district councils although in two tier areas the Government has suggested districts may wish to work in partnership with the upper tier authority to develop joint schemes. The main risk to local authorities stems from the grant being capped but Council Tax benefit remaining demand led. It is understood the government is considering allowing greater discretion on Council Tax discounts which could increase the tax base and go a long way to addressing concerns. Any changes to Council Tax benefit would not be implemented until April 2013.

KCC Medium Term Financial Plan

SECTION 3

Revenue Strategy

REVENUE STRATEGY

Introduction

3.1 We began this journey 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 next 4 years in real terms (i.e. after allowing for the effects of additional spending pressures and reductions in government funding).

3.2 Our net loss of funding (grants and Council Tax) for 2012/13 is £4.7m, with further predicted losses of £24m in 2013/14 (including the loss of one-off support for Council tax freeze) and £19m for 2014/15. Details of the individual grants for 2012/13 are included in section 2, paragraph 2.23 in Table 3 and in the budget book.

3.3 We are planning for additional spending pressures of £95.2m in 2012/13, with £58m and £52m in each of the following two years, the vast majority of which is unavoidable. The £95.2m for 2012/13 is significantly more than the £35m included in the previous MTFP. The main reasons are as follows:

- £15m is presentational as in the published MTFP we offset the reversal of one-off savings for 2011/12 against those savings whereas in 2012/13 we are showing this as a pressure.
- £11m is presentational as in the published MTFP we had the removal of time limited amounts from previous years shown as a negative pressure which has now been moved to savings.
- £23m is pressures on children's services which we could not have foreseen at the time we set the last MTFP, relating to the full year effect of addressing issues arising from the OfSTED inspection. This includes additional placements for children as we have cleared the backlog of cases, the recruitment of a full team of children's social workers and the new workforce strategy for children's social care on top of the one-off actions needed to the social care improvement plan which was funded in the 2011/12 budget.
- £16m of spending funded by health monies which is to be used for the medium and long term benefit on health and social care budgets.
- £9.5m contribution to new reserves for Council Tax Equalisation and Invest to Save.

3.4 The impact of the net loss of funding of £4.7m and the £95.2m of additional spending demands means that we need to make £99.9m of savings/income generation in 2012/13 in order to balance the budget. This represents a substantial challenge and a savings/income target of a similar magnitude to the savings we had to make in 2011/12. The additional spending demands on children's services are the main reason why the savings target is greater than it otherwise would have been.

3.5 We have £62.9m of savings already identified in the previous MTFP. £21.4m of these represent the full year effect of savings already made in 2011/12 and require no additional effort to achieve. Plans are well developed to deliver the remaining £41.5m of savings identified in the previous MTFP (these represent savings which would not start to be delivered until 2012/13) and we are on schedule to meet this target. The proposals for the remaining £37m are set out in Appendix A of this document and are flagged as new savings in individual portfolio plans.

3.6 We have made some changes to the presentation of the budget and MTFP to make it more transparent and to focus on the significant issues. We made some presentational changes in 2011/12 to make the budget more understandable through the introduction of an A to Z of services rather than analysing spending by cabinet portfolio. By and large these changes have been well received and we have built on this for 2012/13 so that Council Members, the residents of Kent and other interested parties have a clearer picture of the proposed budget and how it has evolved from the current year.

3.7 We have published a high level 3 year strategic plan together with the draft budgets for 2012/13. This plan sets out our best estimates of the financial challenge summarised in this introduction and our overall strategy to deal with it, whilst recognising that the second and third year estimates could be volatile. Unlike previous plans we are not proposing to break this down into individual portfolios. Setting individual 3 year plans for portfolios at a time when spending was rising made sense, but a time of budget reductions we think it more important to set out a plan which clearly identifies the overall challenge and our intended direction of travel with more detail about the proposed response set out in the annual budget, where estimates of both funding and additional spending demands are more robust.

3.8 Within the high level strategic plan there are £54m of savings/income for 2013/14 and £21m for 2014/15 with specific actions identified. These arise either from the full year effect of 2012/13 proposed savings or are the extension of actions already agreed in the existing MTFP. The remaining savings (£28m for 2013/14 and £50m for 2014/15) still need the final details to be agreed. The proposed budget strategy sets a target to deliver these savings under the themes of reducing demand, personalisation of services, localism and incentivisation. These targets may need to be flexible as detailed proposals are put forward for consideration prior to the finalisation of each year's budget but in agreeing the MTFP the County Council is asked to agree that the overall target must be achieved.

3.9 The three year plan demonstrates the impact on savings/income requirement if we continue to freeze Council Tax with no support from government grant. This is one of a number of possible scenarios and decisions on future levels of Council Tax will be taken by County Council when it considers and agrees future years' budgets.

Response to the 2012/13 Provisional Settlement

3.10 The County Council responded to the provisional settlement on 16th January. In this response we welcomed that government had not made any changes from previous indicative allocations and that the 2011/12 Council Tax freeze grant has been embedded into the Formula Grant for 2012/13 and beyond. Both are a benefit to financial planning.

3.11 We re-iterated our concerns about the current Formula Grant model particularly as it is proposed to be used as the baseline for the new funding arrangements under the draft Local Government Finance Bill. In particular we have continued to raise our concerns about the disparity in grant allocations between shire and urban areas which would become crystallised into the new arrangements. We have asked ministers to reconsider a more equitable redistribution of the business rates as part of the new arrangements. We also expressed concerns, that if the existing Formula is to be used for the baseline, that we have no indicative allocations for 2013/14 on which to base financial models.

3.12 We also re-iterated our concerns about top-slicing funds from Formula Grant to fund New Homes Bonus grant and the 80/20 split of this between lower and upper tier authorities.

Strategy for Resource Allocation

3.13 Our strategy for balancing the Budget has been based on the following principles:

- Freezing Council Tax for 2012/13 at the same level as 2011/12.
- Reduce to an absolute minimum additional cost increases on service delivery by resisting as far as possible price increases for bought-in services.
- At the same time we have to accept that in many cases additional spending demands are unavoidable and need to be adequately planned and funded.
- Continuing to drive out efficiency savings through more effective commissioning and procurement, eradicating duplication, ceasing non essential expenditure and delivering a lean organisation which continues to work effectively and as one organisation.
- Maximising income potential and determining which services we can provide for others at a viable price, which services we should

continue to provide ourselves from tax revenues, and which services can be bought in or provided by other organisations.

- Undertaking an ongoing review of our level of reserves (see Appendix F)
- As a last resort, we have had to make some difficult policy decisions relating to some of our service provision.

Appendix A(iii) sets out how this overall strategy is translated into individual Portfolio plans for 2012/13 and Appendix A(ii) provides a detailed summary for the whole Council.

3.14 We are also committed to maintaining our ambitious capital programme wherever possible, which will see investment of £692m over the next three years. Section 4 sets out the Authority's Capital Strategy.

3.15 Our process ensures that, even in the current climate, our resources reflect local priorities. We have frozen Council Tax for a second year, meaning that residents will not have to pay any more Council Tax for the services they receive from Kent County Council. This means Council Tax will have increased by 2.1% over 3 years since 2009/10, inflation has increased by nearly 9% over the same period. Although this freeze has been supported by government grant for 2012/13 this is only a one-off and we will need to identify compensating savings for 2013/14 and beyond in order to avoid coming back and asking residents to pay more in the future to cover this year's freeze. Through driving out as many efficiency savings as possible by improving the way we do things, and maximising income potential across the Authority, we have protected as many services as possible from cuts.

3.16 In addition to the formal consultation on the specific budget proposals we also engage in a range of informal consultations on the budget with Kent residents, the Kent Youth County Council, trade union representatives, business organisations, and elected Members of the County Council, to help inform spending priorities.

Strategies to Support the Local Economy

3.17 Within the proposed budget and MTFP we have embarked on a number of initiatives to support the local economy to help Kent to be well placed to recover from the economic recession. These initiatives are summarised in Table 4 over the page which shows the amounts included in KCC budgets, the value of other funds anticipated to be levered in and the potential benefits to Kent.

Table 4				
Initiatives to support economic growth	**Capital £000s**	**Annual Revenue £000s**	**Funds Levered in £000s**	**Estimated Benefits**
Expansion East Kent		687	(1) 350,000	5,000 jobs
Empty properties	11,900	360		1,540 houses
Margate Housing Intervention	10,000		10,000	300 houses, 450 jobs
Kent and Medway Investment Fund	2,000	250	(2) 200,000	(3) 3,000 jobs
Growth Without Gridlock	10,000	500	Unknown	Easing congestion
Broadband Infrastructure	10,000	231	33,000	
Comprehensive 18-24 work package		2,000		660 jobs
Local Authority Mortgage Scheme (LAMS)	12,000	25		800 mortgages

[1] Funds levered £350m, of which £40m direct leverage through the Government's Regional Growth Fund (RGF). The remaining leverage funding reflects the target private sector investment that the RGF programme aims to unlock. This is based on experience of private sector leverage ratios in other business grant assistance schemes.

[2] Kent and Medway Investment Fund - Funds Levered £200m (*) Based on 1:10 leverage ratio achieved under the 'Evergreen' Fund in the North West. This total sum includes District Councils' contributions.

[3] Kent and Medway Investment Fund – Estimated Benefits 3,000 jobs (*) Based on experience under the 'Evergreen' Fund in the North West.

Budget 2012/13, 2013/14 and 2014/15

3.18 Table 5 below shows the estimated budget position resulting from our forecast available resources over the next two years.

Table 5				
Estimated budget position over the next 3 years	**2012/13 £m**	**2013/14 £m**	**2014/15 £m**	**Cumulative Total £m**
Base Budget Requirement	909	904	880	909
Estimated Funding Change	-5	-24	-19	-48
Affordable Budget	904	880	861	861
Base Budget Spending	909	904	880	909
Additional Spending Demands	95	58	52	205
Savings Requirement	-100	-82	-71	-253
Proposed Budget Requirement	904	880	861	861

3.19 Table 6 below shows the cash limit by Portfolio for 2011/12 and agreed budget for 2012/13.

Table 6 - Budget Position 2011/13		
	2011/12 Revised Base Budget £'000	**2012/13 Agreed Budget £'000**
Adult Social Care and Public Health	348,162	336,004
Business Strategy, Performance and Health Reform	55,537	52,738
Customer and Communities	91,498	79,926
Democracy and Partnerships	6,856	7,212
Education, Learning and Skills	69,978	59,520
Environment, Highways and Waste	148,738	149,535
Finance and Business Support	48,725	62,363
Regeneration and Enterprise	4,560	3,672
Specialist Children's Services	135,000	153,351
TOTAL CASH LIMITS	**909,054**	**904,321**

3.20 Table 7 shows the proposed gross and net budget position for 2012/13 for each Portfolio.

Table 7 - Gross Expenditure and Income 2012/13	Gross £'000	Service Income £'000	Net Exp. £'000	Govt. Grants £'000	Net Cost £'000
Adult Social Care and Public Health	452,204	-116,200	336,004	0	336,004
Business Strategy, Performance and Health Reform	89,961	-31,739	58,222	-5,484	52,738
Customer and Communities	131,246	-49,772	81,474	-1,548	79,926
Democracy and Partnerships	7,472	-260	7,212	0	7,212
Education, Learning and Skills	920,162	-148,154	772,008	-712,488	59,520
Environment, Highways and Waste	176,834	-26,052	150,782	-1,247	149,535
Finance and Business Support	176,260	-20,999	155,261	-92,898	62,363
Regeneration and Enterprise	5,174	-1,502	3,672	0	3,672
Specialist Children's Services	217,877	-5,745	212,132	-58,781	153,351
TOTAL BUDGET REQUIREMENT	**2,177,190**	**-400,423**	**1,776,767**	**-872,446**	**904,321**

See approved Budget Book 2012/13 for detailed proposed revenue budgets for each service.

3.21 Our approved budget provides for the following major new investments for 2012/13:

- Fully funding the demographic pressures in Adult Services (£6.7m), resulting from the ageing population and more adults with increasingly complex needs, meaning that we continue to be able to provide the same high level of care, despite the increased service demand and cost.
- Additional funding of £14m in response to the increased demand in Looked After Children within Children's Social Services.
- Investment of £3.5m in Children's Social Care recruitment to social worker posts.
- £2.8m investment in Children's Social Care Prevention strategy.
- Investment in schemes which will help achieve Growth without Gridlock as part of our commitment to regeneration and economic development that has attracted £40m of funding from the Regional Growth Fund.

- Financing the Capital Programme to ensure we continue to deliver new facilities and improved infrastructure for our residents, businesses and visitors.

3.22 Our approved budget includes the following major areas for savings in 2012/13:

- Continued savings from staffing efficiencies and rationalisation of premises £18.9m
- Changes to procurement of contracts £13.7m
- Demand management £6.2m
- Service Reforms and Service Reductions £9.3m

3.23 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):

- Eligibility criteria for Adult Social Services (the point at which we intervene to provide help and support) at the moderate level, which is more generous compared to most other authorities, meaning we support more people at the earlier preventative stages of help and support;
- Entitlement to the Freedom Pass; an innovative and popular initiative;
- Community Wardens;
- Community Grants;
- Library services;
- The Gateways Programme

3.24 Our Budget reflects:

- A freeze in Council Tax for the second consecutive year
- A decrease in the net budget requirement of 0.5%
- A decrease in Government Formula Grant of 8.1%, offset for one year only to 3.8% as a result of the one off Council Tax Freeze Grant.
- An increase in the Council Tax base of 0.74%.

Resource Management

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

3.26 Our Commercial Services Team and our Companies generate significant annual income to support the Revenue Budget. As well as the proposed £7.8m surplus generated by Commercial Services (which is the equivalent of 1.3% on Council Tax), we have a number of services that we provide to other Councils, at their request, which deliver further net income to KCC and value for money for the purchaser.

Sensitivity Analysis

3.27 Our budgets are constructed using sound and prudent assumptions over spending, inflationary pressures and our ability to realise additional income generation and efficiencies. We are confident that the cash limits set can and will be adhered to.

3.28 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. In 2011/12 we increased the totality of general reserves to £31.725m which equates to over 3% of net expenditure to cover unforeseen circumstances. This is considered a reasonable level of reserves to manage risk.

3.29 We are proposing to drawdown a further £5m from reserves in 2012/13 in addition to the £14m borrowed to balance the 2011/12 budget. As a general rule we would not recommend using such reserves to balance the budget and the approved MTFP includes plans to start repaying the £14m of reserves in 2013/14.

Conclusion

3.30 The Government has set us a massive challenge to lead the way in making public expenditure reductions. In our approved budget, we have followed our revenue strategy, minimising price pressures and cost increases and driving out efficiency savings across the organisation. To help smooth the impact of the front-loading of the Government Grant reductions, we have also undertaken a thorough review of our level of reserves. It has been a real challenge, but our approved budget reflects the structural changes which will ensure we have a lean and efficient organisation, fit for the economic climate we face. Our planned savings will impact on the least possible number of services and will ensure we continue to look after the vulnerable young and old in our care. Our approved budget includes a number of significant investments to help meet the aims set out in Bold Steps and in particular to help foster business growth in the County as the economy strives to recover.

KCC Medium Term Financial Plan

SECTION 4

Capital Strategy

CAPITAL STRATEGY

INTRODUCTION

4.1 Kent County Council's (KCC's) capital strategy is based on the key principle that the Council's capital investment should be deployed where it can make the most impact for the benefit of the people of Kent and deliver improvements in essential services.

4.2 Capital investment shapes the future. This strategy is therefore a key element of KCC's medium and longer term planning process. It sets out the strategic direction for the council's capital investment plans and its approach to managing the Council's asset.

4.3 The capital strategy forms an integral part of the strategic financial and service planning that is part of the annual budget setting process and supports decisions on capital investment under the prudential system. KCC's budget planning processes are robust and integrate its capital and revenue budget planning processes so that coherent decision making can take place on a level of borrowing that is prudent, affordable and sustainable for the authority.

STRATEGIC FRAMEWORK

4.4 The current national economic situation, outlined in Section 2 of this MTFP, applies equally to the capital finance environment and means that the level of resources available for the capital programme over the medium term is uncertain. However, the Capital Strategy is set within the overall context of KCC's strategic plans, that are set out in:

- *"Bold Steps for Kent"*
- *"Vision for Kent"*

4.5 "Bold Steps for Kent" is Kent County Council's medium term strategic plan, and sets out the vision for how KCC will deliver services over the next four years, whilst meeting the challenge of delivering substantial budget savings. The plan is focused on three key ambitions:

- *Helping the Kent economy to grow*
- *Putting the citizen in control*
- *Tackling Disadvantage*

4.6 The "Vision for Kent" is the countywide strategy for the social, economic and environmental wellbeing of Kent's communities. This sets out a 10-year vision centred on the same three ambitions for the County. KCC's capital investment is driven towards supporting these ambitions, whilst seeking to rationalise and co-locate our assets with partner agencies where possible and appropriate.

4.7 All new bids to the Capital Programme must indicate how they align with the ambitions set out in Bold Steps for Kent & Vision for Kent.

4.8 The capital strategy links the themes in the Council's strategic plans with those reflected in its service and functionally based strategies and plans. As such it provides the framework in which the key strategic objectives of KCC are linked with the investment needs reflected in documents such as the local transport plan. The linking together of these strategies and plans provides a framework within which informed decisions are taken on the Council's programme of capital investment.

Asset Management

4.9 There are linkages between the capital strategy and the corporate Asset Management Plan (AMP). The capital strategy sets the corporate framework within which the corporate AMP provides supporting information on the asset portfolio and its performance in meeting service objectives. Information on assets has been used to determine budget allocations for capital modernisation expenditure. Asset Management Plans are used to determine the priority areas of investment.

Corporate Landlord

4.10 Since 1 April 2011, property resources and expenditure are managed through a 'corporate landlord'. This means that most properties and property budgets are held centrally instead of by the service directorates. This enables the Council to manage and prioritise across the organisation and direct property resources and expenditure to where they are needed most, as well as aligning the portfolio to corporate objectives such as "Bold Steps for Kent".

Workplace Transformation

4.11 KCC has embarked upon a programme of workplace transformation which aims to maximise the use of the County Office estate, bringing together strategic issues around the location, size and format of KCC's offices in the 21st Century, whilst generating net revenue savings on rent, running and related costs.

The Growth Agenda

4.12 Kent has significant potential for growth. Recent years have seen major investment in the county's transport infrastructure, the expansion of Ashford and the Thames Gateway and the start of a renaissance in our coastal towns.

4.13 Delivering Bold Steps sets out how KCC will work with our partners to unlock the county's potential by creating the conditions for growth in the long term and acting now to support jobs and businesses in difficult economic conditions. Major commitments and new opportunities include:

Investing in Infrastructure

4.14 In December 2010, KCC published its transport delivery plan for Kent, **Growth Without Gridlock**. We have committed £10m towards this in the 2012/15 MTFP. The Department for Transport has committed to pay for a feasibility study for an additional lower Thames crossing. In addition, we are working to maximise the benefits of High Speed One, improving the speed of rail connections to East Kent.

4.15 KCC is committing £10m - matching funding from Government - to transform Kent's **broadband infrastructure** and attract additional private sector investment.

4.16 The Government has recently announced the creation of the £500 million **Growing Places Fund** to deliver new homes and jobs by unlocking stalled sites. The Growing Places Fund will be allocated from January 2012 to deliver infrastructure upfront and recycle the investment locally. The South East Local Enterprise Partnership (SELEP) has secured £32.5 million through the fund which KCC will be working with our partners to invest.

Investing in Business

4.17 KCC has secured £40 million investment in East Kent through the Government's £1.4 billion **Regional Growth Fund.** This will deliver Expansion East Kent, a programme of grant support to business which aims to create 5,000 jobs to unlock private sector finance.

4.18 We are supporting the development of **key growth sectors** through a series of sector conversations with business. In particular, our major focus on the future of Discovery Park at Sandwich has so far secured over 650 jobs mainly in the life sciences sector and we are working to build job opportunities at all levels in the county's offshore wind industry.

Investing in Homes

4.19 Changes in the planning system have provided an opportunity for local authorities to work together to set out a clear vision for the county's growth, building on the success of the **Kent Forum Housing Strategy.**

4.20 We are also seeking to improve access to the housing market through initiatives such as the Local Authority Mortgage Scheme, aimed at helping first time buyers who can afford mortgage repayments but not the large deposits that the market currently demands.

4.21 All of these funds and schemes will aid KCC in achieving its top priorities as set out in Bold Steps for Kent, and as schemes come to fruition, will form part of the capital programme.

CAPITAL INVESTMENT PLAN

4.22 Table 8 summarises by Portfolio the capital investment plan. Details of the projects and schemes included in the plan are shown in the Budget Book pages in Section 3.

Table 8 – Total Affordable Capital Investment Plan 3 Year Programme 2012/13 – 2014/15	
Portfolio	**Capital Resources £'000**
Adult Social Care & Public Health	89,165
Business Strategy, Performance & Health Reform	22,476
Customer & Communities	15,697
Education, Learning & Skills	295,945
Environment, Highways & Waste	167,795
Regeneration & Enterprise	101,170
Specialist Children's Services	221
Total	**692,469**

4.23 Despite continuing challenges in light of the economic situation, we have retained an ambitious capital investment programme. This reflects our commitment to delivering real improvements to schools, roads and social care facilities as well as making investment in libraries, adult education, arts, community facilities and projects encouraging regeneration and income generation to the County. More specifically, we are investing in the following over the next three years:

- £125 million in general school improvement and modernisation,
- £141 million in Highways related projects,
- £117 million in Regeneration and Communities projects, including the Margate Housing project.
- £5 million in IT Capability and Infrastructure.

4.24 The preparation of the medium term investment plan includes an assessment of both capital financing costs and the impact on running costs of individual projects. The resultant data is used to inform the decision making in the development of the medium term financial plan. Through this process the affordability of the revenue implications of capital investment is considered in the context of forward financial forecasts for revenue expenditure and competing demands for resources.

FUNDING

Government Support

4.25 The Government supports local authority capital investment by providing capital grants or by increasing revenue grants which can then be used to underpin increased borrowing costs where capital expenditure is financed from loans. However, the increase in revenue grant does not fully reflect the additional costs of the borrowing, although it is impossible to say precisely how much is truly ‘supported’. For 2012/13 all government support is grant funded, for future years this is not certain due to the potential changes in Local Government funding, although support is expected to be all grant funded within the spending review period.

Capital Resources

4.26 The Government issued details of its capital directions in December 2011. Table 9 shows details of these.

4.27 The capital resources for Environment, Highways and Waste are known for 2012/13, the 2013/14 and 2014/15 figures are indicative at this time. For Adult Social Care and Education only 2012/13 allocations are known. Indications from the Government suggest that funding for schools maintenance will continue to be in line with previous year’s allocations, however, there is a risk that these may reduce as more schools transfer to Academy status. Our strategy is to spend what we are allocated and no more.

Table 9 – Government Capital Directions				
		Grant 2012/13 £'000	**Grant 2013/14 £'000**	**Grant 2014/15 £'000**
Education and Early Years	Basic Need	14,278	Awaiting allocations	
	Capital Maintenance	18,053		
	Devolved Formula Capital	4,006		
	Total Education and Early Years	**36,337**		
Environment, Highways and Waste	Integrated Transport	8,746	8,746	12,299
	Highways Capital Maintenance	23,986	22,473	21,328
	Total Environment, Highways and Waste	**32,732**	**31,219**	**33,627**
Social Care	Adult Services	3,186	Awaiting allocations	
	Total Social Care	**3,186**		
	Total	**72,255**		

4.28 Demand for capital investment exceeds amounts provided by Government and other sources. With available capital resources continuing to be constrained, we will make additional use of prudential borrowing in the 2012/15 plan in order to accelerate improvements in facilities as well as to continue to address backlog maintenance issues in roads and buildings.

4.29 Over the next 3 years we currently estimate that around 66% of our capital investments will be largely determined by national directions (supported borrowing, grants (from CLG, DfE, DfT), and PFI funding). However, within this we continue to do all we can to ensure that the needs and priorities for local people are achieved.

4.30 Detailed in Table 10 is a summary of the current estimates of resources that are included in our Plan. The capital planning process that KCC has in place ensures that schemes do not progress unless all the required resources are in place. If the expected funding is not in place there is then the opportunity to abandon, reprioritise or reconfigure the scheme or project.

Table 10 – Investment Plans to 2012/15 Summary of Resources 3 Year Programme 2012/13 – 2014/15	
	Capital Resources £'000
Borrowing	167,363
PEF2	7,924
Grants	374,230
Developer Contributions	8,978
Other External Funding	5,858
Revenue & Renewals	35,920
Capital Receipts	21,776
PFI Funding	70,420
Total	**692,469**

Borrowing

4.31 As shown in the table above the level of borrowing requirement calculated for the 3 year period 2012/13 – 2014/15 is £167 million. This is a combination of prudential borrowing to be met from additional provision in the proposed revenue budget, and prudential borrowing which is to be serviced from reprioritising existing revenue budgets, principally for Workplace Transformation and Sustaining the IT infrastructure.

4.32 Decisions to take on additional (prudential) borrowing flow from an analysis of the strategic assessment of the authority's present asset base, identification of investment needs, prioritisation of those needs set within the context of available capital resources including capital receipts, capital grant and revenue contributions. These decisions form the basis on which medium term investment plans are developed.

4.33 Resource forecasts have regard to predicted levels of borrowing capacity and grants, forecast capital receipts, developer contributions, other external funding and revenue finance. Affordability of the costs of borrowing within medium term planning for the revenue budget will become an increasingly important factor in the determination of the size of the forward programme, particularly in periods of rapid population growth and Government Grant reduction.

4.34 We are also guided by one of our fiscal indicators which states that borrowing costs, excluding PFI finance costs, will be no more than 15% of our net revenue budget. Appendix D (Fiscal Indicators) Table 1 shows the impact of our capital programme on this indicator which remains within the 15% limit.

4.35 Section 5 of this report sets out the Treasury Strategy that supports our estimated borrowing in the medium term, and Appendix B details the prudential indicators for capital expenditure and treasury management.

Capital Receipts

4.36 Facilities can be improved or replaced by using capital receipts arising from sale of associated property or land. The 2012/15 capital plan includes £22 million of earmarked receipts being used in this way. Schemes which are still proposed to be financed from earmarked receipts are dependent on the relevant disposal taking place as identified within the plan. Because of the fall in expected and realisable capital receipts, PEF2 was established in 2008.

Property Enterprise Fund (PEF) 1 & 2

4.37 Property Enterprise Fund 1 (PEF1) generates capital receipts from selling non-operational and surplus land and buildings. This creates a funding stream which is used for the strategic acquisition of land and property to add value to the Council's property portfolio, aid the achievement of economic and regeneration objectives and the generation of income.

4.38 Property Enterprise Fund 2 (PEF2) was an initiative approved in September 2008 which was established to ease the effects of the downturn in the property market on the delivery of the capital programme. By having an agreed overdraft limit of £85 million, this allows £85 million worth of capital schemes to continue going ahead that would otherwise have had to be cut.

4.39 This short term borrowing is taken against land/properties which were anticipated to be sold to fund the capital programme, but in reality will now not be sold until land values recover.

4.40 With the property market taking longer than expected to recover, and holding costs & interest on the fund continuing to mount, we may need to review the strategy whether we hold on for the recovery or opt for a more aggressive disposal strategy now; recognising that this could result in some losses compared to forecast amounts. We must also consider how we can utilise our assets in the most effective way to support the Council's priorities.

Government Grants, Developer and Other External Funding

4.41 HM Treasury provides resources such as grant (or supported borrowing) and the final allocation of grant or support for borrowing is made by the various Government departments. The exact form of allocation provided can vary from one year to another. KCC's funding assumptions beyond what has been announced for projects in future years could therefore be subject to change in line with the actual form of support provided.

4.42 During 2012/15, 56% of the capital programme (£389m) is expected to be financed from grants (£374 million), other external funding (£6 million) and developer contributions (£9 million).

4.43 The Government directs an element of Government grant for specific purposes, e.g. in 2012/15 £12 million is for devolved capital which is passported directly to the schools

4.44 Developer contributions are a source of external funding. These are included where there are expectations that new housing developments will need to contribute to the cost of roads infrastructure or will generate demand for new school places and community facilities. The current housing market is dictating the speed of the new housing developments, and the infrastructure and financial contributions from developers are negotiated to be incurred/ paid at particular stages of a development. The precise timing of the expenditure and funding is therefore still subject to the prevailing economic conditions. The level of budgeted developer contributions has fallen significantly from £28m in 2011/14 to £9m for 2012/15.

4.45 Funding from external organisations is a valuable source of capital finance for KCC and we will continue to attempt to maximise the amount of external income available. However this is not always easily predictable into the future and the council realises that this is a source that cannot be depended on. This funding source has also reduced from £11 million in 2011/14 to £6 million for 2012/15.

Revenue & Renewals

4.46 A proportion of the capital plan is funded from revenue and renewals, in the 2012/15 plan this amounts to £36 million or 5% of the total funding.

Private Finance Initiative (PFI)

4.47 PFI is back on the agenda, with the Government looking to deliver new schools through PFI. KCC has expressed an interest in securing PFI funding in respect of 59 schools – a combination of new builds and major refurbishments. At this stage this has not been factored into our capital plans.

4.48 Over this MTFP period 2012-15, £70 million expenditure will be funded by PFI funding. The funding is for the Excellent Homes for All scheme.

RISK

4.49 There are some key risks in the capital investment plan. These are mainly around schemes which, for various reasons, are dependent on large volumes of external funding, developer contributions, substantial capital receipts, or for which Government approval to support the capital spending has yet to be announced. There is also some risk around PEF2 with the property market likely to take several years to recover. To mitigate this risk a maximum and minimum range has been set for the value that will be applied to each property going into PEF2 and the position on the fund will be closely monitored.

LINKS TO PARTNERS

4.50 KCC has a huge property portfolio with most communities having at least one KCC building. KCC will work together with private and other public sector agencies to:

- rationalise existing capacity;
- identify opportunities to share premises to provide multiple services, and
- ensure greater partnership working across authorities to increase sharing of assets and associated facilities management services.

SUMMARY

4.51 Despite the current economic climate we are continuing to undertake significant capital investment. The Council will continue to prioritise its capital spending in line with Council objectives. In order to do this most effectively the Council will continue to develop partnerships with the private sector and other public sector agencies.

KCC Medium Term Financial Plan

SECTION 5

Treasury Strategy

INTRODUCTION

5.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement and Prudential Indicators on an annual basis. Prudential Indicators are reported to Cabinet and Council as part of the Medium Term Plan.

5.2 CIPFA define Treasury Management as:

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

5.3 All treasury activity will comply with relevant statute, guidance and accounting standards.

KCC GOVERNANCE

5.4 The Corporate Director of Finance & Procurement is responsible for the Council's treasury management operations, day to day responsibility is 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.

5.5 A sub-committee of Cabinet has been established to work with the Officers on treasury management issues – the Treasury Advisory Group (TAG). The group consists of the Cabinet Member for Finance & Business Support, Deputy Cabinet Member for Finance & Business Support, Deputy Leader, Chairman Corporate Policy Overview and Scrutiny Committee, Chairman Superannuation Fund Committee, Liberal Democrat Finance spokesman and Leader Labour Group. The agreed terms of reference are "The Treasury Advisory Group will be responsible for advising the Cabinet and Corporate Director of Finance & Procurement on treasury management policy within KCC's overarching Treasury Management Policy". TAG meets the requirement in the CIPFA Treasury Management Code for a member body focussing specifically on treasury management. TAG meets quarterly and members of the group receive detailed information on a weekly and monthly basis.

5.6 Whilst Council will agree the overall Treasury Management Strategy all amendments to the strategy during the year will be agreed by Cabinet. The strategy needs to remain dynamic and reflect changing circumstances.

5.7 Governance & Audit Committee previously received an annual review in accordance with the requirements of the CIPFA Treasury Management Code- it now receives quarterly reports which goes beyond the mid-year review proposed by CIPFA.

5.8 A revised Treasury Management Policy Statement is attached in Appendix 1 to reflect new requirements of the CIPFA Code published in November 2011.

5.9 The Authority's banker is the National Westminster Bank. At the current time it does not meet our minimum credit requirement of A+ (or equivalent) long term. Despite the credit rating being below the Authority's minimum criteria it will continue to be used for short term liquidity and ongoing day to day business.

BORROWING REQUIREMENT AND STRATEGY

5.10 Borrowing

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

(2) As at 31 December 2011 long term borrowing was £1,090m including £46m attributable to Medway Council.

5.11 Interest Rate Forecast

(1) The economic and interest rate forecast provided by the Authority's treasury management advisor, Arlingclose, is attached at Appendix 2. The Authority will reappraise its strategies from time to time in response to evolving economic, political and financial events.

(2) There are a number of interest rate issues which have a major impact on strategy decisions:

- Arlingclose in common with most forecasters now expect short term interest rates to stay at their low levels for longer – their central forecast is that the official Bank Rate will remain at 0.5% to the end of 2014. The implication of this is that rates we can obtain for deposits will stay low for longer.

- In October 2010 the Chancellor added around 1% to Public Works Loan Board across all duration periods. In late November 2010 50 year PWLB maturity loans had a rate of 5.25% compared with 4.07% in late November 2011. Whether through the effect of Quantative Easing or the flight from the Euro Zone long term borrowing rates do currently look relatively low. Long term rates have much more scope for volatility and increases than short term rates.

5.12 Borrowing Strategy

(1) Capital expenditure levels, market conditions and interest rates levels will be monitored to minimise borrowing costs over the medium to longer term and maintain stability. The differential between debt costs and returns on deposits, the so called “cost of carry”, remains acute and this is expected to remain a feature in the short term. The Council has therefore been actively trying to reduce its cash holdings by deferring long term borrowing. The use of internal cash resources in lieu of borrowing is likely to continue to be the most cost effective way of financing capital expenditure.

(2) In light of this our principles for borrowing over the period will be:

- Affordability of new borrowing in light of the Council’s overall finances.
- Maturity of existing debt.
- Continue where possible to defer borrowing and fund from internal resources.
- Use the Public Works Loan Board (PWLB) as the main source of funding.
- Consider use of market loans and Lender Option Borrower Option (LOBO) loans. Currently there is very little interest from banks in this market.
- The Council has historically borrowed at fixed rates. This gives certainty over debt financing costs and can be seen as reducing interest rate risk. Fixed rate borrowing will remain a core part of the strategy with the Council seeking to borrow at advantageous points in interest rate cycles.
- Consideration will also be given to borrowing at variable rates – the Council currently has no variable rate borrowing.
- Borrowing short term for cash flow reasons if necessary.

5.13 Borrowing Requirement

(1) In 2012/13 the Council has £77m of borrowing to refinance and new borrowing as set out elsewhere in the budget report.

(2) The Authority's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.

(3) The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:

- Savings in risk adjusted interest costs.
- Rebalancing the interest rate structure of the debt portfolio.
- Changing the maturity profile of the debt portfolio.

(4) Borrowing and rescheduling activity will be reported to the Treasury Advisory Group and Governance & Audit Committee in the regular treasury management reports.

INVESTMENT STRATEGY

5.14 Principles

(1) In accordance with Investment Guidance issued by the CLG and best practice, this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments, followed by the yields earned on investments, is important but are secondary considerations.

(2) Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some instances, Greece and Italy being the most notable examples, the extent and implications of the debt it has built up have led to a sovereign debt crisis and a banking crisis with the outcome still largely unknown. It is against this backdrop of uncertainty that the Authority's investment strategy is framed.

(3) Investments are categorised as “Specified” or “Non-Specified” within the investment guidance issued by the CLG.

- Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the “high credit quality” as determined by the Authority and are not deemed capital expenditure investments under Statute.

- Non-Specified investments are, effectively, everything else.

(4) Officers will continue to work with our treasury advisers to appraise investment options. Any changes to the approach set out will be subject to report to Cabinet for decision following detailed consideration by the Treasury Advisory Group.

5.15 Criteria for Counterparty Selection

The criteria for the selection of counterparties are:

- A strong likelihood of Government intervention in the event of liquidity issues based on the systemic importance to the UK economy.

- Publicised credit ratings for institutions (excluding the DMO).

- Other financial information e.g. Credit Default Swaps, share price, corporate developments, news, articles, market sentiment, momentum.

- Country exposure e.g. Sovereign support mechanisms, GDP, net debt as a percentage of GDP.

- Exposure to other parts of the same banking group.

- Reputational issues.

The Corporate Director of Finance & Procurement in consultation with the Cabinet Member for Finance & Business Support can suspend a counter party at any time.

5.16 Current Counterparties

The current approved counterparties are:

- Debt Management Office – Debt Management Account Deposit Facility or Treasury Bills.
- Barclays
- HSBC
- Lloyds Banking Group
- Royal Bank of Scotland
- Santander UK
- Nationwide
- Standard Chartered
- Clydesdale

The actual position is as follows:

- Santander UK have been suspended since April 2010 due to concerns over the relationship with Banco Santander.
- Clydesdale have never been used due to concerns over its parent National Australia Bank – and then due to credit downgrades.
- Standard Chartered will not take local authority deposits.
- RBS, Lloyds and Nationwide have all been suspended since October due to credit rating downgrade.
- Barclays was suspended in December.
- On Arlingclose's recommendation the maximum duration for deposits is 3 months.

5.17 <u>Counterparty Proposals</u>

(1) The permitted deposits will be:

- Call accounts.
- Term deposits
- Certificates of deposit

(2) TAG considered options at its meeting on 7 December based upon options provided by Arlingclose. The proposed changes to counterparties are as follows:

- Arlingclose are now recommending a minimum long term rating of A- or equivalent for UK banks. This is lower than the A+ minimum adopted in 2011/12 and is in response to downgrades in credit ratings to many institutions considered to be systematically important to the financial system.

- The basis of the reduction to A- for UK banks is:

  - The rating is reduced but so is the maximum duration of deposits.
  - This is a return to the normal pre 2008 credit requirement.
  - Only applying to banks which are systematically important.
  - All the other risk metrics still apply.

- Applying the A- rating to UK banks would give a counterparty list of:

  - Barclays
  - HSBC
  - Santander UK
  - Bank of Scotland
  - Lloyds TSB
  - National Westminster
  - Nationwide
  - Royal Bank of Scotland
  - Standard Chartered

- TAG recommends that all these counter parties should be available to the Council – but parameters would be applied to their use in-particular in-relation to duration of deposits. A decision on whether to use a particular counterparty will be made by the Corporate Director of Finance & Procurement and the Cabinet Member for Finance & Business Support after consultation with TAG and these decisions will be reported to Governance & Audit Committee in the quarterly reports.

- Arlingclose have a range of overseas banks (5 Canadian, 4 Australian and 1 US Banks) which meet their counterparty requirements. TAG recommends that the Authority does not recommence the use of overseas banks. Any proposal to do so would need to be agreed by Cabinet at a later date.

5.18 Counterparty Limits

The Counterparty Limits proposed are:

- DMO £450m

- Banks/Building Societies £50m.

- A group limit of £75m would be applied for Nat West / RBS and Bank of Scotland / Lloyds could not have more than £75m each.

5.19 Duration of Deposits

Arlingclose recommend a maximum duration currently of 3 months. It is recommended that the Corporate Director of Finance & Procurement in consultation with the Cabinet Member for Finance & Business Support is able to increase duration up to a maximum of 12 months. To go beyond this would require a report to Cabinet.

ICELAND

5.20 On 28 October the Icelandic Supreme Court confirmed the 1 April District Court decision that UK local authority deposits did count as deposits under Icelandic law and we are therefore preferred creditors. This also applies in the cases concerning the UK Financial Services Compensation Scheme, the Dutch National bank (on behalf of retail depositors) and Dutch local authorities.

5.21 The position on the two banks is as follows:

- Glitnir – KCC had £15m deposited with Glitnir and 100% of this will be recovered. Negotiations with the Winding Up Board to ensure prompt payment have commenced.

- Landsbanki – KCC has £17m deposited with Landsbanki and 98% of this will be recovered. A first dividend of £5.5m has been paid.

5.22 The Heritable administration continues to proceed well and we are confident of a final return of at least 85%. To date 65p in the £ has been paid totalling £11.9m.

5.23 The www.kent.gov.uk website is regularly updated for news on developments in Iceland.

TREASURY ADVISERS

5.24 Since March 2011 Arlingclose have been the Council's sole treasury adviser.

TRAINING

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

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet and for the execution and administration of treasury management decisions to the Corporate Director of Finance & Procurement, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates Treasury Advisory Group and Governance & Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

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

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

Economic Interest Rate table

	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Official Bank Rate													
Upside risk						0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk													
1-yr LIBID													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**1.75**	**1.75**	**1.75**	**1.75**	**1.75**	**1.80**	**1.85**	**1.95**	**2.00**	**2.10**	**2.20**	**2.30**	**2.40**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**1.25**	**1.30**	**1.35**	**1.40**	**1.50**	**1.60**	**1.70**	**1.80**	**2.00**	**2.10**	**2.30**	**2.40**	**2.50**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**2.20**	**2.30**	**2.40**	**2.45**	**2.50**	**2.55**	**2.60**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**3.00**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**3.00**	**3.05**	**3.05**	**3.10**	**3.20**	**3.25**	**3.30**	**3.35**	**3.40**	**3.45**	**3.50**	**3.60**	**3.75**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**3.25**	**3.40**	**3.50**	**3.60**	**3.70**	**3.80**	**3.90**	**4.00**	**4.00**	**4.00**	**4.10**	**4.20**	**4.25**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

KCC Medium Term Financial Plan

SECTION 6

Risk Strategy

RISK MANAGEMENT STRATEGY

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 so that we create an environment without surprises.

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

6.3 Risk management is therefore at the heart of our management practice. The Council's approach to risk management aims to be forward looking, and enable decisions to be based on properly assessed risks, ensuring that the right actions are taken at the right time, supporting a culture which encourages continuous improvement and development.

6.4 The requirement for an effective approach to risk management will be driven by the objectives of the Council, and ultimately designed to enable the achievement of the aims set out in Bold Steps for Kent, our Medium Term Plan to 2014/15. The risk assessment process informs the business planning and performance management processes with budget and resource allocation following.

6.5 We have based our approach to managing risk on the Office of Government Commerce's (OGC) best practice guidance: Management of Risk: Guidance for Practitioners which is aligned with BS ISO: 31000 and the HM Treasury Orange Book.

6.6 The following 8 principles adopted from OGC best practice guidance will form the basis for effective risk management in KCC. Risk:

- Aligns with objectives;
- Fits the context of the organisation;
- Engages stakeholders;
- Provides clear guidance;
- Informs decision making
- Facilitates continual improvement;
- Creates a supportive culture;
- Achieves measurable value.

6.7 Underpinning this approach is a risk management policy that aims to allow the authority to:

- manage risks in line with its risk appetite, and thereby enable us to achieve our objectives more effectively;

- apply recognised best practice to manage risk using a balanced, practical and effective approach (Office of Government Commerce publication Management of Risk: Guidance for Practitioners)
- embed effective risk management into the culture of the Council;
- integrate the identification and management of risk into policy and operational decisions;
- eliminate or reduce the impact, disruption and loss from current and emerging events, consequently reducing the cost of threat;
- harness risk management to identify opportunities that current and emerging events may present and maximise benefits and outcomes;
- anticipate and respond in a proactive and timely way to all social, environmental and legislative changes and directives that may impact delivery of our objectives;
- harmonise risk management disciplines across all Council activities;
- benefit from consolidating ongoing learning and experience through the collation and sharing of risk knowledge; and
- demonstrate increasing confidence in our ability to deal effectively with the uncertainty that internal and external pressures present.
- maintain a hierarchy of risk registers within the organisation, headed by a single corporate risk register.

6.8 The policy is reviewed annually to ensure that it reflects the organisation's business needs, continues to add measurable value and remains challenging and responsive to Government direction and requirements.

Roles and responsibilities

6.9 Responsibility for risk management runs throughout the Council. And everyone has a role to play. However, for risk management to be successful there has to be a clear identification of roles and responsibilities at management level. Whilst organisational structures are currently changing, these key roles and responsibilities are currently under review and will be formally approved by the Governance and Audit Committee before the commencement of the new financial year.

Embedding of Risk Management

6.10 The Governance and Audit Committee reviews and approves the Council's Risk Management Policy at least annually. Its implementation is endorsed by the Council's Cabinet and Corporate Management Team. Refreshed guidelines for managers including a Statement of Required Practice (SORP) are currently under development, in consultation with managers, to aid effective implementation of the policy.

Partnerships

6.11 The risks to the Council in achieving its objectives can be increased or reduced by involvement in the activities of external groups; particularly where they can influence the achievement of our objectives and where the Council adopts a leading role. Risk management will therefore be a key consideration by our senior officers in the way the Council works together with other organisations, partners, contractors etc.

Risk Management Key Activities

6.12 Over the period of this medium term financial plan, the risk management aims will be achieved by:

- Determining and maintaining clear roles, responsibilities and reporting lines throughout the Council based on the organisational design principles set out in "*Change to Keep Succeeding (2010)*".
- Exploiting the common link between business planning, performance and risk management to enable information on generic or significant risks, highlighted in divisional business plans, to flow freely throughout the risk register hierarchy.
- Ensuring that the focus of risk management is on meeting our significant objectives and establishing an environment of 'no surprises'.
- Integrating effective risk management practices into the Council's management, decision making and planning processes.
- Exploiting available business technology to store and share risk information and providing the business with access to a repository of risk knowledge and learning.
- Increasing the regularity and effectiveness of monitoring of key risks in line with the internal control management framework.
- Developing the role of the Kent Managers in relation to Risk Management.
- Providing risk management training and awareness sessions.
- Maintaining links between audit planning and risk management processes to enable assurance on the effectiveness of risk management across the Council.
- Subjecting KCC's risk management framework and practice to annual review to determine the effectiveness of arrangements and level of risk maturity.

High Level 3 Year MTFP Summary

2011/12 (restated)				2012/13 (revised)			2013/14			2014/15			Comparative 4 Year Totals	
£000s	£000s	£000s		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s		£000s
		948,686	**Base**			**909,054**			**904,321**			**880,000**		
			Additional Spending Pressures											
	6,189		Pay & Prices		15,934			11,067			11,181		44,371	
	27,049		Legislative		11,621			2,504			3,049		44,223	
	16,493		Demand/Demographic		22,670			7,556			7,548		54,267	
	16,558		Services Strategies & Improvements		29,288			12,870			10,201		68,917	
	28,391		Change in grant treatment		260			0			0			
	3,070		Reversal of One-Off Savings		15,431			23,512			0			
	0		Emerging Pressures		0			0			20,000		20,000	
		97,750	**Total Additional Spending**			**95,204**			**57,509**			**51,979**		**231,778**
			Income & Savings											
	-33,528		Grant Increases		-5,456			0			0			
	-5,996		Income Generation		-24,699			-3,740			-1,990		-36,425	
	-2,907		Removal of Time Limited Amounts		-11,363			-9,706			-200		-24,176	
			Efficiency Savings											
-16,203			Staffing	-7,925			-4,223			-5,279			-33,630	
-8,892			Contracts / Procurement	-9,984			-7,213			-4,190			-30,279	
-2,689			Premises	-1,270			-2,140			-4,300			-10,399	
-4,100			Capital	0			0			0			-4,100	
-5,107			Employer's Pension Contribution	0			0			0			-5,107	
0			Demand Management	-6,228			-5,262			-2,575			-14,065	
-5,054			Other	-2,210			-332			-39			-7,635	
	-42,045				-27,617			-19,170			-16,383			
			Policy Savings											
-10,632			Area Based Grants	0			0			0			-10,632	
-11,520			Early Intervention Grant	0			0			0			-11,520	
-1,805			Staffing	-9,749			-6,167			0			-17,721	
-5,012			Contracts	-3,730			-1,252			-1,090			-11,084	
-4,842			Service Reforms	-8,145			-1,476			-828			-15,291	
0			Service Reductions	-1,144			-200			0			-1,344	
0			Reduction in Demography from NHS	0			-3,000			0			-3,000	
-3,664			Other	-722			-1,487			-382			-6,255	
	-37,476				-23,490			-13,582			-2,300			
			Savings still to be identified											
			Demand Management				-18,286			-32,569			-50,855	
			Incentivisation				-5,626			-10,021			-15,648	
			Localism				-2,813			-5,011			-7,824	
			Personalisation				-1,407			-2,505			-3,912	
								-28,132			-50,106			
	-15,431		One-Off Savings		-7,312			-7,500			0			
		-137,382	**Total Savings & Income**			**-99,937**			**-81,830**			**-70,979**		**-320,901**
		909,054	**Proposed Annual Budget**			**904,321**			**880,000**			**861,000**		
			Funded by											
	315,987		Formula Grant		303,446			294,521			272,866			
	14,325		Council Tax Freeze Grant		14,446			0			0			
	1,400		New Homes Bonus Grant		2,839			4,200			5,600			
	1,663		Other Un-Ring-Fenced Grant		3,437			888			888			
	1,991		Council Tax Collection Fund		2,239									
	573,688		Council Tax Yield		577,914			580,391			581,646			
		909,054	**Total Funding**			**904,321**			**880,000**			**861,000**		

Appendix A (i)

Appendix A (ii)

NEW LOOK MTFP SUMMARY - ONE YEAR		
Dark blue text represents full year effect of previous years		
Portfolios		2012/13 £'000
Base Budget Requirement		909,054
ADDITIONAL SPENDING PRESSURES		
Employment Costs:		
All	Kent Scheme Pay Award	3,000
F&BS	Pay Progression	2,000
All	Staff Travel	551
F&BS	Employers National Insurance increase	500
		6,051
Prices:		
SCS, C&C	Social Care	3,593
ELS, EHW, C&C, SCS, ASC&HR	Transport	1,642
EHW, BSP&HR	Gas & Electricity	1,370
EHW	Waste Contracts	1,858
EHW	Highways Maintenance Contracts	955
Various	Other	465
		9,883
Sub Total for Employment Costs and Prices		**15,934**
Unavoidable Government/Legislative Pressures:		
EHW	Waste Landfill Tax	1,705
ASC&HR	Spending from Social Care Grants	5,406
BSP&HR	Expenditure which can no longer be funded from Capital Programme	1,036
SCS	Asylum	800
SCS	Increase in Early Years Education for 2 year	860
Various	Other	1,814
		11,621
Demand/Demographic Led:		
EHW	Concessionary Fares and Freedom Pass Take-up	406
F&BS	Insurance	1,250
	Adult Social Care	
ASC&PH	Older People	-287
ASC&PH	Learning Disability - Residential Placements	1,082
ASC&PH	Learning Disability - Community Services	2,989
ASC&PH	Physical Disability - Residential Placements	311
ASC&PH	Physical Disability - Community Services	2,021
ASC&PH	Mental Health	559
	Children's Social Care	
SCS	Residential Placements	2,568
SCS	Fostering Placements	4,091
SCS	Legal Services	1,621
SCS	Assessment	2,960
SCS	Other Services	2,509
SCS	Safeguarding	298

Appendix A (ii)

NEW LOOK MTFP SUMMARY - ONE YEAR		
Dark blue text represents full year effect of previous years		
Portfolios		2012/13 £'000
Various	Other	292
		22,670
Service Strategies & Improvements:		
SCS	Children's Social Care workforce strategy & recruitment to social worker posts	3,547
SCS	Investment in Children's Social Care Prevention Strategy	2,750
F&BS, BSP&HR	Financing the Capital programme	5,739
BSP&HR	One-off contribution for ERP Investment	950
EHW	Growth without Gridlock	500
F&BS	Initiatives to boost the economy	1,000
C&C	Invest to save measures in Customer & Community Services	660
F&BS	Investment in Procurement	1,000
F&BS	Contribution to Council Tax Equalisation Reserve	7,500
F&BS	Contribution to Invest to Save Reserve	2,000
Various	Other	3,642
		29,288
Change in Grant treatment		**260**
Reversal of one off savings		
F&BS	Moratorium in 2010/11 to increase underspend	1,000
F&BS	Roll forward of 2010/11 projected underspend	4,711
F&BS	Release of reserves	9,033
C&C	Other	687
		15,431
Total Pressures		**95,204**
SAVINGS AND INCOME:		
Grant increases (non DSG)		
F&BS	Early Intervention Grant	-4,597
F&BS	Learning Disability Health Reform Grant	-859
		-5,456
Income Generation		
EHW	Increased contribution from Commercial Services	-500
EHW	Full Year Effect of Parental Contributions for Freedom Pass	-500
ASC&PH	Increase in Social Care charges in line with benefits uplift	-2,854
ASC&PH	Full Year effect of introduction of new charges	-1,477
ASC&PH	PCT contribution to Social Care Improvement (one-off)	-15,656

Appendix A (ii)

NEW LOOK MTFP SUMMARY - ONE YEAR		
Dark blue text represents full year effect of previous years		
Portfolios		2012/13 £'000
F&BS	Increased investment income	-1,200
ELS, BSP&HR	Increased income from Schools and Academies	-498
BSP&HR	Increased income for ICT Services	-500
BSP&HR	Increased income for Legal Services	-804
Various	Other	-710
		-24,699
Savings and Mitigations:		
	Removal of one-off funding	
C&C	Big Society Fund	-5,000
C&C, ELS, SCS	EIG short term loan	-3,092
F&BS	Children's Social Care Improvement Plan	-2,491
C&C, BSP&HR, F&BS	Other	-780
		-11,363
	Efficiency savings	
All	Full Year Effect of non frontline staffing & management restructure from previous years	-1,804
All	Full Year Effect of non staffing efficiencies from previous years	-1,278
BSP&HR	Premises rationalisation	-1,270
All	Management structures and non front line staff	-4,810
C&C	Full Year Effect of Contact Centre/Communication	-225
ASC&PH, SCS	Access & Assessment	-290
	Demand Management	
SCS	Reduction in children's placements through enhanced prevention (LAC strategy)	-3,117
ELS	Home to School Transport	-900
EHW	Waste tonnage reduction	-2,211
	Procurement efficiencies	
ASC&PH, SCS, BSP&HR, ELS	Procurement of contracts	-2,432
ASC&PH	Reductions in prices paid to LD providers	-3,393
EHW	Waste contract renewals and partnership arrangements	-425
EHW	Transport Procurement	-956
F&BS	Added value from the Procurement team	-1,000
BSP&HR	Multi Agency ICT provision	-500
F&BS	Carbon Reduction Levy	-968
Various	Other - Staffing	-796
Various	Other - Non Staffing	-1,242
		-27,617

Appendix A (ii)

NEW LOOK MTFP SUMMARY - ONE YEAR		
Dark blue text represents full year effect of previous years		
Portfolios		2012/13 £'000
	Service Reforms	
EHW	Waste Management Services	-730
C&C	Supporting People	-4,000
C&C	Libraries self service implementation and other efficiencies	-1,450
C&C	Youth Services	-394
EHW	Highways Maintenance reduction in capacity (one-off)	-544
ELS	ELS staff restructuring including Kent Challenge	-5,730
ELS	Reduction in Connexions contract	-3,000
ASC&PH	In house services for older people	-1,350
ASC&PH	In house services for vulnerable Adults	-575
ASC&PH	Stringent application of good practice guidelines and review of support for former self funders	-750
R&E	Alternative funding for Regeneration projects	-855
C&C	More robust funding criteria for Arts	-300
R&E	Cease Community Events fund	-300
SCS	Early Years and Childcare	-1,145
Various	Other - Staffing	-250
Various	Other - Service Reforms	-1,395
Various	Other	-722
		-23,490
	One-off savings	
F&BS	One -off savings - Drawdown from Reserves	-5,000
F&BS & C&C	Roll-forward of 2011-12 projected underspend	-2,312
		-7,312
Total Savings and Mitigations		**-69,782**
Total Savings and Income		**-99,937**
PROPOSED NET BUDGET REQUIREMENT		**904,321**
<u>Funded By</u>		
Un-ring-fenced Grants		
Government Funding - Other un-ring-fenced Grants		3,437
Formula Grant		303,446
Council Tax Freeze Grant		14,446
New Homes Bonus		2,839
Council Tax Collection Fund		2,239
Council Tax		577,914
TOTALS		**904,321**

Appendix A (iii)

Adult Social Care and Public Health Portfolio
Revenue Budget

		New / Existing	2012/13 £'000
Base Budget			**317,434**
Base Budget Adjustments - Internal			**-4,040**
	Transfer of Learning Disability and Health Reform Grant to be held centrally		34,768
Base Budget Adjustments- External			**34,768**
Total Base Adjustments			**30,728**
Revised Base Budget			**348,162**
<u>ADDITIONAL SPENDING PRESSURES</u>			
Pay:			
All	Staff Travel	N	160
All	Employers National Insurance increase	N	115
All	Kent Scheme Pay Award	N	725
All	Total Contribution Pay	N	365
			1,365
Prices:			
All	Transport	E	55
All	Social Care Provision	N	3,091
All	Other	E	61
			3,207
Unavoidable Government/Legislative Pressures:			
Various	Learning Disability Transfer and Health Reform Grant - increase in expenditure	E	859
Various	Net pressures funded from NHS support for Social Care grant	N	5,406
			6,265
Demand/Demographic Led:			
Older Persons	Older People	E	-287
Learning Disability	Learning Disability - Residential	E	1,082
Learning Disability	Learning Disability - Community Services	E	2,989
Physical Disability	Physical Disability - Residential	E	311
Physical Disability	Physical Disability - Community Services	E	2,021
Mental Health	Mental Health	E	559
			6,675
Total Pressures			**17,512**
<u>SAVINGS AND INCOME:</u>			
Income Generation:			
All	Income increase in-line with Benefits Uplift	E	-2,854
	Increase in Blue Badge charges	N	-170
All	NHS support for Social Care	N	-15,656

Appendix A (iii)

Adult Social Care and Public Health Portfolio
Revenue Budget

		New / Existing	2012/13 £'000
All	FYE of Increase Charging - non residential	E	-1,477
			-20,157
Savings and Mitigations:			
Identified in published 2010/13 MTP:			
	Fall out of early Retirement Costs	E	-19
	Streamline back office support functions	E	-452
			-471
Efficiency Savings:			
All	Essential/Lease user	E	-21
Procurement			
All	Review of Community Service Procurement	E	-2,132
Management Structures			
	Support Services	E	-121
Learning Disability	Day Services Review - LD	E	-88
Access & Assessment			
	Hospital Team Review	E	-75
Mental Health	Mental Health Management	E	-50
	Co-ordination Managers	E	-50
Various	Agency Staff	E	-115
Learning Disability & Physical Disability	Review of LD and PD Residential and Supported Accommodation procurement	E	-3,393
			-6,045
Service Reforms:			
Older Persons	Consistent application of fair access to Care Services policy	E	-500
Older Persons	Encouraging Self Funders of Residential Care to seek independent financial advice	E	-250
Older Persons	Older Persons Strategy	E	-1,200
Older Persons	Review of In-house services - OP	E	-150
Learning Disability	Review of In-house services - LD	E	-550
Physical Disability	Review of In-house services - PD	E	-25
Public Health	Rationalise Healthwatch Programme	E	-32
All	Consistent application of client transport policy	E	-290
			-2,997
Total Savings and Mitigations			**-9,513**
Total Savings and Income			**-29,670**
Budget controlled by this portfolio			**336,004**

Appendix A (iii)

Business Strategy, Performance and Health Reform Portfolio Revenue Budget

		New / Existing	2012/13 £'000
Base Budget			**47,352**
Base Budget Adjustments - Internal			**7,433**
	Transfer EIG income budget and hold centrally		752
Base Budget Adjustments- External			**752**
Total Base Adjustments			**8,185**
Revised Base Budget			**55,537**
ADDITIONAL SPENDING PRESSURES			
Pay:			
All	Staff Travel	N	37
All	Employers National Insurance increase	N	61
All	Kent Scheme Pay Award	N	359
All	Total Contribution Pay	N	291
			748
Prices:			
Property	Gas & Electricity	E	550
Property	Rent	E	17
Property	Rates	E	124
			691
Unavoidable Government/Legislative Pressures:			
Property	Change of accounting treatment for some staff in the Property division previously funded from capital	N	786
			786
Demand/Demographic Led:			
Property	Dilapidations	E	-88
			-88
Service Strategies & Improvements:			
CMB	Tapering of PFI Grant	E	581
Various	Prudential borrowing costs for Portfolio Capital Programmes	E	328
Property	The Bridge Resource Centre	E	2
Property	Libraries Modernisation programme	E	134
Fin. Items	ERP - Repayment of reserves used in 2011/12	N	950
Business Strategy	Analysis and dissemination of 2011 Census	E	25
			2,020
Total Pressures			**4,157**
SAVINGS AND INCOME:			
Income Generation:			
Property	On-selling of approved list, advice & access to Framework Agreements	E	-35
Legal	Increased Income levels	E	-804

Appendix A (iii)

Business Strategy, Performance and Health Reform Portfolio Revenue Budget

		New / Existing	2012/13 £'000
ICT	Multi Agency (Network) ICT Unification	E	-500
HR	Workforce & professional development - moving to a trading basis	E	-498
			-1,837
Savings and Mitigations:			
Efficiency Savings:			
ICT	Smarter/Collaborative Procurement	E	-200
Property	Centralise Maintenance budgets	E	-70
Property	Restructure KCC Property function (Corporate Landlord)	E	-175
Property	Efficiencies to be delivered by the restructure of Property and Infrastructure	E	-133
ICT	Multi Agency (Network) ICT Unification	E	-500
	Total Place	E	-1,270
ICT	Internal efficiency & Demand reduction	E	-621
HR	Restructure of HR function - Non Business Operations	E	-1,106
Strategic Management	Impact of deletion of Managing Director post	N	-350
Property	Business Support & Client Services - staffing	E	-200
Business Strategy	Planning, Policy and Performance efficiencies	E	-291
Strategic Management	Reduction in Early Retirement Added Years	E	-93
			-5,009
Service Reforms:			
Property	Staff Housing (Schools)	E	-110
			-110
Total Savings and Mitigations			**-5,119**
Total Savings and Income			**-6,956**
Budget controlled by this portfolio			**52,738**

Appendix A (iii)

Customer & Communities Portfolio
Revenue Budget

		New / Existing	2012/13 £'000
Base Budget			**90,469**
Base Budget Adjustments - Internal			**477**
	Transfer EIG income budget and hold centrally		552
Base Budget Adjustments- External			**552**
Total Base Adjustments			**1,029**
Revised Base Budget			**91,498**
ADDITIONAL SPENDING PRESSURES			
Pay:			
All	Staff Travel	N	92
All	Employers National Insurance increase	N	95
All	Kent Scheme Pay Award	N	515
All	Total Contribution Pay	N	430
			1,132
Prices:			
All	Transport	E	10
All	Other	E	39
Libraries	Civica Contract inflation	E	6
			55
Unavoidable Government/Legislative Pressures:			
Strat. Mngt	Property Maintenance Agreements	N	250
Youth	Loss of zero rates for youth centres	E	150
			400
Demand/Demographic Led:			
Coroners	Increase cost of post mortem provision	E	50
KSS	Reduced Demand for analytical testing, income target reversal	N	80
			130
Service Strategies & Improvements:			
SDU	Gateways - continued roll out of the programme	E	300
Strat. Mngt	Replace one-off savings on in year management action	N	57
Youth	Review of service provision - Creation of commissioning budget	E	210
Libraries	Implementation of RFID self service project	E	450
Local Democracy	Decision to revise Community Engagement structure in light of Localism agenda	N	275
Archives	Prudential Borrowing Costs - Kent History Centre	N	57
Comms	Unachievable income target	N	250
			1,599
Repayment of one-off funding in 2011/12			
	One off reduction in Book Fund	E	300
	One off underspend - to be rolled forward as a commitment within CMY	E	387
			687
Total Pressures			**4,003**

Appendix A (iii)

Customer & Communities Portfolio
Revenue Budget

		New / Existing	2012/13 £'000
SAVINGS AND INCOME:			
Income Generation:			
C. Parks	Country Parks (increase % income to 68%)	E	-50
C. Access	Countryside access	E	-30
Registration	Fee generation target - inflationary uplift	N	-50
			-130
Savings and Mitigations:			
Removal of one-off funding			
B. Society	Big Society Fund	E	-5,000
Sports	2012 Olympic & Paralympic Games	E	-200
Sports	Open Golf at Sandwich	E	-80
Contact Centre	Removal of EIG Transitional protection	E	-120
			-5,400
Current published 2010/13 MTP:			
All	Review of back office, management and support	E	-857
Youth/Yos	Management review of integrated service	E	-400
Various	Stream line of back office	E	-26
			-1,283
Efficiency Savings:			
Various	Management reductions	E	-242
CLS	Hosting charge for use of properties	E	-200
Comms	Communications staffing	N	-225
All	Essential/Lease User	E	-13
			-680
Service Reforms:			
All	Review strategic external funding activities	E	-92
Sup. People	Review of service provision	E	-4,000
Libraries	Management and other efficiencies	E	-500
Libraries	Implementation of RFID and other efficiency linked proposals	E	-950
Youth	Review of service provision - commissioning model staff impact	E	-394
Youth	Review of Service Provision -hybrid model property impact	E	-15
Trading Std	Review of service provision and management approach	E	-250
C. Parks	Staffing review	E	-30
PROW	PROW network maintenance	E	-75
Public Health	Rationalise Healthwatch Programme	E	-78
C. Access	Review of service priorities	E	-71
Comm. Safety	Reduction in HO Community Safety LSSG (2011/12)	E	-279
Comm. Safety	Reduction in HO Community Safety LSSG (2012/13)	E	-615
Arts	More robust funding criteria	N	-300
			-7,649
One-off savings			
All	Roll-forward of 2011/12 projected underspend	N	-433
			-433
Total Savings and Mitigations			**-15,445**
Total Savings and Income			**-15,575**
Budget controlled by this portfolio			**79,926**

Appendix A (iii)

Democracy and Partnerships Portfolio
Revenue Budget

		New / Existing	2012/13 £'000
Base Budget			**6,421**
Base Budget Adjustments - Internal			**435**
Base Budget Adjustments- External			**0**
Total Base Adjustments			**435**
Revised Base Budget			**6,856**
ADDITIONAL SPENDING PRESSURES			
Pay:			
All	Staff Travel	N	20
All	Employers National Insurance increase	N	5
All	Kent Scheme Pay Award	N	32
All	Total Contribution Pay	N	19
			76
Unavoidable Government/Legislative Pressures:			
	Increased contribution to reserves for County Council elections	E	315
			315
Service Strategies & Improvements:			
	Support staff	N	30
			30
Total Pressures			**421**
SAVINGS AND INCOME:			
	Efficiency Savings:		
F&P & Demo Services	Management Structures	E	-48
Business Strategy	Planning, Policy and Performance Efficiencies	E	-7
			-55
	Service Reforms:		
Demo Services	15% reduction to Member pool car budget	N	-10
			-10
Total Savings and Mitigations			**-65**
Total Savings and Income			**-65**
Budget controlled by this portfolio			**7,212**

Appendix A (iii)

Education, Learning & Skills Portfolio
Revenue Budget

		New / Existing	2012/13 £'000
Base Budget			**57,336**
Base Budget Adjustments - Internal			**107**
	Transfer EIG income budget and hold centrally		12,535
Base Budget Adjustments- External			**12,535**
Total Base Adjustments			**12,642**
Revised Base Budget			**69,978**
ADDITIONAL SPENDING PRESSURES			
Pay:			
All	Staff Travel	N	135
All	Employers National Insurance increase	N	50
All	Kent Scheme Pay Award	N	233
All	Total Contribution Pay	N	125
			543
Prices:			
Fair Access	Transport	E	467
Strat Mgmt	Pensions	N	200
			667
Demand/Demographic Led:			
School Resources	Legal Services	N	250
			250
Total Pressures			**1,460**
SAVINGS AND INCOME:			
Income Generation:			
Fair Access	Introduction of a parental contribution for denominational and selective transport for pupils	E	-200
			-200
Savings and Mitigations:			
Removal of one-off funding			
All	Removal of EIG Transitional protection	E	-2,079
			-2,079
New Efficiency Savings:			
All	Reduction in staff travel	E	-9
Fair Access	Reduction in demand for Mainstream Home to School transport	E	-900
			-909
Service Reforms:			
Skills and Employability	Connexions	E	-3,000
All	ELS restructure	E	-5,730
			-8,730
Total Savings and Mitigations			**-11,718**
Total Savings and Income			**-11,918**
Budget controlled by this portfolio			**59,520**

Appendix A (iii)

Environment, Highways & Waste Portfolio
Revenue Budget

		New / Existing	2012/13 £'000
Base Budget			**148,971**
Base Budget Adjustments - Internal			**-233**
Base Budget Adjustments- External			**0**
Total Base Adjustments			**-233**
Revised Base Budget			**148,738**
ADDITIONAL SPENDING PRESSURES			
Pay:			
All	Staff Travel	N	26
All	Employers National Insurance increase	N	29
All	Kent Scheme Pay Award	N	185
All	Total Contribution Pay	N	228
			468
Prices:			
Highways	Transport	E	1,063
Highways	Gas & Electricity	E	820
Waste	Waste Contracts	E	1,858
Highways	Maintenance contracts	E	955
			4,696
Unavoidable Government/Legislative Pressures:			
Waste	Landfill Tax escalator (+£8 per tonne)	E	1,705
Environment	Flood risk management responsibilities	E	490
			2,195
Demand/Demographic Led:			
Highways	Freedom Pass	N	128
Highways	Concessionary fares	N	278
			406
Service Strategies & Improvements:			
Waste	Disposal Costs	N	103
Waste	Site Maintenance	N	250
Highways	Traffic Management Centre	E	50
Planning	Growth without Gridlock	N	500
Highways	Prudential Borrowing Costs - Street lighting	N	14
Strategic Mgmt	Prudential Borrowing Costs - Gypsy Sites	N	9
			926
Change in Grant treatment			
Environment	Flood Defence Grant	N	260
			260
Total Pressures			**8,951**

Appendix A (iii)

Environment, Highways & Waste Portfolio
Revenue Budget

		New / Existing	2012/13 £'000
SAVINGS AND INCOME:			
Income Generation:			
Comm Serv	Increased Contribution from Commercial Services	E	-500
Strategic Mgmt	Increased rental income	N	-9
Planning	Planning applications	E	-50
Transport	Freedom Pass	E	-500
Total Income Generation			**-1,059**
Savings and Mitigations:			
Identified in published 2011/13 MTP:			
Highways	Overhead efficiencies through de-layering and streamlining	E	-469
Highways	Highways maintenance	E	-859
			-1,328
New Efficiency Savings:			
All	Management reductions	E	-530
Waste	Contract renewals	E	-334
Waste	East Kent Joint Waste contract	E	-91
Directorate Support	Access & Assessment Agency Staff	E	-1
Waste	Reduction of 30,000 tonnes in Budgeted Waste Tonnage	N	-2,211
Transport	Procurement efficiencies	N	-956
			-4,123
Service Reforms:			
Waste	Review of Household Waste Recycling Centres	E	-630
Waste	Reduced work on Partnerships and Waste Co-ordination	E	-100
Transport	Remove support for the least added value socially necessary but uneconomic bus routes	E	-211
Environment	Other environment service reductions	E	-120
Planning	Reduce planning capacity	E	-39
Highways	Highway maintenance (one year only)	N	-544
			-1,644
Total Savings and Mitigations			**-7,095**
Total Savings and Income			**-8,154**
Budget controlled by this portfolio			**149,535**

Appendix A (iii)

Finance and Business Support Revenue Portfolio

		New / Existing	2012/13 £'000
Base Budget			**134,636**
Base Budget Adjustments - Internal			**-857**
	Transfer Learning Disability and Health Reform Grant and hold centrally		-34,768
	Transfer EIG income budget and hold centrally		-50,286
Base Budget Adjustments- External			**-85,054**
Total Base Adjustments			**-85,911**
Revised Base Budget			**48,725**
ADDITIONAL SPENDING PRESSURES			
Pay:			
F&P & HRBO	Staff Travel	N	3
F&P & HRBO	Employers National Insurance increase	N	37
F&P, HRBO & Fin Items	Kent Scheme Pay Award	N	338
F&P & HRBO	Total Contribution Pay	N	162
			540
Demand/Demographic Led:			
Fin. Items	Insurance	N	1,250
			1,250
Service Strategies & Improvements:			
Fin. Items	Drawdown from Prudential Equalisation Reserve	E	808
Fin. Items	Financing the Capital Programme	E	4,031
Fin. Items	CSR Impact: 1% increase in borrowing cost	E	1,300
Fin Items	Initiatives to boost the economy	N	1,000
Fin Items	Contribution to Council Tax Equalisation Reserve	N	7,500
Fin Items	Contribution to Invest to Save Reserve (one year only)	N	2,000
Fin Items	Contribution to Reserves (one year only)	N	350
HRBO	Revenue Implications of ICS replacement	N	207
F&P	Expansion of Procurement Team	N	1,000
			18,196
Repayment of one-off funding			
Fin. Items	Moratorium in 2010/11 to increase underspend	E	1,000
Fin. Items	Roll forward of 2010/11 projected underspend	E	4,711
Fin. Items	Release of reserves	E	9,033
			14,744
Total Pressures			**34,730**

Appendix A (iii)

Finance and Business Support Revenue Portfolio			
		New / Existing	2012/13 £'000
SAVINGS AND INCOME:			
Grant Increases:			
Fin. Items	Early Intervention Grant	N	-4,597
Fin. Items	Learning Disability Health Reform Grant	E	-859
			-5,456
Income Generation:			
Fin. Items	Increased investment income	N	-1,200
HRBO	Restructure of HR function - Business Operations	E	-116
			-1,316
Savings and Mitigations:			
Removal of one-off funding			
Fin. Items	Children's Social Care Improvement Plan	E	-2,491
Fin. Items	Modernisation of the Council	E	-500
			-2,991
Efficiency Savings:			
F&P	Restructure of Finance Function	E	-1,205
HRBO	Restructure of HR function - Business Operations	E	-419
Fin. Items	Borrowing costs PEF2	E	-808
Fin. Items	Carbon Reduction Levy	N	-968
Fin. Items	Procurement Efficiencies	N	-1,000
			-4,400
Service Reforms:			
F&P	Removal of support from Benefits Partnership	E	-50
			-50
One-off savings			
All	Drawdown from Reserves	N	-5,000
Fin. Items	Roll-forward of 2011/12 projected underspend	N	-1,879
			-6,879
Total Savings and Mitigations			**-14,320**
Total Savings and Income			**-21,092**
Budget controlled by this portfolio			**62,363**

Appendix A (iii)

Regeneration & Enterprise Portfolio
Revenue Budget

		New / Existing	2012/13 £'000
Base Budget			**4,137**
Base Budget Adjustments - Internal			**423**
Base Budget Adjustments- External			**0**
Total Base Adjustments			**423**
Revised Base Budget			**4,560**
<u>ADDITIONAL SPENDING PRESSURES</u>			
Pay:			
All	Staff Travel	N	3
All	Employers National Insurance increase	N	5
All	Kent Scheme Pay Award	N	24
All	Total Contribution Pay	N	29
			61
Prices:			
Regen	Other	E	10
			10
Service Strategies & Improvements:			
Regen	Cyclopark	E	220
			220
Total Pressures			**291**
<u>SAVINGS AND INCOME:</u>			
Efficiency Savings:			
Regen	Central Costs	E	-12
Regen	Pensions	E	-12
			-24
Service Reforms:			
Regen	Regeneration Projects	E	-855
Regen	Cease Community Events grant	N	-300
			-1,155
Total Savings and Mitigations			**-1,179**
Total Savings and Income			**-1,179**
Budget controlled by this portfolio			**3,672**

Appendix A (iii)

Specialist Children's Services Portfolio
Revenue Budget

		New / Existing	2012/13 £'000
Base Budget			**102,298**
Base Budget Adjustments - Internal			**-3,745**
	Transfer EIG income budget and hold centrally		36,447
Base Budget Adjustments- External			**36,447**
Total Base Adjustments			**32,702**
Revised Base Budget			**135,000**
ADDITIONAL SPENDING PRESSURES			
Pay:			
All	Staff Travel	N	75
All	Employers National Insurance increase	N	103
All	Kent Scheme Pay Award	N	589
All	Total Contribution Pay	N	351
			1,118
Prices:			
All	Transport	E	47
SCS	Social Care Provision	E	502
C&P	Other (inc Legal)	E	8
			557
Unavoidable Government/Legislative Pressures:			
Asylum	Asylum	N	800
Early Years	Increase Early Years education for 2 year old	N	860
			1,660
Demand/Demographic Led:			
Legal	Legal Services	N	1,621
Residential	Residential Care	N	2,568
Fostering	Fostering	N	4,091
Leaving Care	Leaving Care	N	829
Adoption	Adoption	N	1,050
Fostering and Support Services	Kinship & FGC	N	630
Social Care Staffing	Social Care Staffing	N	2,960
Safeguarding	Safeguarding	N	298
			14,047
Service Strategies & Improvements:			
Social Care Staffing	Workforce Strategy	N	2,284
Social Care Staffing	Social Care staffing - additional posts	N	1,263
Preventative Services	Investment in Prevention (LAC) Strategy	N	2,750
			6,297
Total Pressures			**23,679**

Appendix A (iii)

Specialist Children's Services Portfolio
Revenue Budget

		New / Existing	2012/13 £'000
SAVINGS AND INCOME:			
Savings and Mitigations:			
Removal of one-off funding			
Children's Centres	Review of Early Years and Childcare/EIG Transitional protection	E	-893
			-893
New Efficiency Savings:			
All	Reduction in staff travel	E	-3
All	Management Structures	E	-48
Preventative Services	Social care procurement	E	-100
Residential and Fostering	Savings from investment in Prevention services (LAC Strategy)	E	-3,117
Directorate Mgmt and Support	Commissioning (staffing)	E	-22
			-3,290
Service Reforms:			
Early Years	Review of Early Years and Childcare	N	-1,145
			-1,145
Total Savings and Mitigations			**-5,328**
Total Savings and Income			**-5,328**
Budget controlled by this portfolio			**153,351**

Appendix B - Prudential Indicators

1. Estimate of capital expenditure (including PFI)

Actual	2010/11	£381.9m
Estimate	2011/12	£290.7m
	2012/13	£278.9m
	2013/14	£250.9m
	2014/15	£162.7m

2. Net 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, net borrowings by the Council is not envisaged to exceed the Capital Financing Requirement in 2011/12, 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

	2010/11 Actual £000	2011/12 Forecast £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
Capital Financing Requirement	1,521,689	1,516,144	1,538,083	1,535,852	1,496,269
Annual increase (decrease) in underlying need to borrow		-5,545	21,939	-2,231	-39,583

4. Estimates of ratio of financing costs (including PFI) to net revenue stream

Actual	2010/11	12.85%
Estimate	2011/12	13.98%
	2012/13	14.97%
	2013/14	15.60%
	2014/15	16.18%

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

	2012/13	2013/14	2014/15
	£	£	£
Impact on Band D – cumulative	0.20	1.26	2.80

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 31/03/2011	£m
Borrowing	1,054
Other Long Term Liabilities	813
Total	1,867

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

	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	1,198	1,198	1,195	1,209	1,211
Other Long Term Liabilities	0	0	0	0	0
Total	1,198	1,198	1,195	1,209	1,211

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

	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	1,244	1,244	1,238	1,251	1,251
Other Long Term Liabilities	0	0	0	0	0
Total	1,244	1,244	1,238	1,251	1,251

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

	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	1,158	1,158	1,154	1,169	1,172
Other Long Term Liabilities	0	0	0	0	0
Total	1,158	1,158	1,154	1,169	1,172

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

	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	1,204	1,204	1,198	1,211	1,211
Other Long Term Liabilities	0	0	0	0	0
Total	1,204	1,204	1,198	1,211	1,211

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.

	2011/12 Approved %	2011/12 Revised %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %
Upper limit for Fixed interest rate exposure	100	100	100	100	100
Upper limit for Variable rate exposure	30	30	50	50	50

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	25
24 months and within 5 years	0	40
5 years and within 10 years	0	30
10 years and within 20 years	10	30
20 years and within 30 years	5	30
30 years and within 40 years	5	30
40 years and within 50 years	10	40
50 years and within 60 years	10	40

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.

Upper limit for total principal invested over 364 days	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
	50	50	50	50	50

Appendix C - Annual Minimum Revenue Provision (MRP) Statement

Local authorities are under a statutory requirement to make an annual calculation of an amount of MRP that they consider prudent to offset against borrowings. We are using the asset life as the basis for this provision.

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.

For 2012/13 and the Medium Term Plan we have adopted the asset life method. 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”.

In order to establish MRP for the MTFP we have based the asset life principle on all capital expenditure funded by both supported and prudential borrowing in 2008/09, 2009/10 and 2010/11. This has resulted in the following projected MRP percentages on 2008/09 capital expenditure of £138m, 2009/10 capital expenditure of £113m and 2010/11 capital expenditure of with assumptions on completion dates:

Year	2012/13	2013/14	2014/15	2015/16
Based on revised completed projects within 2008/09 actual spend of £138m	3.9%	4.6%	4.4%	4.2%
Based on revised completed projects within 2009/10 actual spend of £113m	5.5%	5.5%	5.5%	4.6%
Based on revised completed projects within 2010/11 actual spend of £93m	6.0%	6.0%	6.0%	6.0%
% of 2011/12 projected completed capital spend	3.8%	6.0%	6.0%	6.0%
% of 2012/13 projected completed capital spend		3.8%	6.0%	6.0%
% of 2013/14 projected completed capital spend			3.8%	6.0%
% of 2014/15 projected completed capital spend				3.8%

In addition to this will be MRP at 4% on our capital financing requirement less actual capital expenditure in 2008/09, 2009/10 and 2010/11 and projected capital expenditure in subsequent years, i.e. this will be on a reducing balance as each year additional capital spend will be deducted from the recalculated capital financing requirement.

Each year the percentages will change and MRP for the MTFP will be calculated on the previous year's capital expenditure and will depend on the type of asset the spend is on, its life and whether it is completed or not.

Each year a new MRP statement will be presented.

Appendix D – Fiscal Indicators

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

	Forecast financing costs £'000	Less: Investment Income	Net Financing costs £'000	Total Revenue Spending £'000	%
2010/11	117,005	1,500	115,505	943,970	12.2
2011/12	117,921	1,500	116,421	909,054	12.8
2012/13	125,694	2,700	122,994	904,321	13.6

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

	Preceding September RPI %	KCC Council Tax increase %
2010/11	-1.4	2.1
2011/12	4.6	0.0
2012/13	5.6	0.0
Three Year Average	**3.0**	**0.7**

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

	Management Overheads £'000	Net Revenue Spending £'000	%
2011/12 – revised	102,517	909,054	11.3
2012/13	97,548	904,321	10.8

Note: Following the restructure of KCC on 1 April 2011, a number of budgets previously managed within Service Directorates transferred into Business Strategy and Support Directorate in line with the "One Council" approach, e.g. Corporate Landlord.

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

	Corporate & Democratic Core (Strategic Costs) £'000	Net Revenue Spending £'000	%
2011/12 – revised	7,792	909,054	0.9
2012/13	7,589	904,321	0.8

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

	Net income from Commercial Activities £'000	Overheads £'000	Contribution achieved %
2011/12	7,261	102,517	7.1
2012/13	7,761	97,548	8.0

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 (excluding Schools)**

	General Reserve £'000	Gross Expenditure (exc. Schools) £'000	%
2010/11	26,725	1,430,831	1.9
2011/12	31,725	1,398,198	2.3
2012/13	31,725	1,423,228	2.2

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

	Service Income (exc. Schools) + Council Tax £'000	Gross Expenditure (exc. Schools) £'000	%
2011/12 - revised	835,815	1,398,198	59.8
2012/13	865,191	1,423,228	60.8

Appendix E - Corporate Risk Register

Risk ID 1	**Risk Title**	**Data and Information Management**			
Description	**Threat**	**Implication**	**Risk Owner**	**Current Probability**	**Current Impact**
The Council is reliant on accurate and timely data and information to determine sound decisions and plans, conduct operations and deliver services. It is also required by the Data Protection Act 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. The corruption, misuse, misplacement, loss or theft of the data and information could disrupt the council's ability to function effectively and result in unwelcome adverse publicity or legal action.	Poor decision making due to ineffective use of or insufficient availability of data and information sharing. Loss, misrepresentation or unauthorised disclosure of sensitive data. Malicious attacks and sabotage	Under performance. Breach of Data Protection Act leading to legal actions, fines, adverse publicity, and additional remedial and data protection costs. Disablement of critical/vital services leading to failure to meet duties and to protect people, finances and assets	On behalf of CMT: Director Governance & Law **Responsible Cabinet Member(s):** Business Strategy, Performance & Health Reform Finance & Business Support	Possible	Significant

Risk ID 2	**Risk Title**	**Safeguarding**			
Description	**Threat**	**Implication**	**Risk Owner**	**Current Probability**	**Current Impact**
The Council must fulfil its statutory obligations to effectively safeguard vulnerable adults and children. 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.	Insufficiently robust management grip, performance management or quality assurance Incident of serious harm or death of a vulnerable adult or child	Insufficient rigor in maintaining threshold application/inconsistency Increase in referrals and service demand resulting in unmanageable caseloads/ workloads for social workers Serous impact on vulnerable people Decline in performance and effective service delivery leading to critical inspection findings and reputational damage 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	Corporate Director Families & Social Care **Responsible Cabinet Member(s):** Specialist Children's Services Adult Social Care & Public Health	Likely	Serious

Appendix E - Corporate Risk Register

Risk ID 3	Risk Title	Economic Climate			
Description	**Threat**	**Implication**	**Risk Owner**	**Current Probability**	**Current Impact**
The Council carries significant responsibility for encouraging and enabling growth in the County's economy. Our aim to 'grow the economy' is becoming increasingly challenging in the current economic climate. Our programme of work includes ambitious plans to assist local businesses; to ensure local people have the right skills as well as delivering enabling infrastructure. The Council has already anticipated and adapted its plans to provide for the current economic scenario. If the current economic climate continues or worsens or other regions re-stimulate their economies more quickly than Kent, then the Council's ability to deliver its plans for economic growth will be constrained. 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	Prolonged adverse, uneven or worse than anticipated economic situation leads to reduced income, business exodus, unplanned increase in costs, and demand for Council services beyond capacity to deliver Our ability to deliver an enabling infrastructure becomes constrained	Stalled/low economic and jobs growth The Council finds it increasingly difficult to meet growing demand for services and support, putting vulnerable people at greater risk Reduced S106 contributions Increased levels of unemployment which could cause social tensions Kent becomes a less viable place for inward investment and business	Corporate Director Business Strategy & Support & Head of Paid Service (Corporate Director Enterprise & Environment) **Responsible Cabinet Member(s):** Regeneration & Enterprise Environment, Highways & Waste	Likely	Significant

Risk ID 4	Risk Title	Civil Contingencies and Resilience			
Description	**Threat**	**Implication**	**Risk Owner**	**Current Probability**	**Current Impact**
The Council, along with other Category 1 Responders in the County have 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. Their ability to effectively manage incidents and maintain critical services could be undermined if they are unprepared or have ineffective emergency and business continuity plans and associated activities.	Rise in civil emergency and high impact incidents and failure to deliver suitable planning measures, respond to and manage these events when they occur.	Potential increased loss of life if response is not effective. Serious threat to delivery of critical services. Increased financial cost in terms of damage control and insurance costs. Adverse effect on local businesses and the Kent economy. Possible public unrest and significant reputational damage Legal actions and intervention for failure to fulfill KCC's obligations under the Civil Contingencies Act or other associated legislation.	Corporate Director Customer & Communities **Responsible Cabinet Member(s):** Customer & Communities	Possible	Serious

Appendix E - Corporate Risk Register

Risk ID 5	Risk Title	Organisational Transformation			
Description	**Threat**	**Implication**	**Risk Owner**	**Current Probability**	**Current Impact**
The Council is undergoing rapid change in order to deliver Bold Steps for Kent. A programme of major structural, operational and cultural transformation is underway. Staff reductions are being made because of budget pressures. The move towards more strategic commissioning and other changes to ways of working requires new skill sets and the changing environment for local government requires new behaviours from all staff. A "one council" approach to workforce planning is essential to ensure we have the right numbers of suitably skilled staff in the right places. The combination of losing experienced staff, recruiting new staff, and ensuring existing staff have the right skills and behaviours is a major challenge, and if not managed successfully could result in failure to deliver expected outcomes and benefits, and critical services may be impeded.	Failure to manage the transformation process through adequate planning and resources Lack of appropriate skills and capacity to move to alternative delivery process Loss of excellent staff due to scale of changes	Failure to deliver key services, to maintain quality of services provided and to achieve financial savings required, leading to reputational damage and further pressure on services.	On behalf of CMT: Corporate Director Human Resources **Responsible Cabinet Member(s):** Business Strategy, Performance & Health Reform Democracy & Partnerships Customer & Communities	Possible	Serious

Risk ID 6	Risk Title	Localism			
Description	**Threat**	**Implication**	**Risk Owner**	**Current Probability**	**Current Impact**
Bold Steps for Kent envisages place-based commissioning for some KCC services, pooling budgets into a single commissioning pot for each district. It also identifies considerable opportunity for a more joined-up approach and greater efficiencies if there is a single district-based commissioning plan that is shared by KCC Members and District Councillors. In addition, the Localism Bill paves the way for the Right to Buy public assets, the Right to Challenge the provision of public services and the Right to Bid to provide services, all of which potentially bring still greater complexity into the way in which services are commissioned and delivered. But unless this agenda is managed effectively, including relationships with partners and providers, key objectives will not be achieved.	Failure to establish and maintain locality based arrangements within required timescales	Delay in decision making due to complexity of this agenda Failure to deliver required transformation fast enough. Failure of devolved services, leading to reputational damage for KCC and the need to take back responsibility for the service. Loss of economies of scale for service delivery and failure to deliver required budget savings. Breakdown in critical relationships	Corporate Director Customer & Communities **Responsible Cabinet Member(s):** Democracy & Partnerships Customer & Communities	Possible	Serious

Appendix E - Corporate Risk Register

Risk ID 7	Risk Title	Governance and Internal Control			
Description	**Threat**	**Implication**	**Risk Owner**	**Current Probability**	**Current Impact**
The Council has legal responsibilities to ensure that adequate governance arrangements are in place to help the Council achieve its statutory responsibilities and to protect the Council's assets and finances. In the increasingly complex multi agency working environment and the current economic climate with increased budgetary cuts and organisational change - organisations need to update their governance arrangements and internal controls to successfully implement change programmes, achieve organisational objectives and safeguard their assets and reputation. If the Council's Governance arrangements are deficient, ineffective or unresponsive then the Council may encounter financial loss, service / operational disruption and prosecution.	Major governance and internal control failure within the Council and / or its key suppliers	Major reputational damage and financial loss Fail external inspection/audit Loss of confidence in the Council and possible government intervention.	Corporate Director Finance and Procurement (Director Governance and Law Business Strategy and Support) **Responsible Cabinet Member(s):** Democracy & Partnerships Finance & Business Support	Possible	Significant

Risk ID 8	Risk Title	Academies independence from KCC			
Description	**Threat**	**Implication**	**Risk Owner**	**Current Probability**	**Current Impact**
The Academies Act 2010 enabled schools to become independent from KCC. Academies will get separate funding some of which will be taken away from the Council resulting in reduced funds being available for the support of the remaining local authority schools. Although funding and control is passed to schools KCC remains accountable for educational performance for all state maintained schools including Academies	Insufficient funding remains available to support remaining Local Authority schools to perform effectively Provisions of the Education Act 2011 substantially limit local authorities' ability to monitor and intervene effectively in all categories of schools. This constrains KCC's duty to secure high standards for all pupils	Budgetary pressure on KCC to maintain adequate support to remaining Local Authority Discontent among Local Authority Schools for lack of support. Poor performance among all Schools due to lack of ability to influence Academies or resource Local Authority schools effectively KCC will retain the overall responsibility for the educational standards of the pupils in the County - Reputational damage as people perceive KCC to be responsible	Corporate Director Education, Learning and Skills **Responsible Cabinet Member(s):** Education, Learning & Skills	Very Likely	Serious

Appendix E - Corporate Risk Register

Risk ID 9	Risk Title	Health Reform			
Description	**Threat**	**Implication**	**Risk Owner**	**Current Probability**	**Current Impact**
The Health and Social Care Bill is currently progressing through parliament and should receive Royal Ascent in 2012. The Department of Health's time table for the transition to the new arrangements requires the majority of the activity and new organisations in place by April 2013. KCC is closely monitoring the progress of the Bill and its implications so that it is as prepared as it can be to implement the reforms once approved.	Reform funding and deliverability are more challenging than anticipated and we fail to prepare for worst case scenario and to take an influential role in the co-ordination and implementation of local arrangements. Following successful delivery / implementation the predefined outcomes and benefits are unachievable. Not enough Public Health resource to cover services	Existing arrangements are undermined by changes to health structures during and after implementation leading to additional costs particularly in adult social services (cost shunting). Existing arrangements for health and social care deteriorate whilst waiting for new arrangements to get underway leading to ineffective health and social care provision for citizens of Kent – potentially damaging lives and Council reputation. Major financial and legal backlash / repercussions from Central Government. Cuts in Public Health Services	Corporate Director Families and Social Care (Director of Public Health) **Responsible Cabinet Member(s):** Business Strategy, Performance & Health Reform Adult Social Care & Public Health	Likely	Significant

Risk ID 10	Risk Title	Demand Management			
Description	**Threat**	**Implication**	**Risk Owner**	**Current Probability**	**Current Impact**
KCC recognises that to effectively operate its services within budget limitations and effect preventative early intervention it must examine its operations and services and how they match customer expectations and demand. If the Council does not correctly assess, understand and deal with demand, changing demographics, customer expectations and delivery channels; and redesign and align its services and operations accordingly then it will find it increasingly difficult to fulfil its statutory duties and satisfy customer needs.	Council fails to determine, manage and resource to future demand and its services are then unable to meet future customer requirements.	Customer dissatisfaction with service provision, increased and unplanned pressure on resources and cycle of decline in performance. Fulfilling statutory obligations and duties become increasing difficult against rising expectations Increase the need to provide minimum appropriate services which may be interpreted by the public as reduction or withdrawal of services. May have unintended consequences on some of the Council's strategic objectives. Individual or class action legal challenge resulting in adverse reputational damage to the image of the Council.	Corporate Director Families and Social Care **Responsible Cabinet Member(s):** Adult Social Care & public Health Specialist Children's Services Customer & Communities	Very Likely	Major

Appendix E - Corporate Risk Register

Risk ID 11	Risk Title	Responsiveness to Emerging Government Reforms and Directives			
Description	**Threat**	**Implication**	**Risk Owner**	**Current Probability**	**Current Impact**
KCC must remain responsive to and be prepared for Government Reforms and Directives and endeavour to implement them efficiently and effectively. The scope, scale and frequency of reforms and directives could become overwhelming and KCC may not have sufficient financial resources or ability to implement or accommodate the required changes on time and within cost to meet Government expectations	Fail to effectively monitor Central Government activity (Horizon Scanning) Inability to predict / forecast implications on KCC strategic priorities, and business plans and finances. Fail to take advantage of new initiatives and opportunities Fail to establish reasonable contingent actions to minimise impact	KCC falls behind other regions in its development impacting national reputation, economy and future opportunities. KCC unable to implement changes effectively and realise predicted benefits attracting undesirable government attention, penalties or intervention and reputational damage. Existing services malfunction as resources are drawn to government priorities and KCC goes into operational 'melt down'.	Corporate Director Business Strategy & Support and Head of Paid Service **Responsible Cabinet Member(s):** Business Strategy, Performance & Health Reform	Possible	Significant

Appendix F - Assessment of Level of Reserves

INTRODUCTION

Every year, we thoroughly review the financial reserves we hold for the Council. It is important that this review is balanced and reasonable, and reflects future known spending commitments as well as the general risk environment we are operating in, and the more specific risk assessment that the following year's budget presents.

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.

RESERVES POSITION

Our general and earmarked reserves can be broadly split into five categories:

- those for which we know we will have, or expect to have, a financial commitment in future years
- those for which we want to smooth the impact of expenditure over the medium term, which would otherwise manifest itself in 'boom and bust' style spending patterns
- those to cover financial risks
- reserves likely to be used in the next twelve months; and
- schools and other reserves which cannot reasonably be used for any other purpose, even in the short term. For ease of reference, these can be categorised as 'untouchable'

Our Statement of Accounts for 2010/11 shows that at 31 March 2011, we had earmarked reserves of £111m, general reserves of £27m, and 'untouchable' reserves of £62m; a total of £200m. We expect this figure to reduce to £191m by 31 March 2012.

a) Category 1 – Known Commitment in Future Years

We had a predicted balance of £34m as at 31 March 2011, with an expected draw-down in the next four years of £6m. The strategy we adopted last year is to use 50% of the balance (£28m) that is required beyond 2015 and pay it back over, say, the next 10 years, in this case at £1.4m per annum.

Since the current year's budget and strategy was approved, the balance of these reserves has increased, mainly due to;

1. £4.5m DSG was contributed to the schools PFI reserves in respect of BSF Wave 4 as approved by the Schools' Funding Forum. It was assumed in the earlier exercise that this would not happen because Wave 4 had been stopped by the Government; however the Schools' Funding Forum agreed that this could be retained as a one-off in 2010/11 to contribute towards a predicted shortfall in the PFI reserve over the longer term.
2. £4m lower drawdown than expected from the "projects previously classified as capital" reserve mainly due to lower spend than expected on the Member Highway Fund and a change in the order of use of funding sources to fund the KPSN project, where schools funding was used before revenue support from this reserve, as the schools funding (Standards Fund) was time limited.

The £4.5m increase in PFI is potentially available for short-term use. Sticking with our 50% rule set last year, this would give us a one-off saving of £2.25m

b) Category 2 – Smoothing Expenditure

The significant change to this category is the proposal to create the Council Tax Equalisation Reserve in the 2012/13 budget. That proposal will enable the Council to avoid the "cliff-edge" of the one-off nature of the DCLG's Council Tax Freeze Grant.

c) Category 3 – To manage risk

We had a predicted balance at 1 April 2011 of £37m. The actual balance at 1 April 2011 was £48m. The £11m increase is mostly due to a £9m increase in the Economic Downturn reserve due to £6.8m BSF development costs which we anticipated would be written back to revenue in 2010/11 following the Government announcement that this programme had been stopped. However as we are still awaiting the final outcome of the judicial review, this was transferred to reserves. In addition, we have accounted for £2.2m of accrued interest on our Icelandic deposits. This has been transferred to the Economic Downturn reserve to reduce the impact of the impairment, as per accounting regulations.

We also budgeted to increase this reserve by £5m in 2011/12 in recognition of the unprecedented savings needed to be delivered this year, at the same time as an organisation-wide restructure was being implemented.

Our combined risk around BSF, Iceland and budget savings has reduced somewhat over the past year, and we could reasonably reduce this reserve by £1m-£2m.

At the December 2011 Cabinet meeting it was agreed to transfer £1.2m of one-off underspending on the Early Years and Childcare Quality and Outcomes team budget to support the 2012/13 budget. This can therefore be released for that purpose.

d) Category 4 – Expected to be used during 2011/12 (or within 1 year)

As these reserves are likely to be exhausted during 2011/12, no further release is possible. However, the draft budget proposes to set aside £2m to be used on invest to save projects that will help deliver budget savings in future years, by transforming the way we provide services. This £2m may or may not be used in full during 2012/13.

e) Category 5 – School / Trading (untouchable)

None of this is available for our use as it is reserved specifically for schools and other ‘organisations’.

<u>Financial Risks</u>

Our Gross expenditure excluding schools is around £1.5bn. Our level of General Reserves to cover financial risk is 2% of this figure.

Within the Background section of this appendix, we set out the factors to be considered when setting an appropriate level of reserves. All of those factors have been carefully considered, as well as the level of change happening within the Authority over the coming year.

Over-arching this assessment of reserves is the ability of the organisation to understand, manage and control risk. This in itself is a sub-set of the wider governance and control framework operating within the organisation.

Section 6 of the MTFP details our risk strategy and Appendix E provides the list of our major strategic risks. This, of course, is a major influence on our level of reserves.

SUMMARY

The outcome of this review of reserves is a recommendation that we can release £5m of reserves to support the 2012/13 budget. This is a one-off solution.

Appendix G – Glossary of Abbreviations

A to Z of Services	New presentation of KCC's annual budget according to services provided
AMP	Asset Management Plan
ASC&PH	Adult Social Care and Public Health Portfolio
Autumn Budget Statement	Annual mid year update to national budget - replaced pre Budget Report
BoE	Bank of England
Bold Steps	Bold Steps for Kent - The Council's strategic vision document
BSF	Building Schools for the Future
BSP&HR	Business Strategy Performance and Health Reform
BSS	Business Strategy and Support Directorate
Budget	Annual spending plan for 2012/13
Business Rates (NNDR)	Local property tax levied on businesses, currently proceeds are pooled and redistributed as grant
Capital Budget	Investment programme on infrastructure improvements
C&C	Customer and Communities Directorate/ Portfolio
CFR	Capital Financing Requirement
CIPFA	Chartered Institute of Public Finance & Accountancy
CLG	Government Department for Communities & Local Government
CPI	Consumer Price Index - Government measure of inflation
CRB	Criminal Records Bureau
DEFRA	Government Department for Environment, Food & Rural Affairs
D&P	Democracy and Partnership Portfolio
DfE	Government Department for Education
DfT	Government Department for Transport
DH	Government Department for Health
DMO	Debt Management Office
DSG	Dedicated Schools Grant - 100% funded government grant from national taxation to fund schools

E&E	Enterprise and Environment Directorate
ELS	Education, Learning and Skills Directorate/ Portfolio
EHW	Environment, Highways and Waste Portfolio
EIG	Early Intervention Grant - DfE grant replacing grants such as Surestart
EU	European Union
F&BS	Finance and Business Support Portfolio
Formula Grant	Main grant to local government comprising RSG and redistributed business rates
FSC	Families and Social Care Directorate
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
GP	General Practioner
GUF	Guaranteed Unit of Funding - mechanism used to determine DSG for each local authority
HO	Home Office
HWRC	Household Waste Recycling Centre
KCC	Kent County Council
KCS	Kent Commercial Services
LAC	Looked After Children - children placed into care by the local authority
LAMS	Local Authority Mortgage Scheme
LDF	Local Development Framework
LEP	Local Enterprise Partnership - regional grouping of local authorities to promote economic prosperity
LGA	Local Government Association
LIBID	London Interbank Bid Rate

LOBO	Lender Option Borrower Option – lender has the option to call in loan at pre-determined future date
LSSG	Local Service Support Grant - new 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
OBR	Office for Budget Responsibility - independent body advising the chancellor on economic forecasts
OfSTED	Office for Standards in Education, Children's Services and Skills
OGC	Office of Government Commerce
PCT	Primary Care Trust
PEF(2)	Property Enterprise Fund - scheme established by the council to maximise benefit from property holding at a time property values are depressed
PER	Prudential Equalisation Reserve
PFI	Private Finance Initiative
PROW	Public Right of Way
PWLB	Public Works Loan Board
R&E	Regeneration and Enterprise Portfolio
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
Schools’ Funding Forum	Statutory body representing views of schools in relation to a number of financial matters
SCS	Specialist Children’s Services Portfolio
SIP	Supporting Independence Programme
SORP	Statement of Required Practice - new KCC risk management tool
SR2010	Spending Review 2010

TAG	Treasury Advisory Group
TCP	Total Contribution Pay - performance reward payments to staff
TM	Treasury Management
VAT	Value Added Tax

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