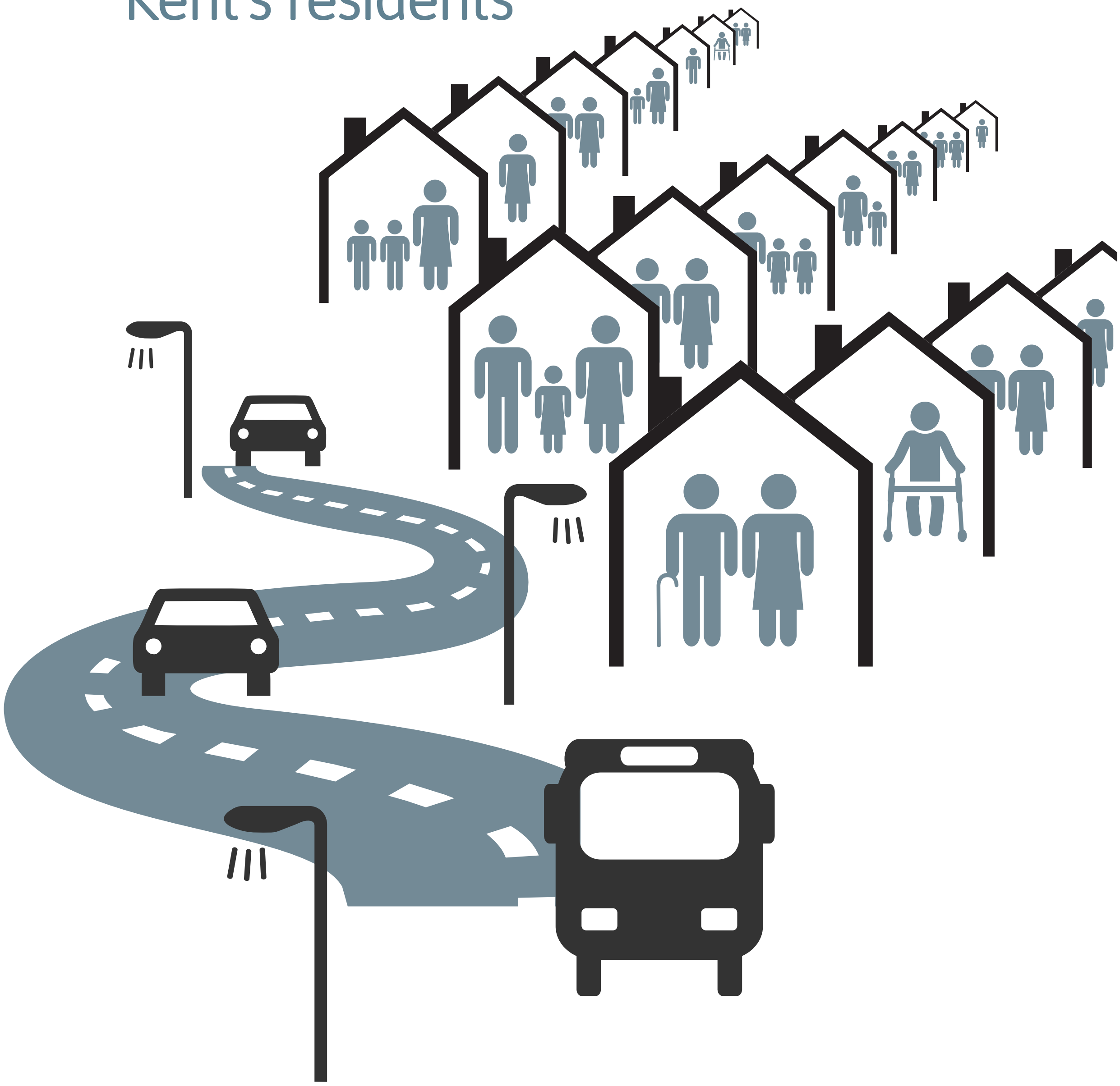
medium term financial plan
2017-20

Prioritising services for
Kent's residents



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

KCC is approaching another year where again we have to make substantial savings on the budget in response to the ongoing squeeze on public spending. The council has a tremendous record of planning and achieving a deliverable budget, 2015-16 was the 16th consecutive year that KCC has ended the year with a small net surplus on its budget. This is all the more remarkable considering that since 2010 we have faced substantial reductions in central government funding (36% in real terms according to the National Audit Office), and at the same time we froze council tax in 3 of the 5 years (and kept increases low in the other years). Over this period we have delivered over £433m of savings (on a net budget of around £1bn), which will increase to over £500m by the end of 2016-17.

Savings of this magnitude have been necessary in order to combat the combination of rising spending demands on services, particularly social care, and meeting the rising cost of providing council services due to inflation/National Living Wage and government legislative changes, at the same time as funding from government has been reducing. In any year dealing with any one of these would be a challenge but to deal with all three, over six consecutive years, is truly unprecedented. We have been able to achieve this by early and accurate forecasting of the scale of the challenge, embarking on a programme of innovative transformation of service delivery with aim of achieving better outcomes at lower costs, a relentless effort to drive out every penny from efficiencies, and judicious use of the council's reserves. This has meant that despite the enormous financial challenge we have been able to protect frontline services and not had to take the "knee-jerk" reactions.

The outlook for the next few years remains unchanged from last year, with the overall picture for local government spending showing "flat cash" between 2015-16 and 2019-20. This was confirmed by the Chancellor of the Exchequer in his Autumn Budget Statement in November when he announced that despite a recalibration of the national fiscal targets for the deficit reduction, government departmental spending plans (which include local government) remain unchanged from the Spending Review announced in autumn 2015. We need to bear in mind that within this flat cash over the 4 years of the Spending Review is a reduction in 2016-17 and 2017-18 followed by a recovery in the latter years, and it includes further reductions in central government Revenue Support Grant, assumed annual increases in council tax (including the social care levy introduced last year) and the Improved Better Care Fund to assist better collaboration between social care and health.

Effectively this flat cash equation means that despite modest increases in council tax and the social care levy each year, we will have no additional money to cover the rising cost of providing services e.g. through rising prices on the back of the roll-out of the National Living Wage, or for additional demands from an increasing and aging population. Our social care budgets remain the areas of greatest vulnerability and we were disappointed that there was no recognition of the mounting issues in social care (arising from both rising demand and a rapidly emerging market sustainability problem in external care market) in the Autumn Statement. The Local Government Finance Settlement announced on 15th December did include some additional short-term support for social care but this was still within the same flat-cash envelope and thus did not address the longer term financial challenge. In particular the option to raise more council tax in 2017-18 and/or 2018-19 (and consequently less in 2019-20), does not offer the long-term sustainable solution for social care funding.

Undoubtedly adult social care is right at the top of our priorities for the forthcoming budget. County Council agreed to raise an additional 2% social care council tax levy (in additional to the 1.99% we can raise for all services without a referendum) on 9th February 2017. This will raise an additional £12m specifically for social care. However, at the time of the County Council meeting this would only go part way towards funding the cost and demand pressures we are facing in adult social (which for next year are forecast to amount to just under £28m). The remainder would have to be found from our on-going programme of transformation within social care, the additional one-off Social Care Support grant announced in the Local Government Finance settlement (which amounted to a net £4.6m, and is welcome) and reprioritisation of budgets across other council services.

However, adult social care is not the only budget priority. We are also facing a pressure this year in children's social care due to the increasing complexity of cases, this looks likely to continue next year. We also still have significant numbers of unaccompanied asylum seeking children who we are supporting in care. Whilst we have negotiated a reasonable settlement with government towards their care costs for this year, the grant for next year has yet to be resolved, and we still have some outstanding issues regarding the reception centre process for the national transfer scheme, and the cost of care leavers, who now outnumber those under 18.

We also continue to have statutory responsibilities in other services which we must comply with. In particular our responsibilities in relation to schools remain, most notably supporting school improvement, despite the fact that government has removed a large element of the Education Services Grant from September (on a presumption earlier in the year that our responsibilities in relation to schools would significantly reduce). Effectively this amounts to a further (and significant) reduction in central government funding. We must also not overlook other vital KCC services in relation to environment, economic development, highways, local community services, public transport and waste recycling and disposal.

We still face some challenges in delivering the current year's budget in 2016-17. A number of budgets, particularly in adults and children's social care, are forecasting overspends despite the rigorous budget setting and monitoring regime we have in place. I am still confident that the outstanding professionalism and dedication of our staff and managers will mean that we can find solutions and not break our exemplary financial management track record.

I believe our council tax increases, which will see KCC's share for a band C property increase from £1,007.60 this year to £1,047.84 next year are justifiable (which includes a combined £39.52 for the social care levy in both years). Whilst we would have liked to keep increases lower these are in line with the government's spending plans, but is essential to raise additional funds towards rising costs and to protect frontline services.

I am confident that we will be able to rise to the financial challenge over the coming years. We will emerge as an outcome focussed organisation targeting our limited resources where it will make the most difference and improvement to people's everyday lives and making sure that every penny paid in council tax is used to provide services which make a positive difference to people's everyday lives.

Paul Carter CBE
Leader of Kent County Council

KCC Medium Term Financial Plan 2017-20

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KCC Medium Term Financial Plan

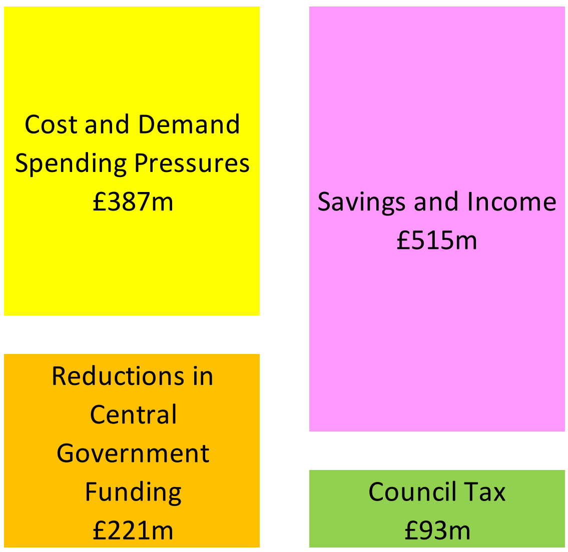
SECTION 1

Executive Summary

Introduction

1.1 Kent County Council (KCC) has a tremendous financial management track record. The Council has delivered a small net surplus on its revenue budget in each of the last 16 years up to 2015-16. This is built on a robust budget setting and medium term financial planning, combined with a rigorous budget management and monitoring regime. Together these are designed to ensure the budget reflects the Council's core strategic objectives but at the same time builds in financial prudence and resilience. The Council is determined to continue to develop and improve this financial management record so that spending decisions yield excellent value for money for Kent residents, businesses and taxpayers.

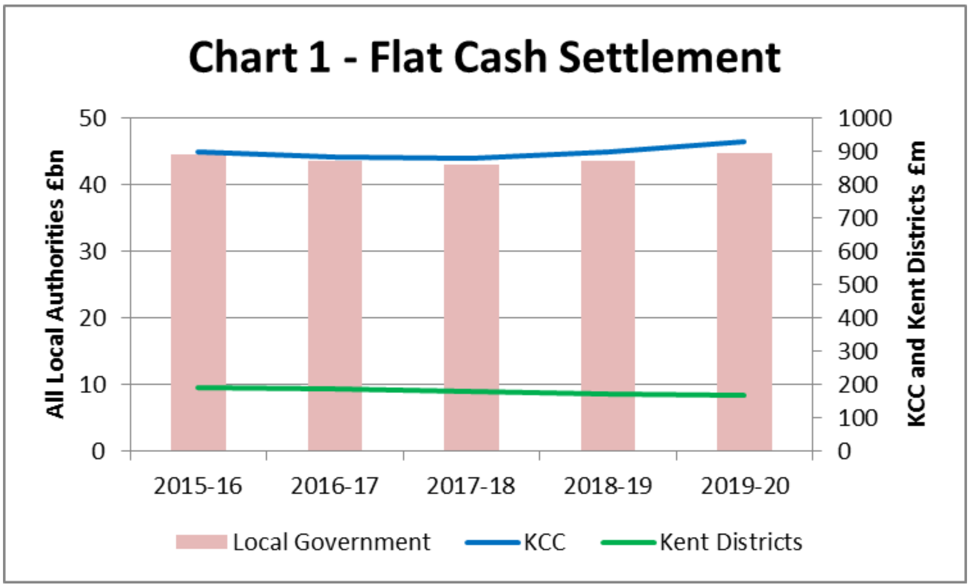
1.2 In recent years, and for the foreseeable future, KCC has faced an enormous and unprecedented financial challenge. This challenge arises from a combination of rising spending demands, reductions in central government funding and freezes/limits on raising council tax. Combined this has led the Council to make annual savings in the region of £80m to £90m per annum each year since 2010. The scale of this challenge over the last 6 years is represented in the graphic below

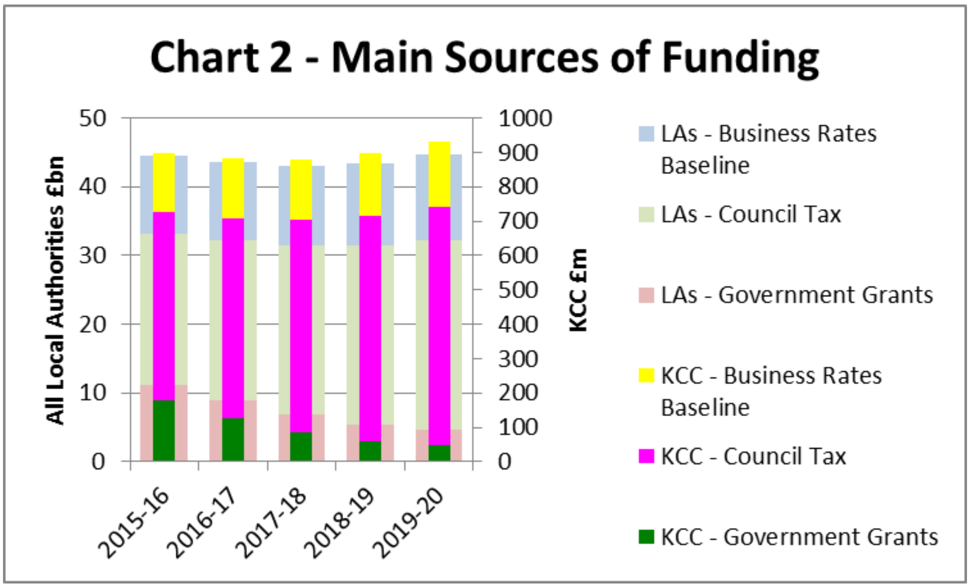


Spending Context for Local Government

1.3 The government has confirmed that departmental spending plans for the next 3 years remain unchanged from the 2015 Autumn Spending Review. For local government this is "flat cash" between 2015-16 and 2019-20 from Department for Communities and Local Government (DCLG). This means that broadly we will have the same amount to spend in cash terms in 2019-20 as we had in 2015-16. This represents a substantial real terms reduction as we will have no additional money to pay for rising demand for services, rising cost of delivering services due to inflation and other market factors, or additional demands imposed by legislation or local service priorities. Flat cash does not take into any changes in grants from other government departments e.g. Department for Education, Department for Transport, etc.

1.4 Within flat cash, there is a decline in 2016-17 and 2017-18, followed by increases in 2018-19 and 2019-2, as reflected in the Chart 1 below. This chart shows the total spending by all local authorities as a bar measured against the left hand vertical axis in £bn, and lines for Kent authorities (KCC and all districts) measured against the right hand vertical axis in £m.





1.5 The flat cash scenario includes spending funding by council tax, business rates and general government grants[1]. Within this scenario the government is reducing its contribution through central grants and expecting local authorities to increase council tax in line with inflation and the social care levy[2], and that business rates will increase in line with inflation. The forecast amounts for each are shown in chart 2 above; the total for all local authorities is shown as the fatter bar against the left hand vertical axis in £bn and KCC is shown as the thinner bar against the right hand vertical axis in £m.

1.6 Charts 1 & 2 show that for KCC the overall settlement is forecast to be slightly better than flat cash i.e. +£33.3m (+3.7%) between 2015-16 and 2019-20, compared to national average of +0.4%. This is partly due to the additional one-off funding for social care in 2017-18 and the phased introduction of iBCF in 2017-20 (both of which are targeted to all social care authorities), equating to around $^{2}/_{3}$ of the KCC increase; and partly due to the higher than average increase in Kent's council tax base in 2016-17, equating to around $^{1}/_{3}$ of the KCC increase. Chart 2 demonstrates the government's assumption that a greater proportion of KCC's spending will be funded by council tax (74.6% by 2019-20) than the average for all authorities (61.8% by 2019-20)

1.7 The Spring Budget 2017 included a significant announcement of £2bn additional grant funding to local authorities for social care nationally between 2017-17 and 2019-20, to help ensure people receive the social care support they need and to reduce pressure on the NHS.

KCC Revenue Budget

1.8 The Council's revenue strategy is set out in section 3 of the MTFP. The revenue budget relates to the day to day spending on services provided by the Council. The budget strategy is based on identifying the scale of the budget challenge i.e. the amounts needed to cover the impact of rising spending demand and rising cost combined with the impact of reductions in central government funding. To offset this challenge the budget solution is based on identifying the amount that can be raised through council tax[3] and local share of business rates[4], combined with savings that need to be made from reducing costs/generating income/use of reserves. The equation for 2017-18 and forecasts for 2018-20 are set out in Table 1 (below).

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[1] The government grants include Revenue Support Grant (RSG), New Homes Bonus (NHB) Grant, improved Better Care Fund (iBCF), Transitional Grant (added in the final 2016-17 settlement for 2 years), and new one-off Social Care Support Grant introduced for 2017-18

[2] Additional 2% per annum levy introduced in 2016. Under new powers from 2017 up to 3% per annum can be raised in any year provided the 3 year levy between 2017-20 does not exceed 6%

[3] The amount raised through increases in estimated tax base, proposed council tax increases subject to County Council decision on 9th February (including increases under the referendum arrangements and social care levy), and estimated collection fund balances

[4] The locally retained share (9%), KCC's share of the local pool and estimated collection fund balances. The top-up grant is included as part of net reduction in central government grants

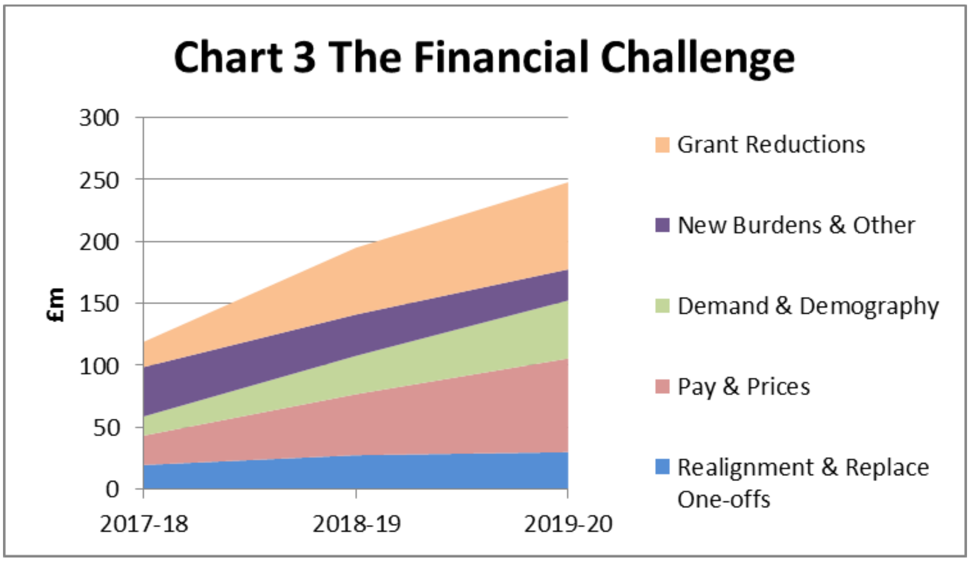
Table 1 - Revenue Budget Equation	2017-18 £m	2018-19 £m	2019-20 £m
	Financial Challenge		
Spending Demands	98.6	42.4	36.5
Net Government Funding Reductions	20.4	33.6	16.4
Total	119.0	76.0	52.9
	Financial Solution		
Council Tax & Business Rates	42.3	21.4	33.5
Savings, Income and Reserves	76.7	54.6	19.4
Total	119.0	76.0	52.9

1.9 The additional spending demands include the following:

- Budget Realignment – Adjustments to base budgets to reflect over/under performance in the current year
- Replacing Use of One-Offs – The current year's budget includes a number of one-off actions e.g. draw down from reserves, which cannot be repeated in subsequent years. Consequently the base needs to be adjusted to reflect this (not to be confused with replenishing reserves)
- Pay and Prices – Provision for staff pay awards due during the forthcoming years and increase in contract prices. Some contracts are index linked, others are negotiated. Both pay and prices includes the impact of escalation in National Living Wage
- Demand & Demography – Impact of changes in the number of clients/service users due to demographic trends. This also includes increased costs due to clients with ever more complex needs
- New Burdens and Service Priorities – Impact of new legislation and local policy decisions e.g. revenue impact of capital investment

1.10 The reductions in government funding principally relate to the phased removal of Revenue Support Grant and the phased introduction of improved Better Care Fund. The cumulative impact of the spending demands and grant reductions which make up the financial challenge are shown in chart 3. The cumulative elements of the financial solution are shown in chart 4. Further details of both the financial challenge and the proposed solution are set out in the Budget Book and MTFP.

1.11 A high level summary of the proposed 2017-18 revenue budget is shown in table 2. Gross expenditure is the total amount spent on staff, buildings, contracts, goods and services, etc. Net expenditure is gross expenditure less income from charges, specific government grants, etc. This equates to KCC's net budget requirement i.e. the amount needed to be raised through council tax, local retention of business rates and un-ring-fenced government grants.



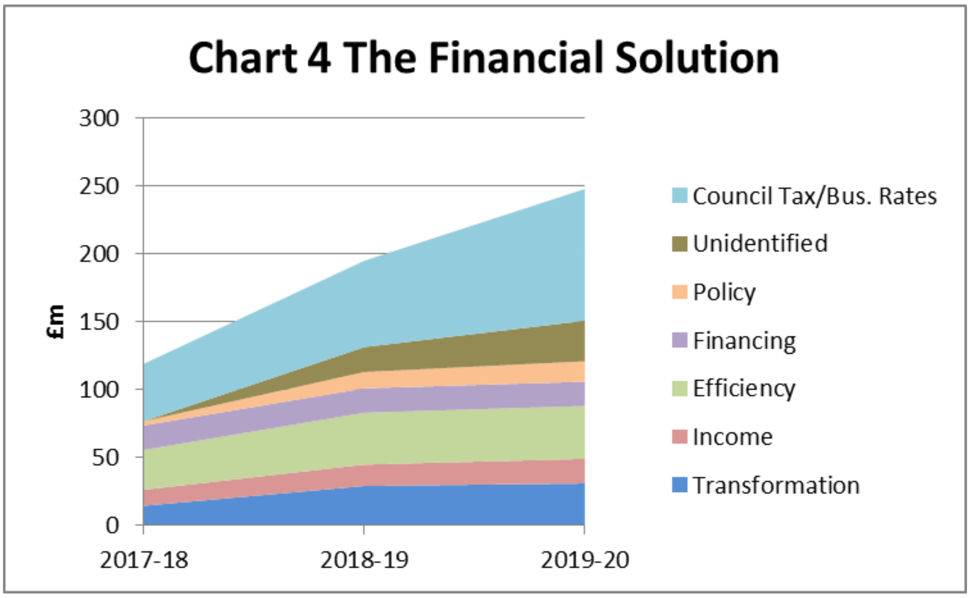


Table 2 KCC Proposed Revenue Budget 2017-18	Gross Expenditure £m	Net Expenditure £m
Adults & Older People's Services	520.2	389.7
Children's Services	308.1	150.7
Community Services	39.0	15.7
Highways	37.8	28.7
Public Health	74.9	0.0
School & High Needs Education	731.2	0.0
Schools' Services	21.7	6.7
Transport Subsidies	77.1	65.3
Waste Management	70.4	68.5
Other Direct Services to the Public	32.4	20.3
Financing Items & Unallocated	132.3	115.2
Management Support & Overheads	143.3	72.2
Total	**2,188.4**	**933.0**

KCC Capital Investment Programme

1.12 The capital strategy is set out in section 4 of the MTFP. Capital spending relates to investment in new or enhanced infrastructure. As with revenue, this needs to respond to the national context whilst ensuring infrastructure is maintained to a reasonable and safe standard, and is sufficient to meet the needs of local communities. The capital programme aims to strike a balance between ensuring that we meet our strategic priorities and vision whilst at the same time ensuring schemes represent value for money and maximise value from the Authority's asset stock. In particular we want to aim for schemes which help reduce the Authority's running costs through invest to save projects, support Kent residents and help with the economic regeneration within the county.

1.13 Capital plays an important role in delivering long term priorities as it can be targeted in creative and innovate ways. However, capital is not unlimited or "free money" – our capital funding decisions can have significant revenue implications. Every £10m of prudential borrowing costs approximately £1m per annum in financing costs (revenue) for 25 years. This is in addition to any on-going maintenance and running costs associated with the project itself. KCC has resolved that no more than 15% of the revenue budget will be spent in servicing debt related to the capital programme. A number of our capital schemes rely on grants from Government departments, some of which we await grant announcements for. We will have to limit capital spending on projects and schemes to the amount raised through external funding as we are unlikely to be able to commit to any additional borrowing.

1.14 The capital programme is presented in directorate format in section 3 of the budget book. Individual schemes within each directorate continue to be identified in detail and separated from rolling programmes. The programme is analysed according to the total cost and phasing for individual projects and programmes, with a separate analysis showing the proposed funding for 2017-18 to 2019-20.

Council Tax

1.15 KCC has increased council tax by just under 4% in 2017-18. This includes 1.99% for the increase permitted without holding a referendum plus a further 2% for the social care levy. This decision was taken at the County Council meeting on 9th February. This increases the annual KCC element for a band C household from £1,007.60 in 2016-17 to £1,047.84 in 2017-18. The total social care levy for a band C household in 2017-18 is be £39.52[5], all of which will be spent on the rising cost of adult social care services.

[5] This comprises of £19.36 for the 2016-17 levy plus an additional £20.16 for the 2017-18 levy

1.16 The total council tax households will have to pay will be affected by decisions from other authorities in Kent including District Councils, Police Authority, Fire and Rescue and, where applicable, Parish and Town Councils. This will include decisions on the levels of non-mandatory discounts and exemptions. We are anticipating an increase in council tax receipts, due to continued growth in the number of council tax payers in the County, and an on-going programme to review the application of discounts and exemptions.

Revenue Budget and Medium Term Financial Plan Format

1.17 The revenue budget is presented in a format designed for external purposes, which identifies spend on individual front line services, financing costs, assessment activity and management/support services. The presentation includes a high level summary (section 4), and an A to Z of services (section 5). The A to Z of services identifies the net budget for 2016-17 and summary of spending and income proposed for 2017-18. Information for internal purposes (directorate budgets and delegations to individual managers) is shown in section 9 and appendix A.

1.18 The Medium Term Financial Plan includes detailed narrative sections exploring the national financial and economic context, and KCC's revenue budget, capital budget, treasury management and risk management strategies. The financial appendices include a high level 3 year plan as appendix A(i), and a more detailed one year plan setting out for each directorate the significant proposed spending changes (additional spending demands and savings) as appendix A(ii).

Conclusion

1.19 The Revenue and Capital MTFP set out in this document represent the culmination of nearly a year's work in developing how the Council can respond to the unique financial challenge of reduced Government funding while at the same time there is growing demand for Council services, particularly in adult social care, and rising cost of goods and services we purchase. We also need to take account of the changed national context which assumes a rebalancing of the relative contributions from central government and local taxation.

1.20 Budget assumptions and medium term forecasts are based on sustained economic prosperity. Should there be further economic shocks this could have a significant impact on future central government funding, local tax receipts and demand on local services. The Council maintains an appropriate reserve to help mitigate such shocks and other risks to the Council's finances.

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 section explores that context and identifies the broad national assumptions within which KCC's Budget and Medium Term Financial Plan (MTFP) have been framed.

2.2 The Government's economic and fiscal strategy was revised and updated in the 2016 Autumn Statement (AS2016) following the EU referendum outcome and updated economic forecasts from the Office for Budget Responsibility (OBR). These OBR forecasts showed a slowing in economic growth compared to recent performance and previous forecasts as a result of anticipated lower business investment and household spending. The OBR also highlighted that these forecasts have a higher than usual degree of uncertainty. The OBR forecasts are more optimistic than Bank of England (BoE) forecasts.

2.3 The key fiscal difference in AS2016 is that OBR forecasts for tax yields are lower than previously estimated, and spending forecasts are higher. The combination of these revised forecasts means a £122bn increase in borrowing over the period 2016-17 to 2020-21. The statement included additional infrastructure investment which contributed to the additional borrowing but was not the only factor in the increase. The Chancellor confirmed that departmental spending plans (referred to as Resource DEL) were unchanged from SR2015.

2.4 The Chancellor reset deficit reduction targets, which would no longer aim to eliminate the deficit in this parliament, and instead:

- Reduce the net borrowing to less than 2% of Gross Domestic Product (GDP) by 2020-21
- Net debt as a proportion of GDP to be falling by the end of this parliament
- The budget deficit to be eliminated some unspecified time during the next parliament

2.5 The budget and MTFP are also heavily influenced by the provisional Local Government Finance Settlement which was announced on 15th December. This settlement provides detailed grant allocations and spending power assumptions for each local authority for each year between 2016-17 and 2019-20.

2.6 The main headline from the settlement is that the overall picture for the Local Government sector remains the same "flat cash" as the 2016-20 settlement following Spending Review 2015 (SR2105), this is consistent with the retention of previous departmental spending plans announced in the Autumn Statement. The settlement does include some additional flexibility for those authorities responsible for adult social care services. The Institute for Fiscal Studies (IFS) concluded that the provisional settlement “represents a modest increase in funding for social care in the short-term, largely paid for by above inflation increases in council tax, and a small reduction in grants to District Councils”.

Public Spending and Receipts

2.7 As already outlined in the introduction to this section of the MTFP the most significant fiscal change in AS2016 is the loosening of the deficit rules, with a budget surplus not being achieved until an unspecified time in the next parliament. This section summarises the analysis of the shift from the OBR “Economic and Fiscal Outlook”. It should be emphasised that the Chancellor chose this route in response to worsening economic forecasts rather than the alternatives of further austerity measures or a short-term fiscal stimulus. Furthermore, he chose to further increase borrowing through policy choices, principally additional infrastructure investment (and did not respond to calls to increase recurrent health or social care spending).

2.8 The OBR demonstrated this shift in fiscal policy in graphical form in charts 2.1 and 2.2 as reproduced below. Chart 2.1 shows the linear relationship with shift due to revised economic forecasts (the movement between the red and yellow lines), separately from the impact of policy choices in the statement (yellow line to blue line). This clearly demonstrates that the majority of the loosening is in response to revised economic forecasts. Chart 2.2 shows the separate elements between the March and Autumn forecasts in block form with the effect of classification changes, Brexit and non-Brexit forecast changes, and policy changes, shown separately.

Chart 2.1: Public sector net borrowing

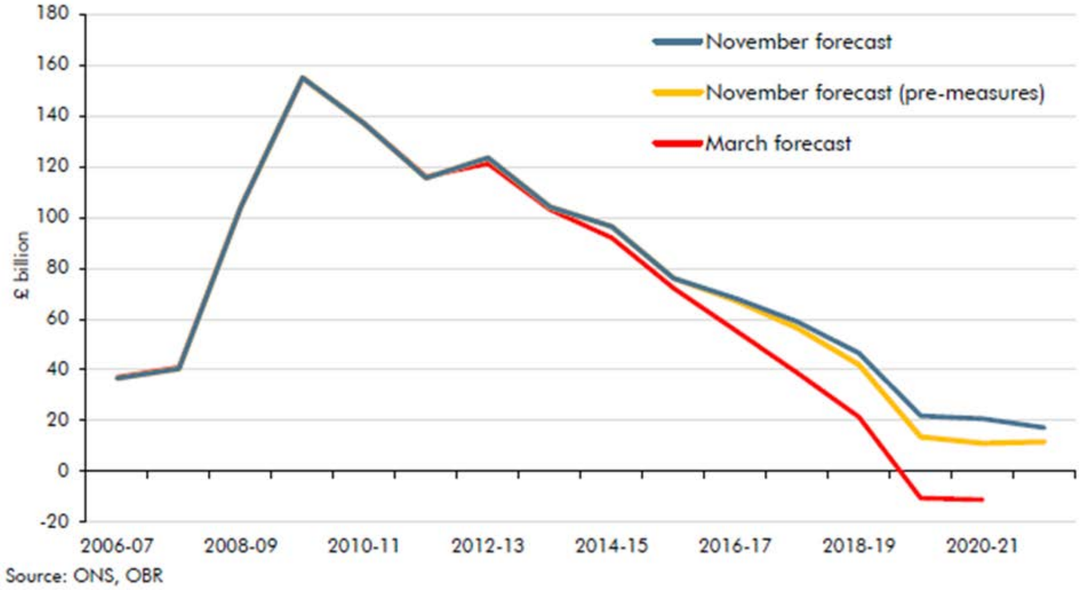
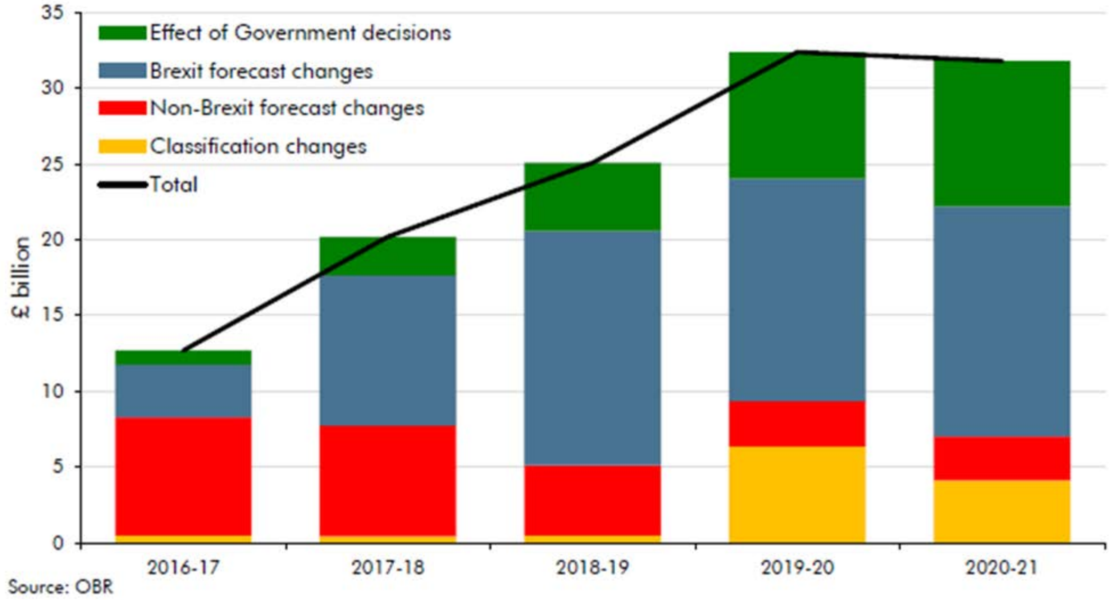


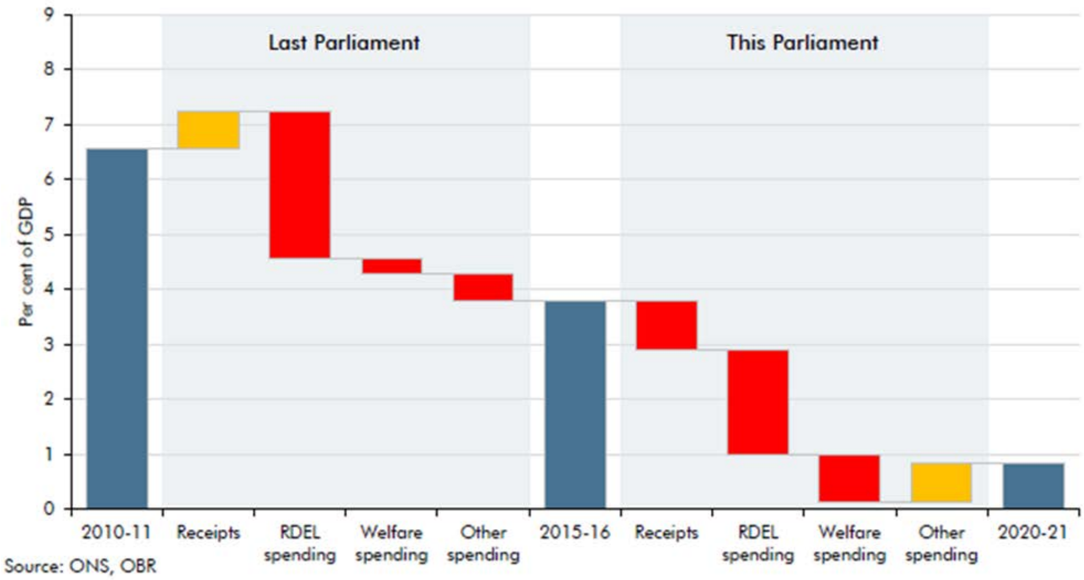
Chart 2.2: Sources of changes to public sector net borrowing



2.9 In announcing the revised fiscal rules the Chancellor has left himself some room for further manoeuvre as the forecast deficit for 2020-21 is below the 2% he has allowed in his revised strategy. Borrowing could increase by £26.5bn (1.2%) and he could still meet the revised fiscal rule.

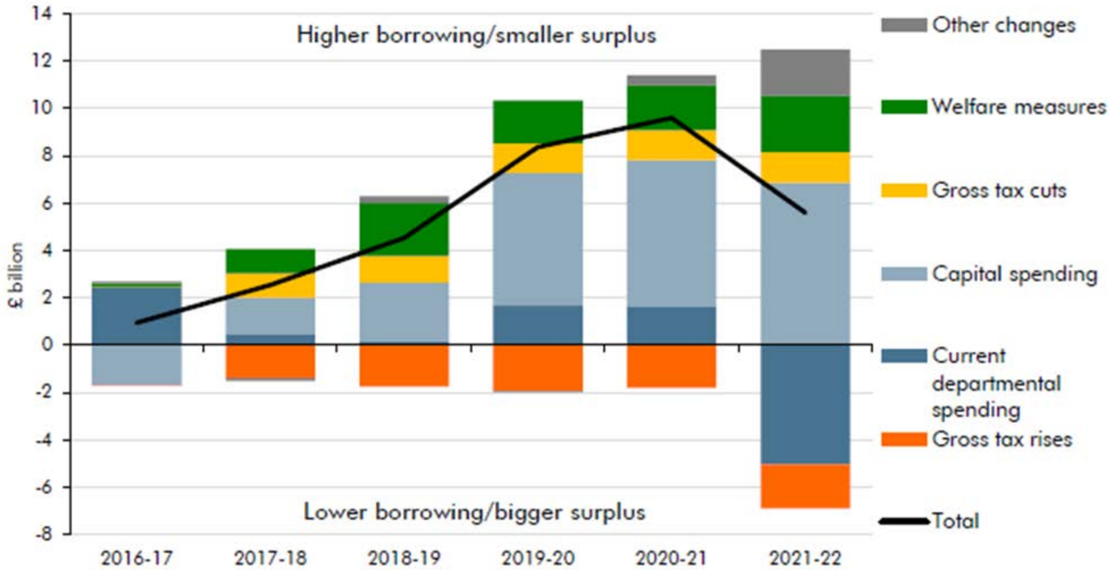
2.10 The OBR analysis includes a graphical representation of the contributory factors to the change in the budget deficit over the previous and current parliaments. This is reproduced in chart 2.3 below. Reductions in departmental spending, including local authorities, are the most significant contributors to deficit reductions in both parliaments.

Chart 2.3: Sources of changes to the structural deficit over two Parliaments



2.11 The OBR analysis included a graphical representation of the main impact of policy choices on the budget deficit; this is reproduced in chart 2.4 below. This shows that the main impact is from the additional capital infrastructure investment. As already noted the impact of policy choices is significantly less than the impact of revised economic forecasts.

Chart 2.4: The effect of Autumn Statement Decisions on public sector net borrowing



Source: OBR

2.12 A summary of the forecast overall public spending and Government receipts is shown in table 2.1 below. This has been extracted from two separate tables in the OBR report.

Table 2.1	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
March 2016 Budget							
Spend	753.9	771.9	784.6	801.0	810.4	841.1	
Receipts	681.8	716.5	745.8	779.5	820.9	852.2	
Annual Deficit/(Surplus)	72.2	55.5	38.8	21.4	(10.4)	(11.0)	
Autumn 2016 Autumn Statement							
Spend	755.8	778.8	797.0	814.5	823.7	855.6	886.4
Receipts	679.8	710.6	738.0	768.0	801.8	834.8	869.2
Deficit	76.0	68.2	59.0	46.5	21.9	20.7	17.2
Change in Deficit	3.9	12.7	20.2	25.1	32.4	31.8	
		£122m increase in borrowing referred to in AS2016					
March 2016 Budget adjusted for Classification Changes							
Spend		773.3	785.9	802.3	811.7	842.6	
Receipts		717.3	746.7	780.4	815.8	849.6	
Deficit		56.0	39.2	21.9	(4.1)	(7.0)	
Like-for-like Change in Deficit		12.2	19.8	24.6	26.0	27.7	

Note - this table, as with all other tables in the MTFP, shows each element to nearest decimal place including totals; consequently the totals may not appear to add-up but are accurate

2.13 The impact of these revised annual net deficits on the total public sector net debt (PSND) is shown in table 2.2 below. Total debt is now forecast to peak at 90.2% of GDP in 2017 i.e. earlier than the revised fiscal target set by the Chancellor

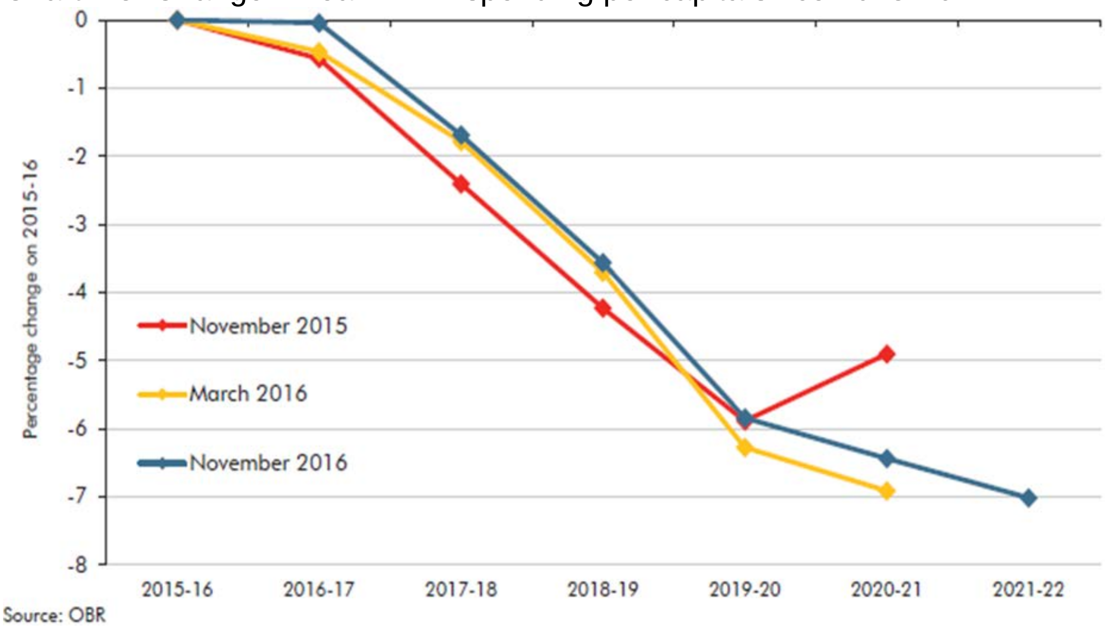
Table 2.2	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
March Budget						
Accumulated Debt (% of GDP)	83.7	82.6	81.3	79.9	77.2	74.7
Accumulated Debt (£bn)	1,591	1,638	1,677	1,715	1,725	1,740
Autumn Budget Statement						
Accumulated Debt (% of GDP)	84.2	87.3	90.2	89.7	88	84.8
Accumulated Debt (£bn)	1,610	1,725	1,840	1,904	1,945	1,950
Change in cash total debt	19	86	163	189	220	210

2.14 As already outlined there is very little change in departmental recurrent spending (Resource DEL) from AS2016. This is the most relevant aspect for Local Government as this includes local authority spending whether financed from central Government or council tax. Table 2.3 below reproduces data from the OBR report showing the March Budget RDEL (adjusted for the classification changes) and AS2016 forecast.

Table 2.3	2016-17	2017-18	2018-19	2019-20	2020-21
	£bn	£bn	£bn	£bn	£bn
March RDEL (restated)	313.8	317.3	319.7	319.0	325.3
November forecast	315.4	316.9	319.6	319.8	326.0

2.15 The OBR recognised that these RDEL forecasts represent a fall in real spending per person over the next 5 years. They note that the reductions in the last 3 years up to 2019-20 show real spending per person falling by around 2% a year with a particularly sharp fall in 2019-20. Beyond 2020 the forecasts show a lesser reduction of around 0.6% real terms per person, although as acknowledged in the report detailed allocation across departments is not known but they do identify that “falls will take place against a backdrop of upward pressure on spending – particularly health spending – from an ageing population”. Reproduced below in chart 2.5 is the OBR graph showing the reduction in real terms spending per capita.

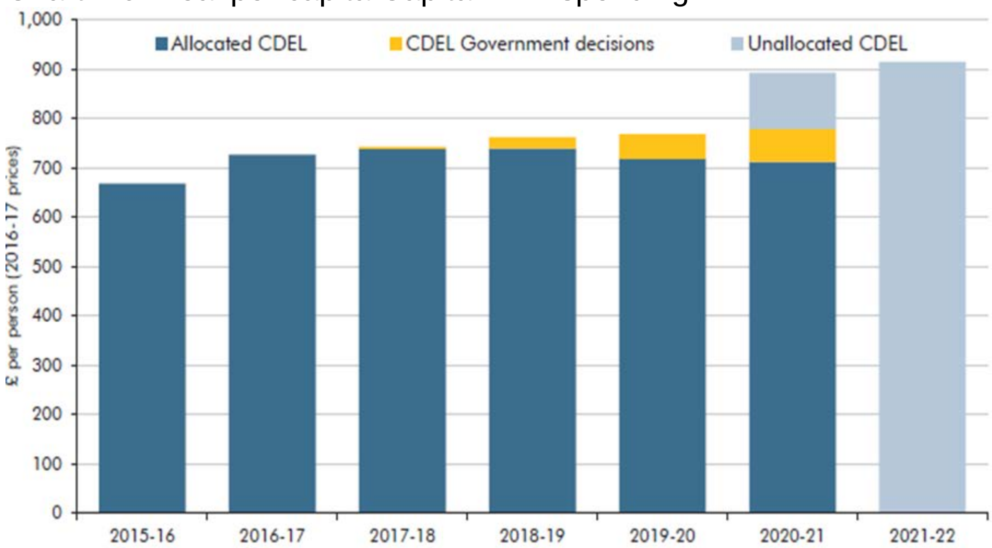
Chart 2.5: Change in real RDEL spending per capita since 2015-16



Source: OBR

2.16 The Government has added significant amounts to capital spending in the Autumn Statement through £23bn National Productivity Investment Fund. This fund includes investments in housing, transport, telecoms and research & development infrastructure. This additional spending, in addition to existing capital spending in SR2015 will result in increases in real terms capital spending per capita. Reproduced below in chart 2.6 is the OBR graph showing capital spending plans.

Chart 2.6: Real per capita Capital DEL spending



Source: OBR

2.17 These extracts from the OBR are intended to provide a high level picture of the overall context for public spending. Details of the full publications can be found at:
http://budgetresponsibility.org.uk/efo/economic-and-fiscal-outlook-november-2016/

2.18 The objective to repair public finances continues to have the biggest impact on local authorities. However, in setting the Council's budget we must also have regard to the other objectives and how they impact on our financial planning. In particular we need to have regard to welfare reforms and how these may impact on families' ability to pay council tax (including impact on the tax base arising from council tax reduction schemes for those on low incomes) and demand for Council services, the introduction of the National Living Wage, reforms to create a sustainable health and social care system, housing initiatives, the extension of state childcare from 15 hours a week to 30 hours for three and four year olds of working parents in September 2017, the introduction of apprenticeship levy, and the reform of the local authority funding through business rate retention (including further devolution of responsibilities to local authorities).

2.19 Following previous announcements on changes to tax credits and Personal Independence Payment, AS2016 announced changes to the welfare cap which will now be a medium term instrument to limit welfare spending to £126bn in 2021-22. In order to manage unavoidable fluctuations in spending a 3% margin will also apply. The cap will be breached if spending exceeds the cap plus the margin. The OBR will formally assess performance against the cap in 2020-21, in the interim years progress towards the cap will be monitored internally. AS2016 also included a change to the Universal Credit taper which will now reduce benefits by 63% (previously 65%) as income increases.

2.20 The £3.5bn efficiency review target announced in March 2016 remains. However, the Chancellor announced that £1bn of these savings would be available to re-invest in priority areas in 2019-20. At this stage there is no detail what these priority areas might be.

2.21 The roll-out of the National Living Wage (NLW) will have a significant impact on a range of contracts KCC procures. AS2016 included an increase for £7.20 an hour in 2016-17 to £7.50 an hour in 2017-18. As part of the agreement of the Kent pay scheme KCC will need to decide whether the Council will reflect this increase in Kent pay ranges and whether the Council continues with current policy to keep ahead on NLW increases. The Autumn Statement made no reference to the medium term policy for NLW to equate to 60% of the national median wage. As in 2016-17 the biggest impact of NLW is likely to be on contracted services.

2.22 AS2016 did not include any new announcements on health and social services care. The health budget continues to be protected and as with other departments the RDEL remains the same as announced in SR2015. Public Health funding continues to be ring-fenced in 2017-18 (including previously announced reductions) pending the outcome of consultation on the 100% business rate retention.

2.23 AS2016 was much slimmer than previous statements. A full version is available at:

https://www.gov.uk/government/topical-events/autumn-statement-2016

2.24 The Chancellor also announced that this would be the last Autumn Statement. In future years all the main budget announcements (tax and spend) would be switched from March to Autumn. This will apply from Autumn 2017. From Spring 2018 onwards a mid-year consolidation statement will be introduced.

Provisional Local Government Financial Settlement

2.25 The provisional Local Government Finance Settlement was announced on Thursday 15th December. The settlement sets out the provisional allocation of key Government funding steams for 2017-18 and indicative allocations for 2018-19 and 2019-20. The settlement also includes the Government's estimate of the change in local authority overall spending power taking into account both Government funding and council tax. Chart 2.7 below shows the overall England core spending power between 2015-16 and 2019-20.

Chart 2.7: Spending power in provisional Local Government finance settlement

England					
Illustrative Core Spending Power of Local Government;					
	2015-16 £ millions	2016-17 £ millions	2017-18 £ millions	2018-19 £ millions	2019-20 £ millions
Settlement Funding Assessment	21,249.9	18,601.5	16,632.4	15,598.8	14,584.3
Council Tax of which;	22,035.9	23,247.3	24,623.2	26,082.1	27,629.0
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	**22,035.9**	**22,858.5**	**23,789.7**	**24,760.7**	**25,773.5**
additional revenue from referendum principle for social care	**0.0**	**381.8**	**814.2**	**1,289.6**	**1,811.5**
Potential additional Council Tax from £5 referendum principle for all Districts	0.0	7.0	19.4	31.7	44.0
Improved Better Care Fund	0.0	0.0	105.0	825.0	1,500.0
New Homes Bonus	1,200.0	1,485.0	1,251.9	938.0	900.0
Rural Services Delivery Grant	15.5	80.5	65.0	50.0	65.0
Transition Grant	0.0	150.0	150.0	0.0	0.0
The 2017-18 Adult Social Care Support Grant	0.0	0.0	241.1	0.0	0.0
Core Spending Power	**44,501.3**	**43,564.2**	**43,068.6**	**43,493.8**	**44,678.3**
Change over the Spending Review period (£ millions)					177.0
Change over the Spending Review period (% change)					0.4%

2.26 Overall the context for Local Government spending over the medium term remains “flat cash” between 2015-16 to 2019-20. This flat cash includes council tax, additional social care funding and reductions in central Government grants. Flat cash means there is no overall additional funding for rising costs or demand pressures, therefore these have to be compensated by savings and spending reductions.

2.27 The settlement offered additional funding for social care within the same overall flat cash envelope with two key changes:

- Greater flexibility in the social care council tax levy. Whilst this remains at 6% over the three years of the settlement (2017-18 to 2019-20), authorities have choice to raise up to 3% in any year (as long as overall the 6% limit over 3 years is not breached). This would enable council tax increases to be brought forward early although council tax charges in 2019-20 cannot be any greater than they would have been under the previous Spending Review (SR2015) announcement
- A new one-off Adult Social Care Support Grant in 2017-18 which is made possible by bringing forward the proposed changes by reducing the New Homes Bonus (NHB) Grant. These changes include reducing the grant from six years growth to five years i.e. remove the 2011-12 and 2012-13 elements and bring in new 2017-18. The 2017-18 addition also includes the introduction of a new 0.4% “deadweight” threshold; only new growth above this threshold is now funded. The Social Care Support Grant is allocated to authorities with social care responsibilities according to the existing adult social care relative needs formulae.

2.28 The flat cash equation is based on a reduction in central Government funding and an increase in locally financed expenditure through council tax and local share of business rates. The reduction in central funding comes from phasing out RSG (included in Settlement Funding Assessment in chart 2.7 above) in advance of the new 100% business rate retention, and from reform of NHB grant. RSG reductions remain unchanged from the 2016 settlement. The flat cash equation includes a dip in overall spending in 2016-17 and 2017-18 followed by a recovery in the following 2 years.

2.29 The Settlement Funding Assessment (SFA) also includes the locally retained share of business rates. Each Authority’s baseline has been adjusted to reflect the revaluation of rateable values and the National Non Domestic Rate (NNDR) multiplier for 2017-18. This affects each Authority’s individual tariff or top-up. The revaluation has generally increased rateable values and reduced the NNDR multiplier[1]. The largest increases are in London as exemplified in table 2.4 below. The overall impact of these changes are broadly neutral although does

[1] Following the revaluation the multiplier (the rate in the pound applied to the rateable value) is reassessed to ensure there is no increase or decrease in the overall yield from business rates after allowing for the estimated impact of appeals.

result in marginal changes to the overall SFA for 2017-18, 2018-19 and 2019-20 as well as marginal changes for individual authorities.

Table 2.4			
	2010	2017	
2010 and 2017 Revaluation Rating List (at 06 Oct 2016)	Rateable value	Rateable value	Percentage Change
	£000	£000	
England Total	57,685,499	63,212,289	9.6
North East	2,165,960	2,145,459	-0.9
North West	6,702,554	6,701,757	0
Yorkshire & Humberside	4,784,819	4,785,621	0
East Midlands	3,656,330	3,925,789	7.4
West Midlands	4,988,464	5,148,781	3.2
East	5,576,067	5,782,510	3.7
London	16,419,047	20,310,982	23.7
South East	8,600,631	9,428,935	9.6
South West	4,791,628	4,982,454	4
Source: VOA administrative data as at 25 September 2016			

2.30 The flat cash equation is based on the OBR forecast for council tax yields. In their forecasts the OBR have assumed council tax increases in line with inflation and similar increases in the tax base as in recent years. These council tax forecasts have slightly increased from SR2015 and by 2019-20 the overall spending power shows a small net increase in core spending power of £177m (0.4%). This compares a small net reduction of £30.4m (-0.1%) in SR2015. The OBR forecast also assumes authorities with social care responsibilities levy the additional 2% levy each year.

2.31 The change in core spending power between 2015-16 and 2019-20 for different classes of Authority is shown in table 2.5 below. Table 2.6 shows the impact of the changes to NHB grant and Social Care Support Grant by class of Authority in 2017-18. Some of the reductions in NHB (due to the removal of 2011-12 element and the introduction of new 2017-18 element) would have happened anyway without the reforms to the grant calculation, however, it is not possible to isolate the impact.

Table 2.5							
Change in Core Spending Power	2015-16 Adjusted	2016-17	2017-18	2018-19	2019-20	Change 2016-17 to 2017-18	5 Year Change
	£m	£m	£m	£m	£m		
Inner London	2,846.6	2,757.1	2,702.0	2,714.6	2,772.2	-2.0%	-2.6%
Outer London	3,969.3	3,864.1	3,817.5	3,854.5	3,960.4	-1.2%	-0.2%
GLA	1,964.2	1,930.9	1,970.6	2,032.2	2,104.0	2.1%	7.1%
Metropolitan Areas	9,595.8	9,276.1	9,134.8	9,263.6	9,501.1	-1.5%	-1.0%
Shire Areas	26,120.7	25,731.3	25,438.9	25,624.0	26,335.6	-1.1%	0.8%
Isles of Scilly	4.8	4.8	4.9	4.9	5.0	1.1%	5.9%
Total	44,501.3	43,564.2	43,068.6	43,493.8	44,678.3	-1.1%	0.4%
Shire Areas							
Counties with Fire	5,472.3	5,403.8	5,391.5	5,454.6	5,643.3	-0.2%	3.1%
Counties without Fire	7,880.6	7,750.2	7,735.9	7,868.6	8,154.7	-0.2%	3.5%
Unitaries with Fire	837.3	822.4	810.6	818.8	842.5	-1.4%	0.6%
Unitaries without Fire	8,383.5	8,207.5	8,104.6	8,180.7	8,406.0	-1.3%	0.3%
Districts	2,583.3	2,591.0	2,456.6	2,356.8	2,326.2	-5.2%	-9.9%
Fire and Rescue	963.6	956.4	939.6	944.6	962.9	-1.7%	-0.1%

Table 2.6				
Changes in NHB and Social Care Support Grant	2017-18 Indicative NHB in 2016/20 Settlement	2017-18 Proposed NHB in 2017-20 Provisional Settlement	2017-18 Social Care Grant in 2017-20 Provisional Settlement	Net Change
	£m	£m	£m	£m
Inner London	167.1	144.6	15.7	-6.7
Outer London	146.8	121.2	21.6	-4.0
Metropolitan Areas	236.4	190.1	59.1	12.8
Shire Areas	942.7	795.9	144.6	-2.1
Isles of Scilly	0.1	0.0	0.0	0.0
Total	1,493.0	1,251.9	241.1	0.0
Shire Areas				
Counties with Fire	51.3	44.0	34.7	27.4
Counties without Fire	76.1	65.1	55.1	44.1
Unitaries with Fire	30.7	26.6	5.1	1.0
Unitaries without Fire	296.6	246.9	49.7	0.0
Districts	488.0	413.4	0.0	-74.6

Education Funding and Dedicated Schools Grant (DSG)

2.32 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 and education services (although local authorities are able to provide a top-up from Council Tax or other local sources). New arrangements for the calculation of DSG were introduced in 2013-14, these new arrangements allocated funding in 3 blocks; schools, early years and high needs.

2.33 The schools and early year's blocks are calculated according to an amount per pupil. These amounts are unique for each Authority based on historical average spending per pupil. The schools and early years amounts per pupil are the same as 2016-17, as announced in the summer. The additional funding allocated to the 69 least fairly funded authorities in 2015-16 (Kent was not one of these) has been incorporated into the schools block per pupil for theses authorities. The early years block has separate amounts for 3/4 year olds and 2 year olds.

2.34 The schools block includes an additional £15 per pupil for the transfer of the retained element of Education Services Grant (ESG) as outlined in paragraph 2.42 below. The Early Years block includes additional funding for the additional 15 hours a week entitlement for 3 and 4 year old children of eligible working parents from September 2017.

2.35 The schools and early years blocks allocations are based on the October 2016 pupil numbers. The October 2016 pupil numbers in the Schools Block have been adjusted for the increase in reception aged pupils between October 2015 and January 2016 i.e. a year in arrears. The early years block will be recalculated for any increase in January 2017 numbers, and will be recalculated again based on January 2018 pupil numbers with the final allocation based 5/12 on January 2017 numbers and 7/12 on January 2018.

2.36 The high needs block is based on the 2016-17 high needs allocation adjusted for changes in places agreed for the summer term 2016, change to the residency/location criteria for post 16 and non-maintained special schools, and exceptions/directly funded non maintained special school places. The high needs block for 2017-18 includes the allocation of an additional £130m to all authorities (Kent received £3.4m). The high needs block will be adjusted during the year to reflect places funded directly by the Education Funding Agency (EFA) to academies and non-maintained schools and post 16 places funded through the sixth form grant to local authorities.

2.37 The Department for Education (DfE) has been consulting about further reform for the allocation of DSG from 2018-19 onwards as it seeks to introduce a fairer national funding formula. This consultation will seek to address the disparity in funding rates per pupil between individual authorities so that funding is transparent and fairly linked to children's needs. Under the proposals DSG will be split into four blocks rather than three; schools, high needs, early years, and a new block for central services to schools. A "soft" introduction is proposed in 2018-19 (with local authorities still responsible for local funding formula for schools), followed by a "hard" national funding formula for schools in 2019-20 (although even under this national formula there is likely to be scope for local flexibility).

2.38 Within the move to a new national formula there is a strong desire to maintain stability in the high needs DSG block through the inclusion of a historic spending factor. This effectively sets a “floor” based on current spend below which funding cannot fall. However, as with all floors it means authorities above the floor take longer to receive additional funding and floor authorities are effectively “cash limited” irrespective of changes in need. The DfE proposes a further review of high needs in four years’ time.

2.39 Local authorities currently have discretion about how they divide spending across the three DSG blocks. Under the “hard” formula this discretion would remain across high needs, early years (with restrictions), and central services blocks. Discretion over the schools block is likely to be more limited, some flexibility will remain between the schools and early years blocks in 2018-19 (following local consultation ad agreement with the Schools Forum), but details of local flexibility beyond this have not yet been announced. This could impact on spending decisions on high needs and central services in future years.

2.40 The local authority is responsible for determining the formula used to allocate funding to individual schools, although changes to the regulations have significantly restricted the scope for local variations. A Minimum Funding Guarantee (MFG) protects individual schools from losing no more than 1.5% per pupil year on year. The formula is agreed by the local authority following consultation with schools and the Schools’ Funding Forum. As already outlined the allocation to schools will progressively move to a national formula with some aspects of local flexibility.

2.41 A separate Pupil Premium was introduced in 2011-12. The amounts per pupil for 2017-18 will remain the same as 2016-17 i.e. £1,320 per primary age disadvantaged pupil, £935 per secondary age, £1,900 for looked after children/adopted from care, and £300 for children from military services families. The pupil premium will continue to operate as a separate grant and will not be affected by the introduction of national formula for DSG and schools.

2.42 ESG was introduced in 2013-14 and provides funding for local authority central functions in relation to maintained schools on a national per pupil basis to local authorities, and as a separate payment to individual academies. In the summer it was confirmed that this grant would be withdrawn as part of the savings package announced in SR2015. The retained duties element (which relates to the local authority statutory role in relation to maintained schools and academies) is being transferred in the schools block in DSG (see 2.34 above) at the same rate per pupil as 2016-17. The general element, (which for local authorities relates to a range of support activities for schools) is being removed. A transitional grant is available from April 2017 to August 2017, the allocations for this grant were announced on 20th December which show a further 14.3% reduction compared to 2016-17 (as well as only being paid for 5 months). Reductions for academies are subject to separate transitional arrangements.

Other Government Grants and Funding

2.43 A small number of separate individual un-ring-fenced grants will continue e.g. extended free school travel to disadvantaged families, compensation for additional discounts and reliefs on business rates, etc. Many of these grants have not yet been confirmed for 2017-18 in time for this version of the MTFP. The business rate compensation will include additional funding for new Rural and Telecom Fibre Optic reliefs announced in AS2016, and the extension of the small business rate multiplier to all businesses with rateable value of less than £51,000 announced in the March Budget. The additional grant announced during 2016-17 to compensate lead local flood authorities for reductions in RSG has been allocated for 2017-18 together with indicative allocations for 2018-19 and 2019-20.

2.44 Asylum grants for 2017-18 have not yet been announced. The weekly amounts for unaccompanied asylum seeking children and those leaving care were increased during 2015-16. In the budget for 2017-18 we have assumed these enhanced rates will continue. Should the rates subsequently change we will need to change spending plans accordingly to manage within the budget although that will prove to be hugely challenging. We continue to make our case to the Home Office for full reimbursement of costs associated with assessing and looking after unaccompanied asylum seeking children and care leavers.

2.45 Public Health Grant for 2017-18 was announced on 15th December. Overall this showed the anticipated £83.5m reduction (£2 per head of population - 2.5%) included in the indicative 2 year grant allocation notified last year. The spending review stated there would be real terms savings on public health of 3.9% over the 5 years although included no detail.

2.46 Individual Government departments will continue to provide local authorities with other specific ring-fenced grants for particular purposes. These grants are announced separately from the main Local Government finance settlement and will be reflected in budget monitoring during the year.

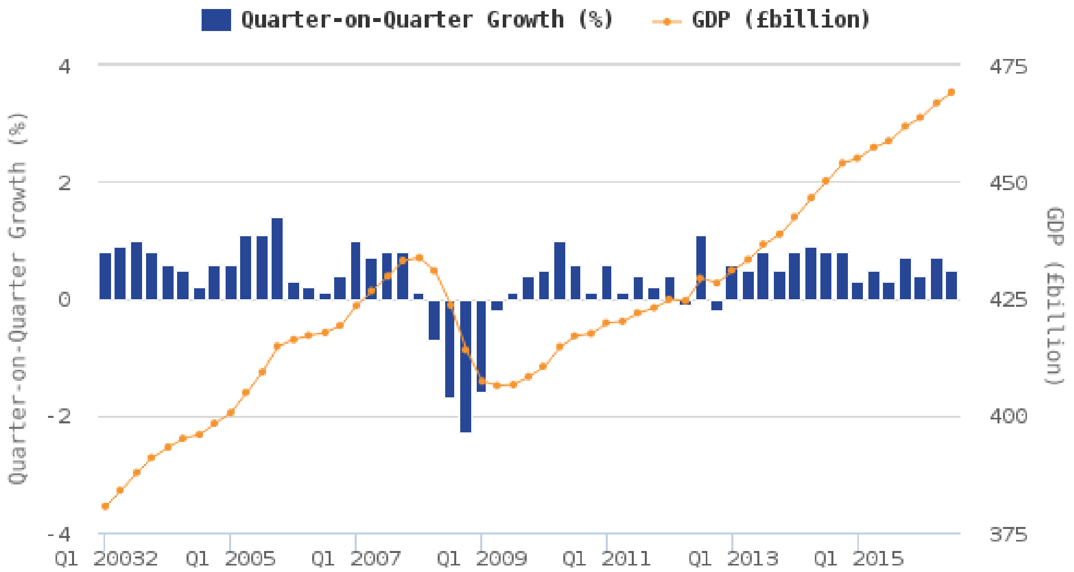
Economic Forecasts

2.47 This section of the MTFP is drawn from the OBR November 2016 Economic and Fiscal Outlook and latest statistical information published by the Office for National Statistics (ONS). It focuses on key economic indicators for growth, inflation, unemployment and earnings.

These key indicators are important for the County Council to take into account as they influence both the delivery of national policy objectives e.g. repairing the public finances, and local policy decisions within the budget e.g. provision for pay and prices, charges for services, council tax levels, etc.

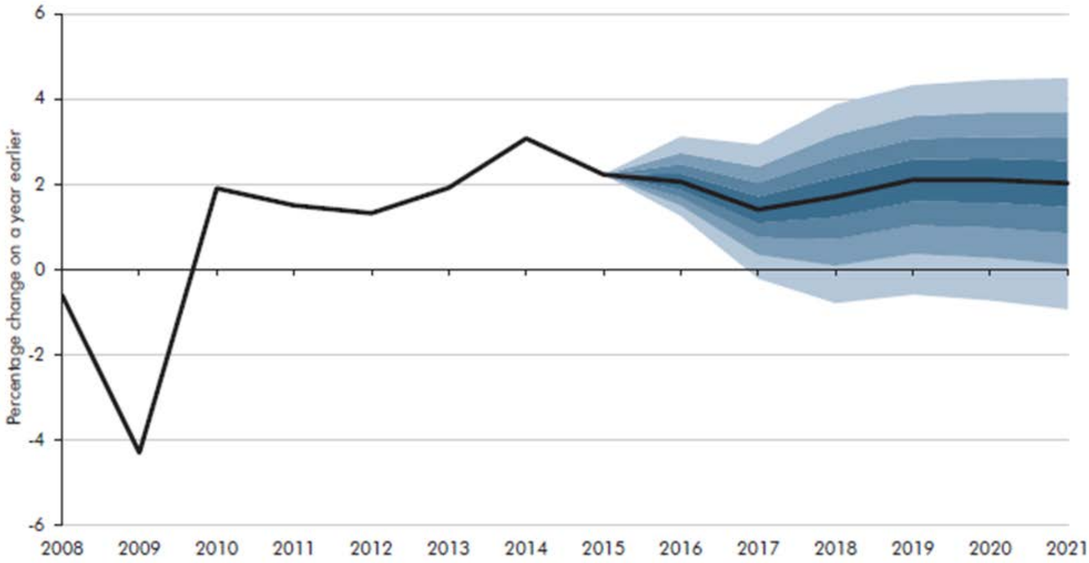
2.48 Overall economic activity is measured according to Gross Domestic Product (GDP). The latest preliminary estimate shows that GDP grew by 0.6% in the third quarter of 2016; slightly lower the 0.7% for the second quarter. This was the 15th successive quarter recording growth as shown in chart 2.8 below (extracted from ONS).

Chart 2.8: Economic growth



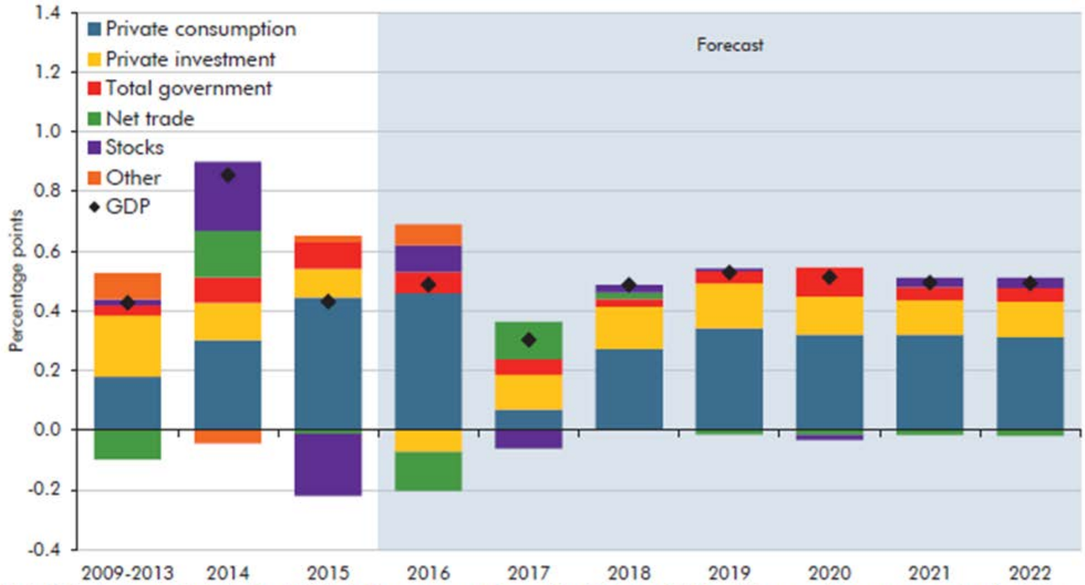
2.49 The OBR forecast for future growth is determined by the amount of spare capacity in the economy and the speed with which they expect it to return to productive use. The OBR forecast is for rates of growth to decline in 2017 to around 0.3% per quarter on average (1.4% annual growth in 2017). Growth is forecast to increase towards the end of 2017 and into 2018 at around an average of 0.4% to 0.5% per quarter (1.7% annual growth in 2018, rising further to 2.1% in 2019 and 2020). This is reflected in the OBR fan graph for growth forecasts which shows the central forecast with a fan representing the probability of different outcomes based on past forecast errors. The solid line shows the most probable (median) forecast, with successive pairs of lighter shaded areas around it representing 20% probability bands. The OBR fan graph is reproduced in chart 2.9.

Chart 2.9: Real GDP growth fan chart



2.50 Within the growth forecasts the OBR anticipate that private consumption and investment will make the most significant contributions to GDP growth, with public spending making a smaller contribution. This is represented in chart 2.10 reproduced below.

Chart 2.10 Contributions to average quarterly growth



Note: 'Other' category includes the statistical discrepancy and the residual between GDP and the expenditure components prior to the base year (2013).

Source: ONS, OBR

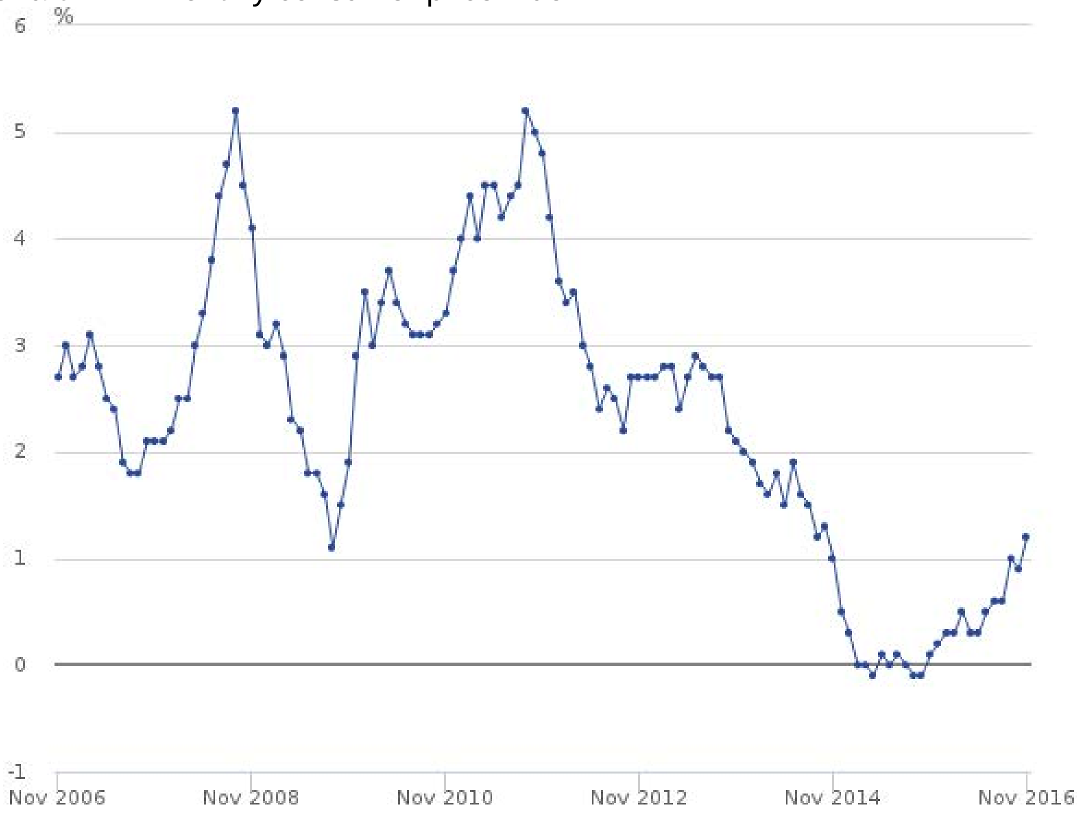
2.51 The Government has set a target of 2% for the underlying rate of inflation as measured by the Consumer Price Index (CPI). CPI was first published in 1997 to measure inflation consistently across all European Union state. In 2003 CPI became the official BoE inflation target. Retail Prices Index (RPI) has not been included in national statistics since 2013. This means that although it is recalculated each month the basket of indicators has not been updated. At the time it was removed the UK Statistics Authority concluded RPI failed to meet international standards.

2.52 The UK Statistics Authority published a further independent review of UK price indices in January 2015. The review was led by the Institute for Fiscal Studies. Their report finds that other than not accounting for owner occupier's housing costs, the Consumer Prices Index (CPI) is a well-constructed measure of inflation. Instead of bringing the RPI up to date, Paul Johnston (Director of IFS) urged all public sector bodies to stop using the index "as soon as practicable" in settling pay, elements of the tax system and regulated prices such as rail fares. Consequently KCC recognises CPI as the main inflation measure for financial planning.

2.53 CPI in the year to September 2016 showed an increase of 1% over the previous year. The September indices are important as they are used in the “triple lock” arrangements for state pensions (greater of increase in average earnings/CPI/2.5%). Disability benefits and carers allowances are also increased in line with September CPI. Most other working age benefits are to be frozen for 4 years from 2016. Business rates are normally increased in line with September RPI (in every year other than when there is a revaluation).

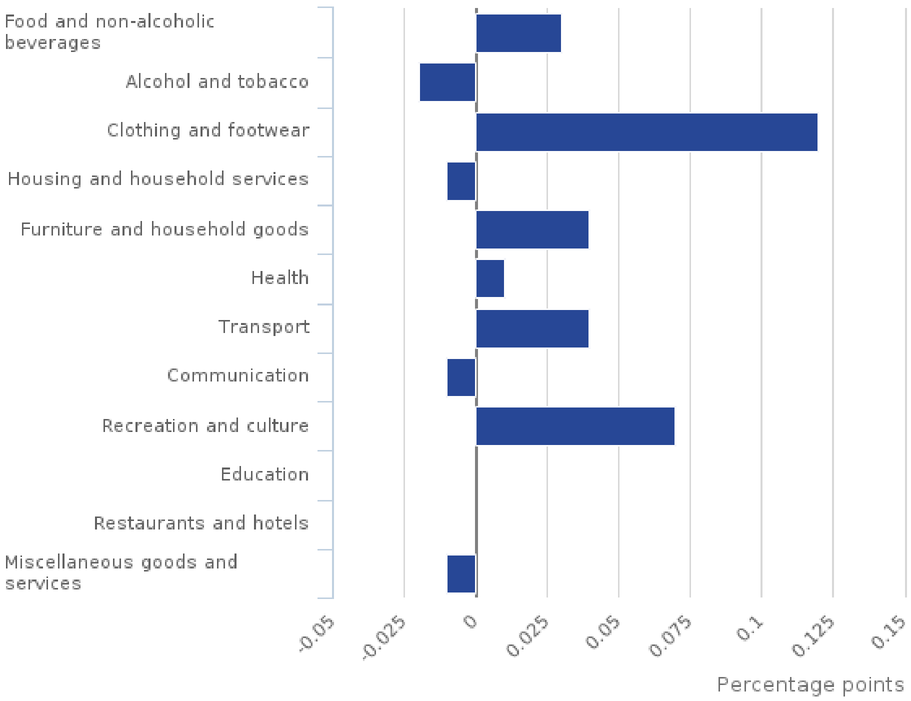
2.54 The October index showed a reduction to 0.9%. The latest November index shows 1.2% annual increase. The monthly consumer price indices for the last 10 years are shown in chart 2.11 below (extracted from ONS)

Chart 2.11: Monthly consumer price index



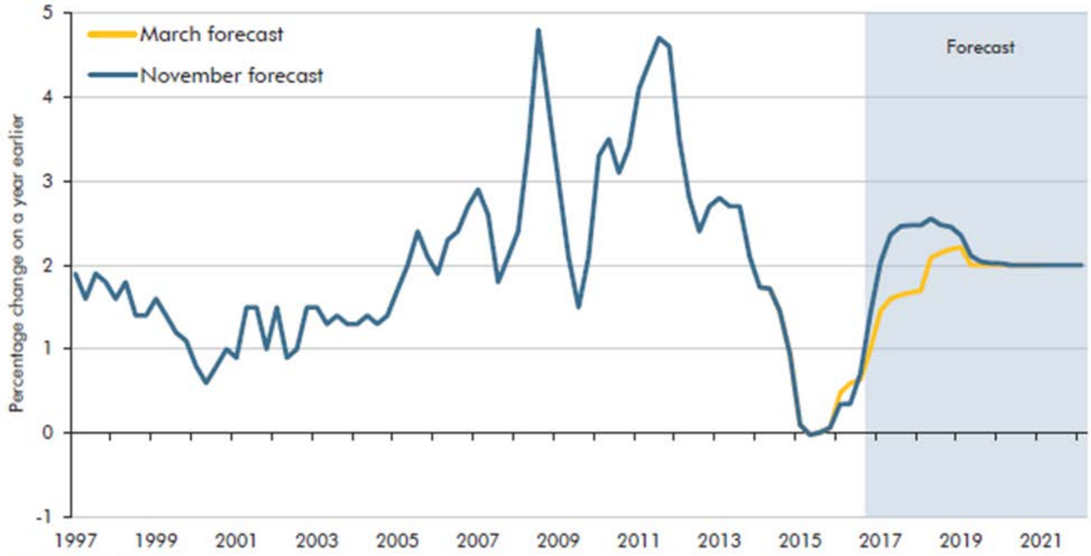
2.55 CPI is based on a basket of measures. Some items in the basket contribute to increasing inflation, some reduce it. Chart 2.12 shows the contributory factors to the November 2016 CPI (extracted from ONS).

Chart 2.12: Contributions to the 12 month CPI change November 2016



2.56 OBR expects inflation to rise relatively sharply over the coming months, moving above the 2% BoE target early in 2017 and peaking at 2.6% in the second quarter of 2018. The OBR inflation forecasts are reproduced in chart 2.13 below.

Chart 2.13: CPI inflation forecast



Source: ONS, OBR

2.57 The unemployment rate continues to fall and stands at 4.8% at the end of the second quarter 2016, down from 5.2% at the same point last year. The number unemployed as at October 2016 stood at 1.62m (down 0.103m from the same time last year). In total 31.7m people were in employment in October 2016 (74.4% of the population aged 16 to 64).

2.58 The latest release from the Office for National Statistics shows that average weekly earnings (excluding bonuses) for the second quarter 2016 (3 month average) rose by 2.6% compared to the same time last year, before tax and other deductions. Average weekly wage was £475 (excluding bonuses) and £507 (including bonuses). There are some differences between the private and public sectors:

- Average earning in private sector £469 excl. bonuses (up 2.8%)
- Average earning in private sector £508 incl. bonuses (up 2.8%)
- Average earning in public sector £503 excl. bonuses (up 1.5%)
- Average earning in public sector £507 incl. bonuses (up 1.4%)

Spring Budget 2017

2.59 The Spring Budget was announced on 8th March 2017. The economic forecast from the 2016 Autumn Statement was updated and showed a slightly stronger economic growth forecast for 2017 as a result of stronger growth in the second half of 2016 than previously forecast, and in particular consumption growth.The forecasts for later years are slightly weaker than previous estimates due to the anticipated impact of higher inflation weighing down on consumption growth. Over the medium term the forecasts are not materially different from previous forecasts.

2.60 The Spring Budget announced significant additional spending on adult social care, with £2bn being made available to local authorities between 2017-18 and 2019-20. Further additional spending (£435m) was announced to help those businesses most adversely affected by the 2017 business rate revaluation, and for additional investment in local NHS services and education capital investment.

2.61 In order to maintain a fiscally neutral budget these additional spending policy decisions were offset by additional tax policy decisions. In particular the Spring Budget announced additional tax revenues to be raised through changes to personal taxation for the self-employed (increasing Class 4 National Insurance Contributions) and reductions in share dividend tax allowances, both of which would start to take effect from April 2018. The Spring Budget announcement also introduced further measures to tackle tax avoidance, evasion & imbalances.

2.62 This combination of spend and tax policy decisions resulted in a net increase in budget deficit in 2017-18 and 2018-19, before generating additional surplus from 2019-20 onwards.

Adult Social Care

2.63 The additional £2bn announced in the Spring Budget will be phased as follows: £1bn in 2017-18, £674m in 2018-19, and £337m in 2019-20.

2.64 90% of the funding will be allocated based on the improved Better Care Fund (iBCF) formula and the remaining 10% according to the Adult Social Care Relative Needs Formula.

2.65 Specific guidance will be announced around the additional £2bn spending (including any specific conditions), but it is clear that it will be pooled in the iBCF and will be for councils to spend on unmet pressures on older people and stabilising the care market.

Business Rates

2.66 The measures announced to help those affected by the 2017 Business Rate Revaluation are:

1. Support for small businesses ceasing to qualify for small business rate relief (where the 2017 revaluation takes them out of relief/reduces relief through the taper). The announcement provided additional protection to limiting the increase in their bill to the greater of £600 per annum or the ‘real terms’ transitional relief cap for small businesses each year;
2. £1,000 business rate discount for pubs with a rateable value (RV) up to £100,000 for one year from 1 April 2017 (subject to state aid limits for businesses with multiple properties);
3. £300m to English local authorities to provide discretionary relief, to support individual cases in their local area.

2.67 Local government will be fully compensated for the loss of income as a result of these measures.

KCC’s assessment of the economic position

2.68 The general state of the economy remains an important consideration in setting the County Council’s budget and MTFP. The previous budget and MTFP recognised the further progress on the economic recovery, and that as a result of forecast additional tax yields and lower debt cost the Government had been able to increase spending plans compared to earlier projections and take slightly longer to return to a budget surplus. However, this was before the EU referendum outcome.

2.69 This year’s MTFP is being developed against the background of much greater economic uncertainty. As already indicated the OBR surmised that their economic and fiscal forecasts have a higher than usual degree of uncertainty. We have also already noted that in setting revised fiscal goals for the budget deficit (below 2% by 2020-21) and net debt (to be falling by the end of this parliament), the Chancellor of the Exchequer has left himself some room for further manoeuvre without having to amend spending plans. As a result we remain reasonably confident that the Government will be able to honour the pledge of greater funding certainty for the 97% of authorities which signed up for a 4 year efficiency plan (including KCC) and funding estimates are robust.

2.70 The County Council recognises that inflation has been below 1% throughout much of the preceding year, and that the proposed 1.99% increase in council tax for 2017-18 is above inflation. This increase was proposed in budget campaign & consultation launched in October 2016. Generally consultees and market research indicated support for a modest increase in order to protect front-line services. This increase, which is up to but not exceeding the referendum level, will need to be adequately explained to residents. The additional funding raised will contribute towards the rising cost of and demand for local authority services and help to off-set reductions in central Government funding. The increases are compatible with the Government's core spending power assumptions.

2.71 The County Council recognises that some households have to manage on fixed incomes which do not keep pace with pay growth or inflation. These households will find any council tax increase difficult to cope with. District Councils in Kent have undertaken a review of their council tax Reduction Schemes for 2017-18, these schemes provide a discount for households on benefits and low incomes. As well as updating schemes to be consistent with other welfare reforms and reductions in Government funding, many districts have also introduced hardship funds.

2.72 The County Council also proposes to raise the additional 2% over and above the referendum threshold through the social care levy. This proposed increase was also included in the budget campaign and consultation launched in October and supported by respondents and market research. Adult social care budgets continue to be under severe pressure during the current year due to a combination of demographic and market factors. The additional levy will contribute to addressing these in 2017-18. The social care levy will continue to be separately identifiable in the budget and linked to specific investments in adult social care.

2.73 Despite the low levels of inflation through CPI throughout the last year the Council is facing inflationary pressures on a number of commissioned services. These include contracts with clauses linked to specific inflation indices which are higher than the general CPI. We also have a number of services where we have a statutory obligation to pay price increases imposed by contractors. We have some contracts which are negotiable. The Council has to meet any price increases either from council tax or other reductions in spending as there is no account of any spending increases in allocations from central Government (which are reducing in cash terms).

2.74 The County Council recognises the need to tackle the national budget deficit and the imperative for reductions in public spending. We intend to manage these through efficiency savings (doing the same for less) and by transforming the way we provide essential front-line services so that services are still available when people most need them. Through the transformation agenda we are aiming to deliver better outcomes and improved life opportunities for individuals at less cost to public spending. As part of the budget proposals we will continue to use the Council's reserves in order to manage the impact of funding reductions, although we have to recognise this only provides a short term solution and we will need to replace this with long term sustainable savings.

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

KCC Medium Term Financial Plan

<u>SECTION 3</u>

Revenue Strategy

REVENUE STRATEGY

Introduction

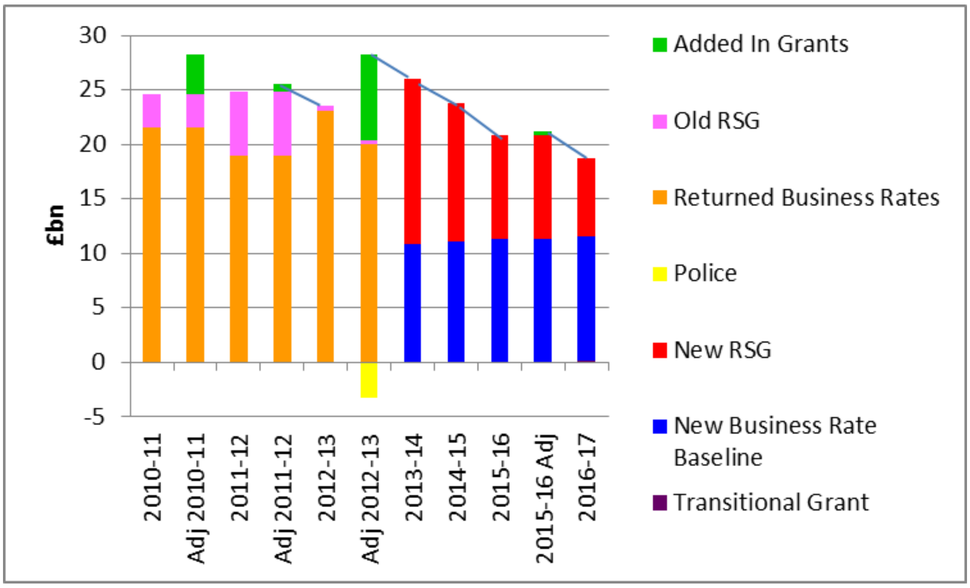
3.1 Revenue expenditure is what we spend on day to day services provided by the Council e.g. care for the elderly and vulnerable adults, ensuring access to high quality schools, libraries, running the road network, etc. It includes the cost of salaries for staff employed by the Council, contracts for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

3.2 Over the past 6 years we have had to make significant reductions in revenue spending in response to the national economic situation and the squeeze on public spending to tackle the national budget deficit. This was a period of significant change marked in the first 3 years by the transfer of previously separate grants into the main Local Government settlement. This effectively merged the previous Formula Grant distribution with the additional grants added in. Individual elements within the overall merged amounts were reduced by different proportions. The reductions in funding were disguised by these transfers, with reductions of between 8% and 12% per annum on a like for like basis in cash terms for the Local Government settlement.

3.3 From 2013-14 a new system was introduced with 50% of business rates retained locally and new Revenue Support Grant (RSG) based on the same individual elements from the previous system. RSG continued to be reduced with differing degrees of protection for individual elements. In 2016-17 further changes were introduced and while RSG continued to reduce, there was now no protection for individual elements, and RSG reductions were pro rata to both the original grant allocations and local authority council tax precept. Cash reductions in the Local Government finance settlement were similar in 2013-14 to 2016-17 as the preceding 3 year period at between 9% and 13% per annum.

3.4 Chart 3.1 below shows the impact of these changes in the overall settlement for Local Government on the best like for like basis in order to give a picture of the funding scenario. This graph does not include a number of other lesser un-ring-fenced and ring-fenced grants, or council tax but demonstrates the scale in reductions in a significant element of local authority funding.

Chart 3.1



3.5 The revenue strategy for the next 3 years (2017-20) has been evolved based on SR2015 and the 2016-20 Local Government finance settlement, which included indicative figures for 2017-18 to 2019-20. We have taken up the "four year" offer, which in return for the submission of an efficiency plan to DCLG provided a guarantee that these indicative allocations won't change other than in exceptional circumstances. This efficiency plan was based on updating the published MTFP and set out the indicative funding allocations, KCC's estimated council tax precept, estimated additional spending demands and savings which would be necessary in order to ensure a balanced budget in each of 2016-17 to 2019-20. KCC's efficiency plan submission is summarised in table 3.1 below.

Table 3.1	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
Budget Challenge				
Grant Reductions	43.3	51.1	20.7	8.2
Spending Demands	63.0	46.4	45.0	50.7
Replace one-off use of Reserves and Collection Funds	12.4	10.9	7.8	2.5
Total	118.6	108.3	73.5	61.4
Budget Solution				
Council Tax				
Increase up to 2% Referendum Limit	11.2	11.8	12.4	13.1
Social Care levy (2%)	11.2	12.1	12.7	13.4
Tax Base and Collection Fund balance changes	15.9	1.0	4.9	5.1
Change in local share of Business Rates	-0.4	3.1	1.4	1.6
Savings and Income	80.8	80.4	42.0	28.2
Total	118.6	108.3	73.5	61.4

3.6 As demonstrated in table 3.1 KCC's revenue budget strategy continues based on a holistic approach to setting our budget priorities, including estimating increased spending demands and identifying scope for savings to be made. This is supported by a range of more detailed budget reviews and "deep dives". Estimating budget pressures involves quantifying the expected net increase in spending due to changes in demand, prices, and other factors on the budget, such as legislative changes. These increased pressures are set against the reductions in Government grant and potential council tax increases (tax base and band charges) to quantify the value of savings which would be required to balance the budget.

KCC's Budget Campaign and Consultation for 2017-18 was launched on 13th October 2016. This coincided with the publication of KCC's Autumn Budget Statement to County Council on 20th October. The consultation set out the equation as set out in table 3.1 above. Further details of the funding, spending and savings assumptions were included in the County Council report (link: https://democracy.kent.gov.uk/documents/s72724/County%20Council%20Autum%20Budget%20Statement%20Combined%20Files%20121016.pdf) and are not repeated in this document as they have now been updated. The consultation included £5.2m of savings yet to be identified.

3.7 As indicated in Section 2, the AS2016 announcement in November had very little impact on KCC's revenue budget plans. The provisional Local Government Finance Settlement included the announcement of some changes in relation to adult social care. For KCC this amounted to a new one-off Adult Social Care Support grant in 2017-18 (worth £6.192m) and a reduction in the indicative NHB grant (£1.543m). The net difference (£4.649m) has been passported into adult social care and included in "market sustainability" provision in the proposed budget. The 2017-18 budget approved at County Council on 9th February 2017 does not make use of the additional flexibility in the social care council tax precept (which still assumes 2% per annum in 2017-20).

Provisional Local Government Finance Settlement 2017-20

3.8 The provisional settlement sets out the Settlement Funding Assessment (SFA) and core spending power calculation for each authority. The SFA includes the provisional RSG allocation for 2017-18, and indicative allocations for 2018-19 and 2019-20 (all of which are unchanged from the 2016-20 settlement, even for those authorities which did not take up the four year offer). The SFA also includes the business rate baseline[1]. These business rate baselines are used to update tariffs/top-ups and safety net thresholds which are used to compare to the 50% retention. Table 3.2 sets out a comparison of KCC's SFA in the 2016-20 final settlement and 2017-20 provisional settlement. This shows that the only changes arise from the recalculation of the baseline following the revaluation of rateable

[1] Updated to take account of the 2017 revaluation of rateable values and NNDR multiplier. This results in very marginal changes in the overall SFA for all authorities between 0.03% and 0.07% in 2017-18. The change for KCC was around the average of 0.05%

values (and thus in KCC's case the top-up), which as referred to in section 2 was "broadly" neutral.

Table 3.2	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
2016-17 Final Settlement				
Settlement Funding Assessment	283.4	241.8	218.2	195.8
of which:				
Revenue Support Grant	111.4	66.5	37.6	9.5
Baseline Funding Level	172.0	175.3	180.5	186.3
Tariff/Top-Up	124.0	126.4	130.1	134.3
Safety Net Threshold	159.1	162.2	167.0	172.3
2017-20 Provisional Settlement				
Settlement Funding Assessment	283.4	241.9	218.8	197.0
of which:				
Revenue Support Grant	111.4	66.5	37.6	9.5
Baseline Funding Level	172.0	175.5	181.1	187.6
Tariff/Top-Up	124.0	128.9	133.0	137.7
Safety Net Threshold	159.1	162.3	167.5	173.5

3.9 The core spending power includes the settlement funding assessment plus the DCLG estimate of the council tax precept (including extra social care levy), the changes to NHB grant, the phased introduction of iBCF, and the one-off Social Care Support Grant. Extract 3.1 shows the original core spending power calculation from the 2016-17 final settlement; extract 3.2 shows the revised calculation in the 2017-20 provisional settlement.

Extract 3.1: 2016-20 Final Settlement – Core Spending Power

Kent

Illustrative Core Spending Power of Local Government;	2015-16	2016-17 £ millions	2017-18 £ millions	2018-19 £ millions	2019-20 £ millions
Settlement Funding Assessment*	340.015	283.386	241.819	218.156	195.773
Council Tax of which;	549.034	577.155	609.654	644.603	682.212
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	*549.034*	*565.981*	*586.331*	*608.010*	*631.109*
additional revenue from referendum principle for social care	*0.000*	*11.174*	*23.323*	*36.593*	*51.103*
additional revenue from £5 referendum principle for all Districts' Band D Council Tax level	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*
Improved Better Care Fund	0.000	0.000	0.301	17.525	33.683
New Homes Bonus	7.886	9.306	9.356	5.878	5.640
Rural Services Grant	0.000	0.000	0.000	0.000	0.000
Transition Grant	-	5.682	5.685	-	-
Core Spending Power	**896.935**	**875.529**	**866.815**	**886.162**	**917.307**
Change over the Spending Review period (£ millions)					20.4
Change over the Spending Review period (% change)					2.3%

Please see the Core Spending Power Explanatory note for details of the assumptions underpinning the elements of Core Funding
*2019-20 Settlement Funding Assessment has been modified to include a provisional tariff or top-up adjustment

Extract 3.2: 2017-20 Final Settlement – Core Spending Power

Kent					
Illustrative Core Spending Power of Local Government;					
	2015-16 £ millions	2016-17 £ millions	2017-18 £ millions	2018-19 £ millions	2019-20 £ millions
Settlement Funding Assessment*	340.015	283.386	241.948	218.757	197.047
Council Tax of which;	549.034	583.181	617.995	654.906	694.040
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	**549.034**	**571.976**	**594.465**	**617.855**	**642.184**
additional revenue from referendum principle for social care	**0.000**	**11.205**	**23.530**	**37.051**	**51.856**
Potential additional Council Tax from £5 referendum principle for all Districts	0.000	0.000	0.000	0.000	0.000
Improved Better Care Fund	0.000	0.000	0.301	17.525	33.683
New Homes Bonus	7.886	9.306	7.813	5.645	5.417
Rural Services Delivery Grant	0.000	0.000	0.000	0.000	0.000
Transition Grant	0.000	5.682	5.685	0.000	0.000
The 2017-18 Adult Social Care Support Grant	0.000	0.000	6.192	0.000	0.000
Core Spending Power	**896.935**	**881.555**	**879.934**	**896.834**	**930.186**
Change over the Spending Review period (£ millions)					33.3
Change over the Spending Review period (% change)					3.7%

Please see the Core Spending Power Explanatory note for details of the assumptions underpinning the elements of Core Fundi
*2019-20 Settlement Funding Assessment has been modified to include a provisional tariff or top-up adjustment

3.10 Overall the core spending power shows an increase of £33.3m (3.7%) between 2015-16 and 2019-20; i.e. KCC's share of the overall settlement is slightly better than "flat cash". This arises mainly from the additional support for adult social care within overall "flat cash". This is £12.9m (1.4%) higher than the 2016-19 final settlement which showed £20.4m increase (2.3%).

3.11 The majority of the £12.9m increase in overall core spending power over the four years is due to higher estimates for council tax. This accounts for £11.8m of the increase. £6m of this is derived from the estimated tax base used in KCC's approved 2016-17 budget being higher than DCLG forecast in last year's spending power calculation. This in turn feeds through into higher tax base forecasts for future years together with higher inflation forecasts. The remainder largely derives from the recalculation of the business rate baseline following the revaluation referred to in paragraph 3.9 above.

3.12 The core spending power in 2017-18 is £13.1m higher than the indicative figure in the 2016-20 settlement. This is made up of:

- £8.4m extra from the higher council tax base in 2016-17 (plus higher inflation uplift)
- £6.2m extra from the one-off social care support grant
- £0.1m extra from the impact on SFA of business rate revaluation
- £1.4m less from the changes to NHB grant.

3.13 The additional one-off grant for social care support grant has no impact on the overall four year comparison shown in paragraph 3.11 above.

3.14 As outlined in section 2.42 the Education Services Grant (ESG) has been removed. The retained duties element, worth an estimated £3.36m for KCC (£15 per pupil) has transferred into the schools block of DSG. The 2017-18 budget assumes that we will be able to top-slice this as additional grant income to continue to fund central statutory services for schools and academies. A provisional one-off transitional ESG has also been announced for April to August 2017 amounting to £3.372m, as in previous years this is based on pupil numbers in maintained schools for the summer term (the per pupil rates have reduced by 14.3% compared to 2016-17) and will be recalculated based on up to date pupil numbers. KCC has incorporated this reduction within its overall budget plans rather than targeting specific savings on services for schools.

3.15 We are still awaiting the announcement of three other un-ring-fenced grants which have included as part of net funding in previous years (and therefore form part of KCC's net budget requirement):

- Business Rate compensation – this is paid to local authorities to compensate for their share of business rate income which is lost as a result of additional reliefs awarded by the chancellor in recent budgets to alleviate the impact of business rates e.g. doubling of small business rate relief, retail relief, etc. The 2017-18 grant should include the extension of the small business rate multiplier to all properties
- Extended free school travel
- Inshore sea fisheries

The budget includes estimates for the grants. These grants should be announced in time for the revised draft for County Council and may have a small impact on the overall net budget.

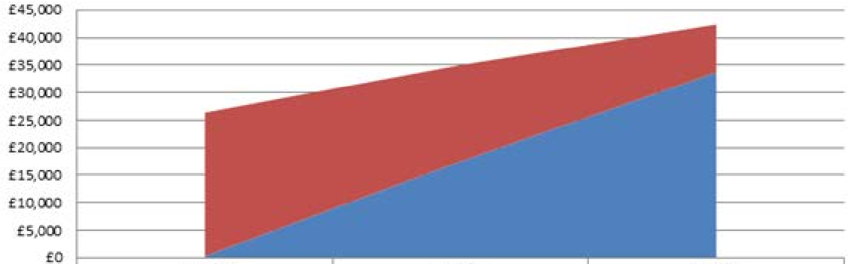
3.16 There are also a number of other grants (both ring-fenced and un-ring-fenced) which are included as income in the budget (and thus reduce net expenditure and are not part of net budget requirement). A number of these grants have already been announced e.g. public health, Independent Living Fund, etc. The budget includes estimates for other grants which have not yet been announced e.g. asylum grant. Should the actual grants vary from the estimates we would adjust spending plans accordingly which would have no impact on the net budget. The budget does not include any estimate for the new School Improvement grant announced to be introduced from September 2017.

Spring Budget 2017

3.17 Kent County Council's share of the additional adult social care funding announced in the 8th March 2017 Spring Budget is £26.1m in 2017-18, £17.5m in 2018-19, and £8.7m in 2019-20.

3.18 Chart 3.2 overleaf shows that the additional funding announced in the Spring Budget combined with the 'original' improved Better Care Fund provides a more consistent funding stream for adult social care over the next three years.

Chart 3.2



	2017/18	2018/19	2019/20
Additional Funding Announced in Spring Budget	£26,091	£17,494	£8,697
Improved Better Care Fund	£301	£17,525	£33,683

3.19 This additional funding represents a material change to Kent County Council's budget after it was agreed at County Council on 9th February 2017 and revised spending plans will be presented to County Council on 25th May 2017 for approval.

Council Tax and Local Share of Business Rates

3.20 The council tax base notification from district councils shows a 2.32% increase over 2016-17. This compares to 1.78% assumed for KCC's Autumn Budget statement and budget consultation. The detail for individual districts is shown in section 2 of the Budget Book 2017-18. Initial analysis indicates that this larger than expected increase is due to a combination of more households being included on the valuation list and fewer discounts being applied (particularly council tax support). We will produce a more detailed analysis of the underlying reasons for tax base increase following further investigation with district councils. This analysis will identify separately the impact of new households, changes in discounts and exemptions, and collection rates.

3.21 We have received notification of the collection fund balances from all districts and the balances were reflected to the report to County Council on 9th February 2017. The statutory requirement to set a balanced budget has to include a reasonable estimate of collection fund balances for the current year as well as estimated tax base for the following year used to calculate the amounts to precept from district councils.

3.22 The strategy for the forthcoming MTFP is built on the assumption that the County Council element of council tax will be increased up to the referendum level each year. This provides the Council with a sustainable source of income. We have assumed the referendum limit will be 2% each year. The strategy is also based on levying the additional 2% social care precept each year. This assumption is based on forecast spending on social care continuing to rise with increases in estimated spending exceeding the increased income from the additional council tax precept. Despite planning for annual council tax increases this will not fully cover additional spending demands and reductions in Central Government funding. Significant savings are still forecast each year to make up the difference.

3.23 The forecast council tax also includes an estimate of 1% annual growth in the tax base from new dwellings/discounts in future years. We will review these future forecasts in light of the fuller analysis referred to in paragraph 3.20.

3.24 It is vital to the revenue strategy that the County Council continues to foster good relationships with district councils to maximise the collectable council tax base and collection rates, to our mutual benefit. For its part the County Council has committed to help district councils cover their additional costs in managing local council tax support schemes for a further 3 years, this includes a new “Incentive Scheme” and contribution towards local hardship schemes through collection funds. The County Council is also committed to supporting districts in other ways to maximise the council tax yield including removing erroneous claims for discounts and exemptions, and tackling fraud. This close collaboration is reflected in the larger than anticipated increase in the provisional tax base for 2017-18.

3.25 The local share of business rates continues to be a marginal source of income for the County Council. The baseline has been recalculated to take account of the 2017 revaluation and revised NNDR multiplier. The County Council will continue to receive 9% of any growth in the tax base under the national arrangements. A business rate pool between 10 district councils, KCC, and Kent and Medway Fire and Rescue Authority also continues in 2017-18. Under the governance arrangements for the pool KCC receives 30% of the additional business rate income generated by the pool. The 2017-18 budget includes an estimate for this share from the pool together with other business rate proceeds used to fund the overall net budget.

3.26 The Government is continuing to develop proposals to reform Local Government funding through 100% of business rates retention. The primary legislation is scheduled to be considered during this parliament together with an update on progress to reset the baseline to better reflect local authority spending needs. This latter aspect of the reforms is essential to determine a more appropriate redistribution through tariffs and top-ups. The additional retention will come with devolution of additional responsibilities and at this stage we anticipate there will no additional funding to cover additional spending demands on existing responsibilities or to offset previous grant reductions. At this stage we have not factored this reform into the revenue strategy but it is a factor taken into account when considering our revenue reserve balances.

Spending Demands

3.27 Forecasts for spending demands are based upon a combination of in-year monitoring of budgets, and estimates for the impact of anticipated changes over the forthcoming year. The impact of needing to replace one-off actions from reserves and underspends agreed as part of setting the 2016-17 budget are also shown as additional spending demand.

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

- £1.2m realignment of 2016-17 base budget for the impact of activity and spending in the latter half of 2015-16 which occurred too late to include in the approved 2016-17 budget. We did not include any additional forecast over spends in 2016-17 at the time of consultation on the basis it was too early in the year and corrective management action was still under development;
- £19.1m for estimated pay and price increases in 2017-18 (including an estimate for an increase in the employer's pension contribution pending actuarial review of the pension fund)
- £17.1m for estimated future demography and demand pressures on services
- £2.1m additional statutory spending demands (including introduction of Apprenticeship Levy and additional social care assessment obligations following the 2014 Cheshire Judgement over deprivation of liberty safeguards)
- £6.7m for local service strategies (including additional funding for borrowing to support the capital programme)
- £10.9m to replace one-off use of reserves and underspends in the 2016-17 base budget

3.29 Since the consultation a number of significant changes to spending demands have been identified. In total these have increased additional spending demands by a net £41.4m compared to those identified in the consultation, taking forecast additional spending to £98.6m. £26.1m of this increase relates to the additional spending on adult social care following the Chancellor's Spring Budget announcement on 8th March and spending plans for this will be decided by County Council in May 2017. The other most significant changes were outlined in reports to Cabinet and Cabinet Committees during January 2017 and are not repeated in this document. Copies of these reports can be found at https://democracy.kent.gov.uk/ieDocHome.aspx?Categories

3.30 The final budget has the following additional spending demands:

- £8.7m realignment of 2016-17 base budget for the impact of activity and spending in the latter half of 2015-16 and forecast over and underspends during 2016-17
- £23.7m for estimated pay and price increases in 2017-18. This includes contractual increases and a separate provision to facilitate market sustainability within adult social care
- £15.4m for increasing complexity of existing clients and forecast demand and demographic pressures on services from new clients and service users
- £28.7m additional statutory spending demands (as described above). This includes an additional £26.1m for adult social care announced in the Spring Budget 2017, spending plans for which will be presented to County Council on 25th May 2017 for approval.
- £11.3m for local service strategies (including additional funding for borrowing to support the capital programme and a contribution to general reserves)
- £10.9m to replace one-off use of reserves and underspends in the 2016-17 base budget

3.31 Full details of the additional spending demands for 2017-18 are set out in Appendix A (ii) of the MTFP and over the 3 year plan in Appendix A (i). All managers in the County Council must do all they can to find ways to reduce and avoid additional spending demands as this reduces the need to find savings to offset the impact of estimated future funding reductions. This will need to be a more significant feature of future revenue budget strategy i.e. to avoid the need to find money to fund additional spending demands.

Savings and Income

3.32 Over the last few years the County Council has had to make unprecedented levels of savings to offset the impact of reduced Government funding and meeting the cost of additional spending demands. This trend is predicted to continue throughout this MTFP as a result of the "flat cash" settlement for Local Government in the spending review and provisional settlement (as set out in section 2). "Flat cash" includes the phased withdrawal of RSG, Government forecasts for increases in council tax (including the additional 2% social care precept), improved Better Care Fund (iBCF), new one-off Social Care Support Grant and reformed New Homes Bonus. It does not include any additional spending demands. The savings estimated for 2018-19 and 2019-20 are less than have been required in recent years due to the introduction of iBCF which we are assuming will come without any specific spending conditions.

3.33 Council tax increases are included in the national financial and economic strategy as part of the fiscal consolidation to repair the public finances. This is reflected in KCC's revenue strategy. However, council tax is only part of the solution and significant amounts are still anticipated to be needed from delivering further savings. For convenience we have separated these into separate sections covering transformation savings (providing the same or better outcomes from alternative approaches at less cost), income generation, efficiency savings (doing the same for less), financing savings and policy savings (things we accept we can do less of, restrict services or stop altogether).

3.34 At the time of the consultation we estimated the need to make £80.4m of savings in 2017-18 in order to balance the combination of additional spending demands, reduced central funding and council tax increase up to the referendum level and social care levy. Without the proposed increases in council tax £104.3m of savings would have been required.

3.35 The final MTFP and budget identifies the need for £76.7m of savings in 2017-18. This is slightly reduced from the consultation as despite the additional spending demands which have arisen since the consultation (paragraph 3.30 above) this has been offset by the higher than forecast council tax base (paragraph 3.21 above) and the net additional funding for social care in the 2017-18 provisional Local Government finance settlement (paragraph 3.8 above).

3.36 A significant amount of the savings for 2017-18 (£17.9m) is proposed from financing items. This includes one-off drawdown from long-term reserves, reduced contributions to reserves to cover future risks, more even set-aside of MRP amounts needed to repay debt when loans mature (without compromising our ability to repay those debts) and use of capital receipts to fund revenue transformation costs. This approach has knock-on consequences for 2017-18 and future years. The income proposals include additional returns on investments through revised treasury management strategy. Details of all the savings proposals for 2017-18 are set out in Appendix A (ii) of the MTFP and for 3 years in Appendix A (i).

Budget Summaries & Medium Term Financial Plan

3.37 The budget templates in Appendix A of the MTFP show a high level "at a glance" summary of the three year plan, together with a more detailed presentation of the 2017-18 proposals as they affect each directorate. A directorate based presentation was introduced in 2014-15 to better reflect the way that the council's finances are managed and reported through the budget monitoring during the year.

3.38 The MTFP shows £4.7m of additional spending and £4.5m of proposed savings is held unallocated. The majority of the additional spending held unallocated relates to staff pay which will be allocated once the 2017 pay and reward strategy has been approved and individual performance reward assessments have been completed. Unallocated savings and income relate to management and staff structures, procurement and contract management efficiencies, and activities to be commissioned from specific grants. These will be allocated during the year following further consultation and development.

Budget Consultation and Engagement

3.39 A budget communication and consultation campaign was launched on 13th October 2016 to coincide with the publication of KCC's Autumn Budget Statement to County Council on 20th October. This was aimed at increasing public understanding of the financial challenge, particularly around growing demand for council services and central funding reductions, and KCC's council tax proposals. Consultation was open from 13th October to 27th November 2016. The consultation sought views on council tax and KCC's budget strategy in response to the challenge of increasing spending demands/costs and reduced Central Government funding. The consultation was supported by separate independent market research.

3.40 A separate report on public engagement with the campaign and consultation, and the independent market research is available at http://consultations.kent.gov.uk/consult.ti/BudgetConsultation2017/consultationHome

3.41 The consultation sought views on increasing council tax up to the referendum level (assumed 2%) and for the social care levy (2%). Responses indicated support for both increases in order to provide funding towards unavoidable spending demands and to protect frontline services. However, around 16% of respondents were opposed to the increase up to the referendum level and 30% to the Social Care Levy and therefore do not support council tax increases. This is consistent with responses in previous years although this was the first year we have been able to seek views on the social care precept.

3.42 The responses on how far the proposed budget effectively supports KCC's core strategic objectives were mixed. A similar number of respondents thought the budget proposals were right, compared to those who thought the council should go further to protect services which support these objectives, and those that thought additional protection should be given to other services.

3.43 The market research shows consistency of views with consultation responses in relation to council tax increases and mixed views about KCC's strategy to balancing the budget in response to rising spending demands/costs and reduced funding. In particular the research indicated a higher level of support towards KCC, and council tax increases, once people were better informed about the council's budget and how decisions are taken. Residents found the presentation of how much of the council tax charge contributes towards specific service areas insightful (as we trialled in Appendix 5 of the Autumn Budget Statement to County Council on 20th October 2016).

3.44 The consultation information is published as part of the background information and appendices to Cabinet and County Council decisions. We accept that further work is needed to improve communication of the financial challenge and how the Council spends public money.

Response to the 2016-17 Provisional Settlement

3.45 The provisional settlement was announced on 15th December 2016 and as already outlined confirmed the "flat cash" between 2015-16 and 2019-20 from SR2015 and the 2016 Local Government Finance Settlement. This year's settlement included the additional flexibility over the social care council tax levy and additional one-off Social Care Support Grant from bringing forward reforms to NHB grant. Responses to the settlement need to be submitted by 13th January 2017. We will make a full response despite the exceedingly tight timescale at the same time we were analysing the responses to our own consultation and preparing the final budget proposals.

3.46 KCC's response will be based on the response to SR2015 and the 2016 Local Government Settlement. The council recognises that spending reductions are necessary, but is very concerned that flat cash for Local Government is not good enough and does not adequately provide sufficient funding to cover the additional spending demands and rising costs which local authorities are facing. Whilst the council welcomes the additional flexibility for social care, in particular bringing forward reforms to NHB grant in order to provide additional funding for social care in 2017-18, these do not go far enough to tackle the challenges for social care authorities arising from a combination of:

- Increasing complexity of need
- Demographic impact of an ageing population and rising numbers of vulnerable adults
- Complying with 2014 Cheshire Judgement on deprivation of liberty safeguards
- Rising costs imposed on care providers from National Living Wage and other employment issues
- Rising costs of inflation on care providers
- Unmet needs
- Impending crisis in social care due to the differential in costs between state and self-funders

3.47 The council is also concerned that the settlement does not adequately take account of spending demands on other council services including children's social care, education services, highways & transport, etc. The amounts raised through council tax are insufficient to fund these demands and increasing trend to transfer responsibility from central grants e.g. removal of ESG with no change in local authority responsibilities for schools. The response also highlights the impact on our ability to invest in capital infrastructure (and the likely deterioration as a consequence).

3.48 The response reaffirms our concerns about the proposed 100% business rate retention and in particular the devolution of additional responsibilities which could place further rising demands on councils which are not matched by rising business rate income. We continue to welcome the fair funding needs led review of the baseline and will be urging Government to take the opportunity for a radical review of redistribution of funding between different classes of authority.

3.49 The full response is available as an Appendix to Cabinet and County Council reports.

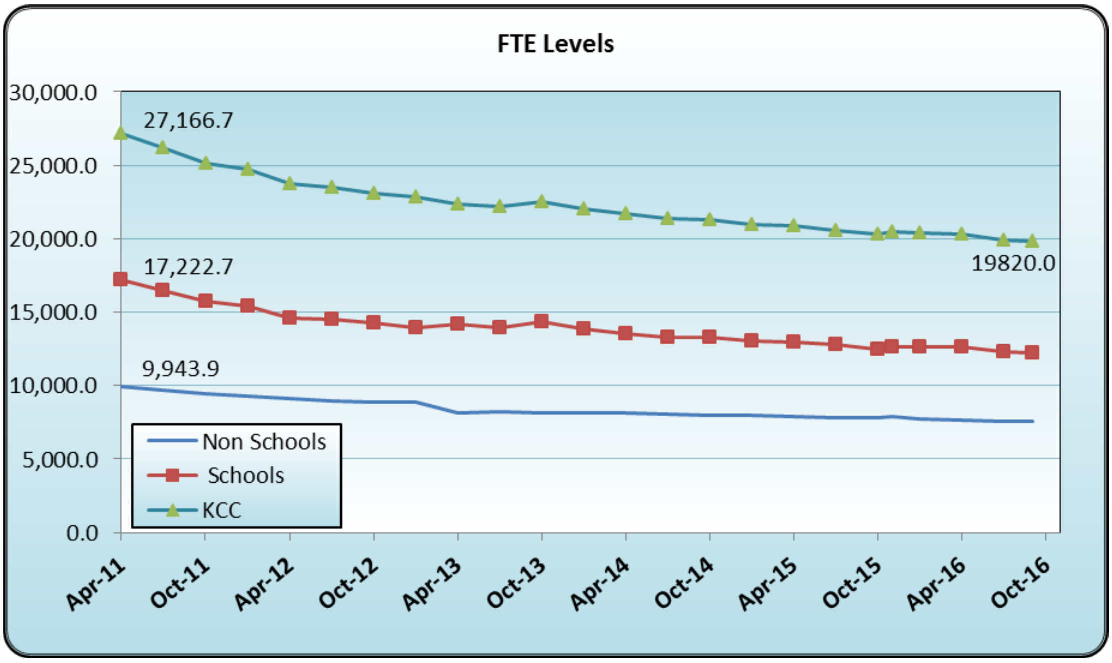
Workforce Strategy

3.50 KCC's aim is to develop a workforce that is engaged and adaptable to change and has the skills, knowledge & behavioural competencies to support & deliver effective services to (external & internal) customers. This is delivered within well-constructed and appropriate terms and conditions and reward structure and organisational development plan.

3.51 KCC is committed to organisational design principles intended to ensure the alignment of our people, structure and processes to maximise the capacity and performance of the management structure and decision making accountability. We have developed an approach to succession planning and talent management to ensure we will continue to have a workforce that will meet our service requirements.

3.52 Chart 3.2 overleaf sets out the changes in full time equivalent (FTE) staff numbers since April 2011.

Chart 3.2



Changes in staffing levels:
Between April 2011 and September 2016 the Authority's workforce decreased by over 7,300 full time equivalents.

Non Schools:

- Approximately one third of the reduction was from the non-schools sector (2,339 FTE) and changes included:
    - Commercial Services leaving the Authority in April 2013, resulting in a reduction of around 470 FTE.
    - Pupil Referral Units being reported under the 'Schools' sector from April 2013, accounting for a decrease of 265 FTE.
    - 98 FTE staff transferred from the contact centre to Agilisys
    - 1,390 redundancies in the non-schools sector during the period April 2011 to September 2016

- Sickness levels in the non-schools sector, calculated as an annual rolling average, showed a reduction from 7.8 days lost per FTE in April 2011, to 6.92 days lost per FTE in September 2016.

Schools:

- The number of staff in the schools sector decreased by around 5,000 FTE in the period April 2011 to September 2016.
- Schools may opt to purchase HR and Payroll services from providers other than KCC and the number of schools buying KCC's services varies from year to year, which impacts on reported staffing numbers. Additionally, numbers have decreased as schools have left the Authority to adopt Academy status (115 schools since April 2012).

3.53 Despite the continued reduction in staffing numbers overall, we still have a large population that need effective mechanisms for recruitment, retention and performance management. The service transformation agenda across all Directorates requires a suitably competent workforce in the right place at the right time. We maintain organisational wide programmes aimed at increasing self-sufficiency, new work practices and eliminating duplication of effort and processes.

Budget 2016-17

3.54 Our budget proposals provide for the following major new investments for 2017-18:

- £2.9m into special needs home to school transport due to higher than budgeted numbers and cost in 2016-17, and forecast demographic trends in 2017-18.
- £1.0m into SEN transport for price increases
- £11.3m into Adult Social Care for higher than budgeted clients in 2016-17, and forecast increasing complexity of need and rising numbers of older people/vulnerable adults in receipt of council funded care in 2017-18
- £14.1m into Adult Social Care to fund price increases in care packages including £6.8m into a new market sustainability provision
- £6.2m into specialist children's services in response to increasing complexity of children in care and care leavers. £1.2m for forecast rising prices of care packages in 2017-18
- £3.0m into Waste Disposal in response to falling prices for recycled materials, forecast increases in waste tonnage and contractual price increases
- £1.1m into new Apprenticeship Levy
- £4.1m to fund additional borrowing required for the 2016-19 capital programme
- £26.1m additional spending on adult social care following the Chancellor's Spring Budget announcement on 8th March 2017. Spending plans for which will be presented to County Council on 25th May.

3.55 Our 2017-18 budget includes the following major areas for £76.7m savings and income, including the following significant areas:

- Adults transformation programme £11.1m
- Streetlight LEDs £1.6m
- SEN transport transformation £0.7m
- Income from client charges £3.2m
- Income from additional trading activity £1.9m
- Increased income from treasury management investment £2.3m
- Staff reductions £7.6m
- Management tiers and spans of control £1.0m
- Procurement and contract savings £14.0m

- Public Health commissioning £2.6m
- Review of in-house services and charging policies with adult social care £2.1m
- Reduced spending across discretionary budgets £1.2m
- Review of bad debt provisions £1.5m
- Additional one-off drawdown from reserves £9.9m
- More even set-aside of amounts needed to repay debt £5.6m
- Use of capital receipts to fund transformation activity £2.5m

3.56 The previous paragraphs have set out where we have changed the Budget to reflect our strategies and plans next year. What can often be overlooked are those services we have been able to protect and these include (but not exclusively):

- Social Care services for the most vulnerable elderly, adults and children;
- Pothole repairs and winter emergencies;
- Support for bus services;
- Library services;
- Provision of waste recycling facilities;

3.57 Our budget was agreed at County Council on 9th February 2017 and, after also including the additional £26.1m adult social care funding announced in the Chancellor's Spring Budget, reflects:

- A small proposed increase in council tax (1.99%) to help fund increases in demand across all KCC services and provide some protection for services from reductions in Central Government funding
- A further 2% proposed increase in council tax specifically for adult social care services
- An increase in the net budget (excluding schools) of 2.4% (including the additional £26.1m adult social care funding announced in the Spring Budget)
- A decrease in Central Government funding 7.6% including 40.3% reduction in Revenue Support Grant.
- Need for savings of £76.7m (8.2% of net spending excluding schools)
- One-off drawdown from reserves of £12.1m (9.15% of total earmarked reserves as at April 2016)

Sensitivity Analysis

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

3.59 We are fully aware of the high risk budgets within the Council, which are largely those over which we have limited or no control in the short term. We will continue to focus support to the highest risk areas (financial, operational and reputational). The general reserve to meet unforeseen circumstances is forecast to be £41.1m at the end of 2016-17 which equates to just over 4.5% of net expenditure.

3.60 We are proposing a one-off drawdown of a further £12.1m from earmarked reserves in 2017-18 in addition to previous year's one-off drawdowns and borrowing against long term reserves. As a general rule we would not recommend using such reserves to balance the budget but in difficult times and in response the very late and unexpected further reduction in Central Government funding this is a necessary expediency.

Conclusion

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

3.62 We are proposing a small increase in council tax (1.99%) to help protect services both in relation to additional spending demands (largely unavoidable) and from reductions in central funding. We are also proposing a further 2% increase specifically for social care services. It would be unreasonable to increase tax beyond the proposals and a significant part of the financial challenge needs to be found from making savings and reducing spending. This pattern of increasing spending demands imposed on council services, reduced central funding, limited council tax increases and significant savings/spending reductions in order to balance the budget is likely to continue for the foreseeable future although the forecast savings for 2018-19 and 2019-20 are less than we have to find in recent years if the improved Better Care fund is provided without any additional spending conditions as we anticipate.

KCC Medium Term Financial Plan

SECTION 4

Capital Strategy

CAPITAL STRATEGY

4. Overview

Introduction

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

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

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

4.4 Over recent years KCC has spent an average of £231m per year on capital projects. We plan to invest £636m over the next three years and to finance 16.4% of this expenditure from borrowing which will impact on our revenue budget.

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

4.6 With a challenging financial environment for the foreseeable future that is influenced by a variety of external factors, there will only ever be a limited amount of capital resources available. The "squeeze" from Central Government continues to be felt across the Local Government sector and the continuing increase in construction inflation has significantly added to the pressure on the capital programme. Therefore, it remains vital that we target limited resources to maximum effect with a sharper focus on our strategic priorities and 'invest to save' opportunities.

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

What role does the Capital Strategy play?

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

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

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

Ambition

4.11 The Council continues to take a transformational stance in relation to its capital strategy. This involves setting aside some capital projects in favour of others that are more in-line with current strategic priorities. This stance will enable maximum flexibility but could also result in increased capital spend. This is being funded through rigorous capital receipts targets, better targeted invest to save projects and other innovative funding streams.

Drivers for Change

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

A sustained and complex financial challenge

4.13 The medium to long-term financial position for local authorities remains extremely challenging. The combination of the on-going national drive for austerity until at least 2020, with sustained reductions in local government funding and unfunded rising demand pressures for public services add up to an unprecedented financial challenge for KCC.

4.14 The Council's strategic statement **'Increasing Opportunities, Improving Outcomes'** reflects the need for KCC to become a very different type of council over the next five years. Given the financial challenges we face, if we are to remain committed to securing high-quality services for our residents and supporting choices for people to live independently in our communities, we must become an outcome-focused strategic commissioning authority. This means ensuring that every pound spent in Kent is delivering better outcomes for Kent's residents, communities and businesses.

4.15 To achieve this, we need to selectively and creatively target capital investment to deliver innovative services that deliver best value for Kent's communities. Our future capital programme must be outcome focused and deliver tangible benefits that support the strategic and supporting outcomes in the Strategic Statement.

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

4.17 The Council's **Commissioning Framework** aims to support KCC to deliver better outcomes through improved commissioning throughout the entire commissioning cycle, from initial analysis to contract management and review. Part of our improved approach to commissioning is putting customers at the heart, and this is underpinned by our **Customer Service Policy**, which provides a commitment to deliver quality, customer-focused services through intelligent commissioning.

4.18 The Council's **Voluntary and Community Sector (VCS) Policy** sets out our future relationship with the sector within a strategic commissioning authority model and commits to grant funding within a commissioning approach. It introduces a new grant framework for the local authority, ensuring that KCC grants are used to deliver against the outcomes set out within our Strategic Statement. Using the intelligence and expertise of VCS organisations should be a key part of the commissioning cycle and will help us to deliver better outcomes.

Stimulating growth

4.19 Capital investment is a key catalyst for economic growth through funding transformational regeneration and infrastructure projects that generate jobs, enhance Kent's skills base and create an efficient highways network. We need to ensure that our capital investment is informed by the **Kent & Medway Growth & Infrastructure Framework (GIF)** which identifies the total investment required (including education, highways, waste, utilities and health) to deliver planned growth in the county including the funding gap, and supports the priorities in the **Local Transport Plan 4**. This will help us lobby for additional Government investment and will benefit both the wider Kent economy and our residents.

4.20 We will work closely with our district partners, central government and private developers to ensure that we are able to deliver the right level of infrastructure and maximise developer contributions to facilitate sustainable growth. As part of this, we will work with our public, private and voluntary & community sector partners to seize appropriate external capital funding opportunities and join up capital funding bids.

Growth and demand pressures in education

4.21 The national policy environment for education continues to evolve and shape the role of KCC as the Local Education Authority and our relationship with our maintained schools, academy trusts and free schools. The demographic changes within Kent continue to show rising demand for school places until the early 2020's, increasingly at secondary schools over the next few years as the existing primary numbers begin to feed through into the secondary phase. In the next 4-5 years we will need additional accommodation for 23,000 new pupils in the system. We need to provide sufficient sustainable, quality education facilities to meet the needs of children and young people within Kent's communities, prioritising needs within the limited national funding available and the increasingly difficult environment in respect of developer contributions, balancing this with the savings we need to make as an organisation.

4.22 Our capital investment in education, set out in our Draft **Education Commissioning Plan 2017-21**, reflects these changes and takes a flexible, pragmatic asset management approach, ensuring KCC invests money in assets we are likely to retain. The Basic Need Programme will ensure we will meet our requirements for the academic year 2017-18 and beyond. We will continue to work closely with schools and academies to ensure that capital investment is targeted where limited resources can be used to best effect.

Demand pressures in adult social care

4.23 Demand for adult social care is rising due to population changes and an increasing number of people with complex needs requiring long-term care. At the same time the gap in funding is growing - across social care and health in Kent and Medway there is a current deficit of £109m and this will rise to £486m by 2020-21 if no action is taken.

4.24 In response, social care and NHS leaders in Kent and Medway have developed the draft **Sustainability and Transformation Plan – Transforming health and social care in Kent and Medway**. This sets out plans to integrate health and social care, deliver proactive care and provide more support in local communities through new Local Care models. Investments in estates, digital infrastructure and the workforce will be needed to support the changes.

4.25 KCC has also published the new five year strategy for adult social care in Kent - **Your life, your well-being**. It sets out plans to help people maintain their independence and stay living at home where possible. Delivering the plans will require changes to commissioning practices, making more specialist accommodation available, integrating with the NHS and strengthening voluntary and community services and support.

Service transformation and integration

4.26 As a strategic commissioning authority, we aim to integrate services around the life cycle of client groups. This means our services will be organised around the needs of service users and residents and not the priorities of the service provider or service professionals. This coupled with national drivers including the integration of health and social care will significantly change the way we work and use our community assets.

4.27 We need to ensure we use capital in an innovative way that will provide the property and ICT assets to enable and facilitate this change. The **Information and Communication Technology Strategy 2016-18** sets out how we will maximise opportunities presented by new technologies and market changes to respond to our changing business requirements. We will ensure there is a robust business case for investment in our existing assets so they remain fit for purpose to respond to rising customer demands, expectations and changing needs. We will maximise capital receipts and target capital funding to reinvest in enhancing community facilities, to modernise and transform service delivery within community settings, to better meet the needs of our customers, and to deliver better quality outcomes.

4.28 We will explore asset collaboration opportunities and shared technology solutions with our public, private and voluntary and community sector partners to invest in new ways of working. This will enable us to resolve issues as early as possible and provide a consistent quality of service through joined up working and by facilitating the sharing of information between partners.

Strategic asset management

4.29 Capital and assets are two sides of the same coin and it is vital that our capital programme complements the five key themes in our **Asset Management Strategy.** The challenge is to turn the inefficient properties into efficient ones, or if this is not possible, sell and realise a capital receipt to re-invest in a property from which an improved service can be offered. Our asset rationalisation and disposals policy will be more rigorous, creating headroom in the capital programme. We will focus on securing an acceptable market value. We will invest in property in priority locations where modernising assets may help to promote opportunities for co-location, asset collaboration and service integration. Our new property LATCo – GEN[2] will deliver the strategy, drive innovation, optimise costs and explore opportunities for income generation.

Doing things differently

4.30 We need to ensure that capital investment can be a catalyst for cultural change. Our **Doing Things Differently** approach looks at what we do and the way we do it including integrating services, streamlining systems and processes and empowering our staff. The **New Ways of Working** programme has embedded principles around enabling staff to carry out their roles efficiently, effectively and closer to service users will be incorporated into business as usual.

4.31 We need to continue to invest in ICT infrastructure that will support future service solutions. Our partnership with Agilisys will transform how customers communicate, access and interact with our services. We want to create more efficient, streamlined systems and promote economic growth (e.g. investment in broadband infrastructure will support learning, employment, skills and business growth, particularly in our rural communities).

Funding

Sources of capital funding

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

Borrowing

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

Grants

4.34 The challenging financial environment means that national government grants (currently over 50% of our financing for capital projects) are reducing, or changing in nature. We do not have complete freedom where to spend our grants – they are largely tied to particular areas such as education or highways. An increasing number of schemes that benefit the local area and economy bid for Local Growth Funding (LGF) from the Local Enterprise Partnerships (LEPs), and government has announced that £492 million will be made available to London and the South East in the third round of Growth Deals. This funding is specific to individual projects and has to be closely monitored. Our aim is to use other, less specific grants for their intended purpose but also in a way that meets our statutory obligations. Therefore where the grant is not sufficient, other sources of external funding such as Central Government grants and CIL will be explored first, before tapping into KCC resources of capital receipts and borrowing.

Developer Contributions: Community Infrastructure Levy (CIL)/S106

4.35 Developer contributions continue to be a challenging issue and need careful handling and consideration when they are put forward to fund major projects. The nature of s106 agreements mean that once the total funding figure has been agreed, the funding is received by the County Council in staged payments with the full funding potentially not received until the development has been completed and fully occupied; depending on size, a development can take several years to be fully completed. Developer contributions will be built into the programme at the point that planning permission is granted, but it must also be recognised that at this point there are still risks around housing development and realisation of the funding. Careful monitoring of expenditure against this funding is critical to ensure that we don't have to forward fund significant levels using borrowing.

4.36 The Community Infrastructure Levy (CIL) has been put forward by Government to replace the bulk of future s106 agreements. CIL is to be implemented and managed by districts as the charging authority.
To date only three districts in the county have adopted CIL, others are at varying stages of introducing CIL although some may choose not to. The share of CIL funding which Kent will receive in the future is unknown and cannot currently be forecast as unlike s106 agreements the money raised through CIL is administered by the district council and KCC does not automatically receive a share. An independent panel undertook a review of CIL on behalf of DCLG in 2016 - Government is considering its findings (which have not yet been published) and will likely announce changes to the way CIL is collected and spent in early 2017.

Capital Receipts

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

Partnership Working

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

Targeting investment

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

Meeting our statutory requirements

4.40 KCC will always ensure that appropriate capital budget is allocated to meet our statutory requirements, such as basic need, health and safety, disability discrimination act (DDA) and other legal requirements. As such it is appropriate to assess the Approval to Plan business cases for the statutory spend against a different set of criteria than for all other spend.

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

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

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

Making the available headroom count

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

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

Criteria	Description	Weighting
1. Benefits	How do the objectives of the bid achieve KCC's key corporate strategies and any relevant underlying strategies? What are the social/economic outputs? How does it improve service delivery and/or contribute towards long term service provision and integration of services? Does the bid consider the wider organisation and other similar projects and strategies to ensure a joined up approach?	50%
2. Invest to Save	An invest to save bid must generate sufficient savings to pay back the original capital outlay plus any borrowing costs within 10 years of the project completing, and generate ongoing savings.	15%
3. Delivery	Has an achievable delivery mechanism been identified? Have all delivery options been considered?	20%
4. Value for Money	Not only about initial capital cost, but also whole-life cost (and payback period if relevant) and ongoing revenue implications. Is there any match funding?	15%

Governance and process

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

KCC Medium Term Financial Plan

<u>SECTION 5</u>

Treasury Strategy

Treasury Management Strategy Statement and Investment Strategy 2017-18

Introduction

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

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

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

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

5.5 On 20 October 2016 the Council agreed significant changes to the 2016/17 treasury strategy which are reflected in this report.

External Context

Economic Background

5.6 Post the Brexit referendum result the Bank of England reduced the base rate to 0.25% and undertook further Quantitative Easing. This led to an across the board reduction in bank deposit rates. The very pessimistic forecasts of the impact on growth have not been borne out to date.

5.7 The fall in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

5.8 The impact of geo political risk in global financial markets also remains significant over the next year.

Credit Outlook

5.9 Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

5.10 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. This continues to increase the credit risk associated with making unsecured bank deposits.

Interest rate forecast

5.11 The Council's treasury adviser Arlingclose's central case is for the UK Bank Rate to remain at 0.25% during 2017/18.

5.12 Gilt yields remain at low levels and the Arlingclose central case is for yields to decline when the Government triggers Article 50. Further QE in support of the UK economy in 2017/18 remains a possibility to keep long-term interest rates low.

5.13 A more detailed economic and interest rate forecast provided by Arlingclose is included in the appendix to this strategy.

Borrowing Strategy

5.14 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.

5.15 As at 30 November 2016 long term borrowing was £984m including £37m attributable to Medway Council.

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

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

5.18 By using its internal resources instead of Prudential borrowing to support its capital programme the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. At the end of March 2016 the level of internal borrowing was £157m. The benefits of internal borrowing will be closely monitored and with long term rates relatively low KCC will selectively take opportunities to borrow whilst being very aware of the revenue budget implications.

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

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Kent Superannuation Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- UK Government backed funding initiatives

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

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

5.21 In June 2016 Barclays Bank cancelled all the embedded options within their standard Lender's Option Borrower's Option (LOBO) loans and this action converted the Barclays LOBOs, totalling £281.8m, into fixed rate loans. The Council now holds £160m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost.

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

5.23 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The current structure of PWLB rates makes it prohibitively expensive to do this. In 2016 the Government announced proposals to abolish the PWLB and transfer its powers to the Treasury. Following a consultation the government now plans to lay a draft Order before Parliament to implement the change. The exact timetable is unclear.

Investment Strategy

Approach

5.24 The Council holds significant invested funds, averaging £340m in year to December 2016. This is a combination of balances, reserves and net cash flow. In common with most local authorities the actual level of funds available for investment has been increasing.

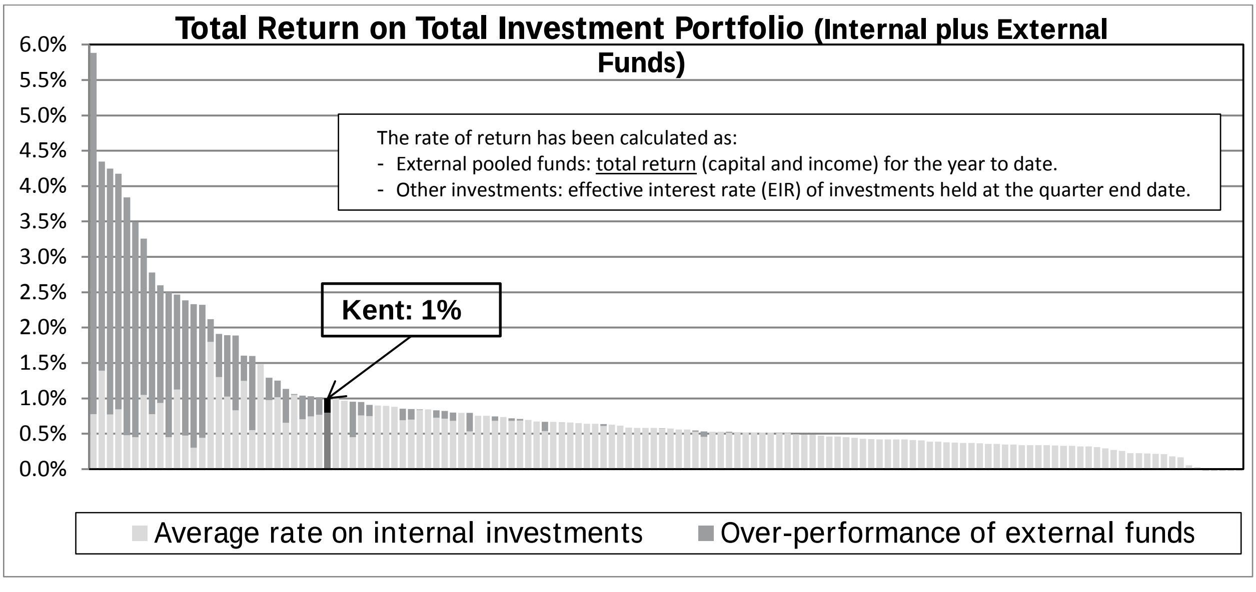
5.25 Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently with highest regard to the security and liquidity of its investments before seeking the highest return, or yield.

5.26 It must also be recognised that given the Council's overall budget position the return achieved is important. The 2017/18 treasury strategy represents a continuation of the 2016/17 strategy, amended in October 2016, in particular to diversify into more secure and / or higher yielding asset classes. The Council estimates that some 60% of its cash is available for investment in longer term investments and the investments will be targeted over the period to March 2018.

5.27 To meet its liquidity requirements the Council's strategy is to primarily use Money Market Funds, unsecured bank and building society instant access accounts, term deposits and certificates of deposit.

Treasury performance and investment risk

5.28 Performance and risk is monitored using comparative data from Arlingclose for all of their 147 clients. The following chart shows that the Council has achieved above average returns up to September 2016.



5.29 Over the last year the average return on the Council's internally managed investments has slightly increased while the level of counterparty credit risk (measured by credit ratings) has reduced, largely due to the investment in Covered Bonds and other bail-in exempt investments. In summary this means a higher return has been achieved for a lower level of risk.

Approved Investment Counterparties

5.30 The Council will make use of the following asset classes:

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

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

(3) **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.

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

(5) **Money Market Funds:** Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts,

(6) **Cash plus / Short Bond Funds:** Pooled investment funds whose value change with market prices and have a notice period, will be used as alternatives to unsecured bank deposits for longer investment periods.

(7) **Registered Providers of Social Housing (Housing Associations):** Loans and bonds issued by, guaranteed by or secured on the assets of RPs. These bodies are tightly regulated by the Homes and Communities Agency; as providers of public services they retain the likelihood of receiving government support if needed.

(8) **Opportunistic loans:** Loans to entities set up on an arms-length basis from the Council, and other suitable opportunities. The Council will take advice from Arlingclose on the appropriate structure of the loans and applicable rate of interest

(9) **Pooled Investment Funds:** Property Funds, Absolute Return Funds, Multi Asset Income Funds, Equity Income Funds and Fixed Income/Bond Funds offer enhanced returns over the longer term but are more volatile in the short-term. These funds will be used for longer investment periods. They have the advantage of providing wide diversification of investment risks but require the services of a professional fund manager in return for a fee. Because these funds have no defined maturity date and are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Risk Assessment and Credit Ratings

5.31 Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

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

Other Information on the Security of Investments

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

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

Specified Investments

5.35 The CLG Guidance defines specified investments as those:

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

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

Non-specified Investments

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

Investment Limits

5.38 The Council may invest its surplus funds with any of the counterparty types listed at paragraph 5.30 subject to the cash limits per counterparty and the durations shown in the table below:

Approved Investment Counterparties and limits

	Minimum Credit rating	**Individual Cash Limit**	**Total Cash Limit**	**Duration**
Government				
- UK Government		unlimited		50 years
- UK Local Authorities		£25m		10 years
- Supranational banks	AAA	£30m	£30m	25 years
- Non UK Government	AA+	£20m	£30m	25 years
UK banks and building societies – unsecured	A-	£30m		13 months
Council's banking services provider		£20m		Overnight
Overseas banks - unsecured	Country limit AA+, Individual limit A-	£20m	£30m country limit	13 months
Short-term Money Market Funds		£20m per fund		
Cashplus / short bond funds		£20m per fund		
Banks secured				
- Covered bonds	AAA	£20m per issuer	£150m	5 years
- Reverse purchase agreements	collateral of AA or better	£20m each		5 years
Corporates (non-financials)	A	£2m per issuer	£20m	2 years
Registered Providers		£5m	£25m	5 years
Pooled investment portfolio			£130m	
- Absolute Return funds		£25m per fund		
- Multi Asset Income funds		£25m per fund		
- Property funds		£25m or 5% of total fund value if greater		
- Bond funds		£25m per fund		
- Equity Income Funds		£25m per fund		
Opportunistic loans			£50m	

5.39 In accordance with advice from its treasury advisor, Arlingclose, the Council's policy is to limit its exposure to certain funds; in particular Short-term Money Market Funds – 0.5% of Fund size, and Long-term property funds – 5% of Fund value.

Other Items

5.40 There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on Use of Financial Derivatives

5.41 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

5.42 KCC will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Investment Training

5.43 The needs of the Council's treasury management staff for training in investment management are assessed every three months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

5.44 Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisors

5.45 The Council appointed Arlingclose Limited as its treasury advisors for a 3 year contract from August 2016. Arlingclose provides advice on investment, debt and capital finance issues.

Investment of Money Borrowed in Advance of Need

5.46 The Council may borrow in advance of need where this is expected to deliver the best long term value for money. Amounts borrowed will be invested until required to meet capital expenditure. The Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

Financial Implications

5.47 The Council has set a budget for investment income in 2017/18 of £5.5m and a budget for debt interest paid in 2017/18 of £47m. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

KCC Governance

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

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

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

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

Appendix A – Arlingclose Economic & Interest Rate Forecast November 2016

Underlying assumptions:

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.

- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.

- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.

- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.

- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.

- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.

- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.

- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.
- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	**0.12**
Arlingclose Central Case	**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**	**0.25**
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.40**
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.18**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.29**
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.34**
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.60**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.60**	**0.70**	**0.85**	**0.90**	**0.90**	**0.90**	**0.65**
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.24**
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**0.50**	**0.40**	**0.35**	**0.35**	**0.35**	**0.40**	**0.40**	**0.40**	**0.45**	**0.50**	**0.55**	**0.60**	**0.65**	**0.45**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.15**	**0.95**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.90**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**0.96**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.70**	**1.50**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.65**	**1.70**	**1.75**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**
50-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.60**	**1.40**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.41**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**

KCC Medium Term Financial Plan

SECTION 6

Risk 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 efficiently and effectively.

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

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

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

Context

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

6.6 The Council's move towards a Strategic Commissioning Authority requires reviewing of the Council's governance arrangements, including the risk management framework, which will evolve as the Authority evolves. This is expected to require a greater focus on all elements of the risk framework – our culture, behaviours and values as well as processes and procedures.

Risk Management Objectives

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

- manage risks in line with its risk appetite, and thereby enable it to achieve its objectives more effectively;
- apply recognised best practice to manage risk using a balanced, practical and effective approach (Office of Government Commerce publication *Management of Risk: Guidance for Practitioners*);

- embed effective risk management into the culture of the Council;
- integrate the identification and management of risk into policy and operational decisions, anticipating and responding proactively to social, environmental and legislative changes and directives that may impact on delivery of our objectives;
- eliminate or reduce the impact, disruption and loss from current and emerging events;
- harness risk management to identify opportunities that current and emerging events may present and maximise benefits and outcomes;
- ensure effective intelligence sharing and collaboration between risk management disciplines across all Council activities;
- ensure fraud risks are proactively considered and embedded into the organisation's risk management arrangements;
- benefit from consolidating ongoing learning and experience through the collation and sharing of risk knowledge;
- demonstrate a consistent approach to the management of risks when embarking on significant change activity; and
- ensure sound and transparent risk management arrangements are operated in partnership and commissioner / provider situations, underpinned by a culture that supports collaboration and the development of trust ensuring clear effective lines of communication and the management of relationships.

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

- maintaining the common links between business planning, performance and risk management;
- integrating effective risk management practices into the Council's management, decision making and planning activities;
- using available business technology to store and share risk information and providing the business with access to a repository of risk knowledge and learning;
- maintaining the frequency and effectiveness of monitoring of key risks in line with the council's internal control framework;
- embedding risk management into the *Kent Manager Standard* and wider Leadership & Management Development Framework;
- highlighting and promoting our attitude and approach to risk as one of the nine key service design principles to enable change;
- providing a mix of risk management training, awareness sessions and support for both Officers and Members of the County Council;

- ensuring links between audit planning and risk management processes to enable assurance on the effectiveness of risk management across the council;
- subjecting KCC's risk framework and practice to annual review to determine the effectiveness of arrangements and level of risk maturity;
- ensuring risk management arrangements are embedded within the Council's four change portfolios;
- providing continuous challenge and quality assurance to all elements of the risk management process;
- promoting a wide understanding of the Council's risk appetite and how it translates into tolerance levels within a service or programme setting;
- focusing on robust monitoring of mitigating actions to ensure that risks, once identified and assessed, are appropriately managed;
- working collaboratively with partners and providers (both internal and external) to develop effective risk ownership and risk sharing arrangements; striking a proportionate balance of oversight of risks of providers / partners without being over-constrictive.

Risk Appetite

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

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

6.11 As local authorities face continued reductions in Government funding in

the coming years, the Authority's environment will, by default, contain greater risk, and therefore it is likely that KCC will need to accept higher levels of risk in order to meet its desired outcomes. This will require an approach that allows flexibility and support for well-informed and considered risk taking, promoting transparency and effective risk management, while maintaining accountability. Whilst risks defined as 'high' are to be managed down to a tolerable level, it is important that risks across the Authority are not over-controlled.

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

- Negatively affect the safety of our service users, residents or employees;
- Severely damage the Authority's reputation;
- Lead to breaches of laws and regulations;
- Endanger the future operations of the County Council (i.e. by exceeding the risk capacity of the organisation – the amount of risk that the Authority can bear).

Roles and responsibilities

6.13 Responsibility for risk management runs throughout the Council; everyone has a role to play. However, to ensure that risk management is successful, the roles and responsibilities of key groups and individuals must be clearly identified. The key roles and responsibilities are set out below:

Group or Individual	Responsibilities
County Council	Ensure that an effective system of risk management is in place.
Governance & Audit Committee	On behalf of the Council ensure that risk management and internal control systems are in place that are adequate for purpose, and are effectively and efficiently operated.
Cabinet	Responsibility for the operation of the risk management system, including the establishment of the Council's risk appetite. Promote and demonstrate the behaviours and values that support well-informed and considered risk taking, while maintaining accountability. Encourage open and frank conversations about risks, ensuring appropriate reporting and escalation as required.
Cabinet Member for Business Strategy, Audit & Transformation	On behalf of Cabinet ensure effective risk management arrangements are put in place
Cabinet Portfolio Holders	Responsibility for the effective management of risk within their portfolio areas and ensuring that they consider risks in all decisions they make.
Cabinet Committees	To provide scrutiny pre-decision to ensure that due consideration is given to associated risks.

Section 151 Officer	Active involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered.
Corporate Management Team (CMT)	To ensure the Council manages risks effectively through the Risk Management Policy and actively consider, own and manage key strategic risks affecting the Council through the Corporate Risk Register. Keep the Council's risk management framework under regular review and approve and monitor delivery of the annual risk work programme. Promote and demonstrate the behaviours and values that support well-informed and considered risk taking, while maintaining accountability. Encourage open and frank conversations about risks, ensuring appropriate reporting and escalation as required.
Strategic Commissioning Board	Review risks arising from the 'analyse' and 'plan' phases of the commissioning cycle, including those associated with our strategic outcomes; data, customer and market analysis, service specifications and commissioning and procurement plans.
Budget & Programme Delivery Board	Investigate strategic risks where monitoring indicates that progress against mitigating actions is not sufficient. Review risks arising from the 'do' and 'review' phases of the commissioning cycle, including those associated with contract mobilisation, delivery and review and as part of the Board's provider and contract monitoring role.
Change Portfolio / Programme / Project Boards	To ensure that portfolio, programme and project risks are effectively identified and managed and that any impacts on the business that may follow implementation are reported and managed.
Corporate Assurance function	Develop oversight, transparency and co-ordination of major change activity across Kent County Council, including reinforcing KCC's risk management framework throughout project and programme activity.
Portfolio Delivery Managers	Establish and monitor that clear, effective and proportionate governance is in place for all projects and programmes within change portfolios, including risk management. Ensure that key risks and interdependencies within change portfolios are identified and escalated as appropriate.
Directorate Management Teams (DMT)	Responsibility for the effective management of risk within the directorate, including risk escalation and reporting to the Corporate Management Team as appropriate.
Divisional Management	Responsibility for the effective management of risk within divisions, including risk escalation, and reporting

Teams (DivMT)	to DMT as appropriate.
Corporate Director Strategic & Corporate Services (Head of Paid Service)	Responsibility for the overall monitoring of strategic risks across the Council, including the endorsement of priorities and management action. Responsible for ensuring that risk management resources are appropriate.
Director Strategy, Policy, Relationships and Corporate Assurance	Establish the organisational context and objectives for risk management and map the external and internal risk environment. Develop and maintain the risk management policy, strategy, management guidance and support resources.
Corporate Risk Manager	Promote a positive risk management culture within KCC, developing and implementing the risk management framework and strategic approach and continuing to develop and embed an effective infrastructure for managing and reporting risk. Facilitate maintenance of an up to date Corporate Risk Register and provide reports on corporate risk to Cabinet members and the Corporate Management Team. Facilitate the risk management process within the Council and advise on developments on risk management. Assist key individuals with implementing and embedding risk within key Council areas and provide guidance, training and support as required.
Corporate Risk Team	Day to day responsibility for developing and co-ordinating risk management across the Council and providing advice, support and training, and contributing to ongoing regular reporting on risk management.
Internal Audit	Assesses the effectiveness of the risk management framework and the control environment in mitigating risk.
Directors and Managers	Ensure that effective risk management arrangements are in place in their areas of responsibility to minimise the Council's exposure to risk and uncertainty. Promote and demonstrate the behaviours and values that support well-informed and considered risk taking, while maintaining accountability. Encourage open and frank conversations about risks, ensuring appropriate reporting and escalation as required.
All elected Members and staff members	Identify risks and contribute to their management as appropriate. Report inefficient, unnecessary or unworkable controls. Report loss events or near-miss incidents to management.

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

Embedding of Risk Management

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

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

Appendix A (i) - High Level 2017-20 Budget Summary

2016-17			2017-18		2018-19		2019-20	
£000s	£000s		£000s	£000s	£000s	£000s	£000s	£000s
	916,479	**Revised 2016-17 Base Budget**		**911,050**		**932,977**		**920,745**
		Additional Spending Pressures						
10,994		Net budget realignments from previous year	8,660		60		-40	
12,379		Replacement of one-off use of reserves to fund base budget	10,852		7,844		2,500	
25,767		Pay & Prices	23,753		25,500		26,412	
10,333		Demand & Demographic	15,413		15,577		15,920	
4,939		Government & Legislative	28,663		-8,147		-8,797	
10,921		Service Strategies and Improvements	11,302		1,552		492	
	75,333	**Total Pressures**		**98,643**		**42,386**		**36,487**
		Savings & Income						
		Transformation Savings						
-10,228		Adults Transformation Programmes	-11,106		-12,173		-447	
-6,396		Other Transformation Programmes	-3,316		-2,372		-1,426	
-6,999		Income Generation	-8,405		-4,029		-2,315	
		Efficiency Savings						
-5,097		Staffing	-8,564		-1,707			
-1,444		Premises	-406		-1,251		-750	
-11,539		Contracts & Procurement	-13,960		-5,201			
-9,112		Other	-6,479		-657		-7	
-22,664		Financing Savings	-15,465					
		Use of Capital Receipts	-2,500					
-7,283		Policy Savings	-3,153		-8,896		-2,950	
	-80,761	**Total Savings & Income**		**-73,356**		**-36,286**		**-7,896**
		Public Health & Other Grants						
		Estimated reduction in Public Health Grant	1,753					
		Public Health Service Reducations	-1,753					
		Retained element of former ESG transferred into DSG	-3,360					
				-3,360				
		Unidentified				-18,332		-11,498
	911,050	**Net Budget Requirement**		**932,977**		**920,745**		**937,839**

Appendix A (i) - High Level 2017-20 Budget Summary

2016-17			2017-18		2018-19		2019-20	
£000s	£000s		£000s	£000s	£000s	£000s	£000s	£000s
		Funded by						
111,425		Revenue Support Grant	66,476		37,640		9,487	
5,682		Transition Grant	5,685					
N/A		Social Care Support Grant	6,192					
123,964		Business Rate Top-Up Grant	128,864		133,010		137,741	
12,375		Education Services Grant	3,372					
N/A		Improved Better Care Fund	301		17,525		33,683	
N/A		Additional Adult Social Care Allocation	26,091		17,494		8,697	
13,943		Other un-ringfenced grants (estimate)	12,516		10,223		9,863	
51,414		Local Share of Retained Business Rates	50,600		52,099		53,811	
-2,137		Business Rate Collection Fund	-140					
571,976		Council Tax Yield	597,123		615,583		634,884	
11,205		Proposed Social Care Levy	23,404		36,172		49,673	
11,203		Council Tax Collection Fund	12,494		1,000			
	911,050	**Total Funding**		**932,977**		**920,745**		**937,839**

(Figures subject to rounding)

Appendix A(ii) - Detailed 2017-20 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W (Including PH)	GET	S&CS	FI	U	Total	
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
2016-17 Base	Approved budget by County Council on 11th February 2016	64,784.8	491,077.5	163,596.0	66,929.1	115,759.8	8,902.5	911,049.7	
Base Adjustments (internal)	Changes to budgets which have nil overall affect on net budget requirement	135.6	6,708.1	688.1	1,472.9	-102.2	-8,902.5		
Revised 2016-17 Base		**64,920.4**	**497,785.6**	**164,284.1**	**68,402.0**	**115,657.6**	**0.0**	**911,049.7**	**911,049.7**
Additional Spending Pressures									
Net Budget Realignment	*Necessary adjustments to reflect current and forecast activity levels from in-year monitoring reports*								
Waste	Dry recyclables pressure, resulting from fall in commodity prices, and increase in waste tonnage			1,125.0				1,125.0	8,660.2
Commercial Services	Reversal of one-off draw-down from Commercial Services reserves and realignment of budget to reflect anticipated dividend					1,900.0		1,900.0	
Young Persons Travel Pass - Activity	Realignment of budget following changes in activity at the time of budget build			400.0				400.0	
Young Persons Travel Pass - School days	Change in the number of school days in the financial year compared to the previous year			-360.0				-360.0	
Concessionary Fares	Realignment of budget due to falling journey numbers, in line with reduction in journey numbers in recent years			-400.0				-400.0	
Adult Social Care	Realignment of budget following changes in activity at the time of budget build.		753.0					753.0	
Children's Social Care	Realignment of budget following changes in activity at the time of budget build.		3,152.2					3,152.2	
SEN Transport	Latest in-year pressure on SEN transport which reflects higher journey costs than budgeted in 2016-17	2,000.0						2,000.0	
Other	Other minor budget realignments			90.0				90.0	
Replace use of one-offs	Impact of not being able to repeat one-off use of reserves and underspends in approved base budget for 2016-17		2,263.0			8,588.8		10,851.8	10,851.8

Appendix A(ii) - Detailed 2017-20 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W (Including PH)	GET	S&CS	FI	U	Total	
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Pay and Prices									
Pay and Reward	Additional contribution to performance reward pot and impact on base budget of uplifting pay grades in accordance with single pay reward scheme						3,900.0	3,900.0	23,753.2
Inflation									
Energy	Anticipated price increases on energy contracts as estimated by Commercial Services			239.2	174.0			413.2	
Highway Contracts	Index linked increases on maintenance, technical services and traffic management			354.2				354.2	
Waste Contracts	Index linked increases to composting, haulage & transfer stations, household waste recycling centres, landfill, landfill tax, recycling and waste to energy contracts			1,136.5				1,136.5	
Adult Social Care	Implementing the national living wage strategy, recognising an impact of the national minimum wage increases and honouring contractual agreements for eligible adult social care contracts and services through a formulaic and targeted approach. Separate provision for providers claiming financial viability issues for price negotiations to be agreed by the Corporate Director in accordance with KCC virement procedures.		7,267.3					7,267.3	
SCHW Sustainability Provision	Provision to enable the Corporate Director for Social Care to comply with requirement under the Care Act to facilitate a diverse and sustainable market for high quality care and support in their area		6,800.0					6,800.0	
Children's Social Care	Provision for price negotiations with external providers and uplift to in-house foster carers in line with DFE guidance		1,167.3					1,167.3	
Home to School Transport	Provision for inflation on contracted services and season tickets for mainstream & SEN Home to School Transport and the 16+ travel card	1,417.6						1,417.6	
Public Transport	Provision for inflation on: subsidised bus service contracts; the reimbursement of fares for the young person's travel pass; and concessionary fares			477.6				477.6	
Non specific price provision	Non specific provision for CPI inflation on other negotiated contracts without indexation clauses			38.4	216.7			255.1	
ICT Contracts	Exchange rate impact on ICT software contracts				221.7		342.7	564.4	

Appendix A(ii) - Detailed 2017-20 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W (Including PH)	GET	S&CS	FI	U	Total	
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Demography	*Additional spending associated with increasing population and demographic make-up of the population*								
Older People	Growth in client numbers and additional costs resulting from existing and new clients whose needs are becoming more complex		3,400.0					3,400.0	15,412.5
Adults with a Learning Disability	Growth in client numbers and additional costs resulting from existing and new clients whose needs are becoming more complex		6,400.0					6,400.0	
Mental Health	Growth in client numbers and additional costs resulting from existing and new clients whose needs are becoming more complex		700.0					700.0	
Children's Social Care	Estimated impact of an increase in the population of children in Kent, leading to increased demand for specialist children's services		3,060.0					3,060.0	
Waste Tonnage	Estimated additional waste anticipated due to increased number of households in Kent			720.0				720.0	
SEN Transport	Estimated impact of rising pupil population on SEN Home to School and College Transport	922.5						922.5	
Young Persons Travel Pass	Estimated impact of more children being eligible for the young persons travel pass, due to rising population			230.0				230.0	
Coroners	Increase in number of post mortems undertaken, meaning a greater proportion of deaths are being investigated further by Coroners			100.0				100.0	
Concessionary Fares	Reduction in concessionary fare journey numbers, consistent with national and local trends for reducing journey numbers			-120.0				-120.0	

Appendix A(ii) - Detailed 2017-20 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W (Including PH)	GET	S&CS	FI	U	Total	
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Government & Legislative									
Coroners	Introduction of medical examiner service			300.0				300.0	28,663.0
Flooding	Additional responsibilities in relation to sustainable drainage systems (SuDS)			60.0				60.0	
Public Rights of Way	Additional duties in relation to local planning searches (Con24)			50.0				50.0	
Apprenticeship Levy	Estimated net cost resulting from introduction of Apprenticeship Levy in 2017, including levy contribution and draw down of training costs					1,100.0		1,100.0	
Deprivation of Liberty Safeguards	Additional DOLS assessments following the Cheshire Judgment 2014, previously funded from initial grant		562.2					562.2	
Intermediaries Legislation	Estimated impact of additional employer costs resulting from introduction of new Intermediaries legislation from 6 April 2017						500.0	500.0	
Additional Adult Social Care Allocation	Additional spending on adult social care following the Chancellor's announcement on 8th March 2017. Spending plans to be decided at May County Council		26,090.8					26,090.8	

Appendix A(ii) - Detailed 2017-20 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W (Including PH)	GET	S&CS	FI	U	Total	
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Service Strategies & Improvements									
School Transport	Impact of Grammar School Select Committee transport recommendations	60.0						60.0	11,302.1
Coroners	Final year of phased transfer of Coroners officers costs being transferred from Police			110.0				110.0	
Economic Development - Broadband Project	Broadband Phase 2: funding for administration and management of scheme			160.0				160.0	
Capital Programme	Additional debt costs to fund the 2017-20 capital programme					4,100.0		4,100.0	
Sustainable Transformation Plan	KCC's contribution towards the project management costs of the Health Sustainable Transformation Plan		300.0					300.0	
ICT Single System	Commissioning of EYPS Single System ICT through a hosted solution	420.0						420.0	
ICT Asset Maintenance Reserve	Increased contribution to reserve to maintain KCC core ICT desktop provision					600.0		600.0	
Invicta Law	Cost to Invicta Law of full recharge of corporate support services (offset by additional income to central corporate support services below), as per the original business case				285.2			285.2	
Leases	One off transitional issues around the timing of leases				250.5			250.5	
Strategic Commissioner	New Strategic Commissioner post, agreed at County Council 26th January 2017				160.0			160.0	
General Reserves	Contribution to General Reserves to reflect the higher risk inherent in the 2017-18 budget proposals, and future year forecasts					3,921.4		3,921.4	
Highways	Increase Kent Highways proactive management budget			500.0				500.0	
Member Grants	Increase Member grant budget by £2k per Member				162.0			162.0	
Other	Other minor service improvements			273.0				273.0	
	Total Additional Spending Demands	**4,820.1**	**61,915.8**	**5,483.9**	**1,470.1**	**20,210.2**	**4,742.7**	**98,642.8**	**98,642.8**

Appendix A(ii) - Detailed 2017-20 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W (Including PH)	GET	S&CS	FI	U	Total	
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Savings and Income									
Transformation Savings									
Adults Older People / Physical Disability - Phase 2	Continued roll out of Phase 2 transformation including initiatives aimed at promoting better integration with health services and a better range of support services for clients leaving hospital back to home		-3,626.5					-3,626.5	-11,106.4
Adults Older People / Physical Disability - Phase 3	Initial estimate of potential savings which could be achieved through Phase 3 of social care transformation		-2,700.0					-2,700.0	
Adults with a Learning Disability - Phase 2	Continued rollout of Phase 2 transformation including initiatives aimed at reducing dependence on care services for vulnerable adults		-1,179.9					-1,179.9	
Adults with a Learning Disability - Phase 3	Initial estimate of potential savings which could be achieved through Phase 3 of social care transformation		-2,500.0					-2,500.0	
Adults with a Learning Disability - HRS	Estimated savings to be achieved from commissioning of new combined service incorporating previous separate services of Supporting Independence Service and Housing Related Support Service to be more outcome focussed and promote independent living		-400.0					-400.0	
Your Life Your Home - Mental Health	Review of people in Mental Health residential placements with a view to providing a service in an alternative setting		-700.0					-700.0	
SEN Transport independent travel initiatives	Continued savings from initiatives aimed at increasing independent travel to school by SEND pupils including developing independent travel training and direct payments to parents	-695.0						-695.0	-3,316.1
Waste	New contract whereby waste collected from mechanical street sweeping is recycled			-200.0				-200.0	
Public Transport	Full year effect of bus operators taking subsidised bus routes into commercial operation, with minor refinements, resulting in a reduction in subsidies paid			-105.0				-105.0	
Street Lighting	Continuation of programme to convert streetlight network to better, more cost and energy efficient LED technology and implementation of a central monitoring system			-1,512.0		-73.0		-1,585.0	
Growth, Environment and Transport	Savings through multi-agency working with partners			-100.0				-100.0	
GEN2 LATCo	Dividend from and implementation of Property Local Authority Trading Company model				-78.4			-78.4	
Contact Centre and Digital Web Platform	Removal of one-off investment in 2016-17 for new contact centre and digital web platform.				-552.7			-552.7	

Appendix A(ii) - Detailed 2017-20 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W (Including PH)	GET	S&CS	FI	U	Total	
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Income									
Trading	Increased income from traded services with schools, academies, other local authorities and public bodies	-1,883.0						-1,883.0	-8,405.4
Client Charges	Uplift in social care client contributions in line with benefit uplifts for 2017-18, parental contribution for children placed in care, and inflationary increases for other activity led services including young person's travel pass, libraries, and registration		-2,270.4	-961.8				-3,232.2	
Corporate Support Services - BSC	Reduction in Engagement, Organisation Design & Development commissioned budget to Business Services Centre to be delivered through Increased profitability				-145.0			-145.0	
Market Expertise	Sell Finance and Infrastructure expertise to external bodies				-370.0			-370.0	
Investment Income	Full year effect of changes to 2016-17 investment strategy					-600.0		-600.0	
Capital Investment Fund	Revised Treasury Management strategy					-1,700.0		-1,700.0	
Corporate Support Services	Income from full recharge of corporate support service costs to Invicta Law (offset by pressure above), as per the original business case				-285.2			-285.2	
Corporate Landlord	Increase in rental income from more innovative use of the Corporate Landlord estate				-190.0			-190.0	

Appendix A(ii) - Detailed 2017-20 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W (Including PH)	GET	S&CS	FI	U	Total	
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Efficiency Savings									
Staffing									
Staffing Restructures	Service re-design, integration of services and more efficient ways of working resulting in a reduction of staff costs. The delivery of these savings will be with appropriate stakeholder engagement and detailed consultations	-1,636.0	-1,382.3	-1,507.4	-2,538.3		-500.0	-7,564.0	-8,564.0
Management Structures	Stricter enforcement of organisational design principles around the number of tiers of management and spans of control. The delivery of these savings will be with appropriate stakeholder engagement and detailed consultations						-1,000.0	-1,000.0	
Infrastructure									
Established Programmes	Existing savings plans arising from asset rationalisation, facilities management and utility contracts				-406.0			-406.0	-406.0
Contracts & Procurement									
SEN Transport Route Optimisation	Savings through improved route optimisation and procurement practices	-1,494.0						-1,494.0	-13,960.3
Learning Disability Supported Living	Contract re-negotiations with supported living providers		-600.0					-600.0	
Domiciliary Care	Ensuring that contracted providers can deliver volume and therefore avoiding more expensive spot market contracts		-500.0					-500.0	
Fostering	New placements with Independent Fostering Agencies anticipated to be at lower cost due to increased placement availability		-134.0					-134.0	
Older People	Cessation of funding for Health "step down" beds		-570.0					-570.0	
Early Help	Full year effect of Early Help commissioning savings started in 2016-17	-250.0						-250.0	
Economic Development	Review of grants and income			-194.9				-194.9	
Visitor Economy	Contract and marketing review			-44.7				-44.7	
Waste	Waste strategy efficiencies			-750.0				-750.0	
Highways, Transportation & Waste	Contract and other efficiencies across Highways, Transportation & Waste division			-750.0				-750.0	
Infrastructure	Reduction in ICT spend on third party contracts and equipment, and centralise remaining ICT contract spend				-370.0			-370.0	
E-Learning	Further development of e-learning and reducing external training costs				-215.3			-215.3	

Appendix A(ii) - Detailed 2017-20 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W (Including PH)	GET	S&CS	FI	U	Total	
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Procurement	Improving: small value/high volume procurement activity; category management; commercial support; spot purchasing; and contract reviews						-3,000.0	-3,000.0	
Home to school transport	Reduction in SEN home to school transport costs due to growth in local SEN provision attached to mainstream schools and academies	-75.0						-75.0	
Adults with a Learning Disability	Full year effect of savings achieved in 2016-17		-380.0					-380.0	
Environment, Planning & Enforcement	Review of non staffing budgets			-214.7				-214.7	
Young Persons Travel Pass	Reduction in additional capacity payments to bus operators			-200.0				-200.0	
Total Facilities Management	Review Total Facilities Management contact				-318.0			-318.0	
Care Leavers & Supported Accommodation	More efficient commissioning of supported accommodation for young people aged 16+		-300.0					-300.0	
Adults Mental Health	Estimated savings to be achieved from commissioning of new combined service incorporating previous separate services of Supporting Independence Service and Housing Related Support Service to be more outcome focussed and promote independent living		-250.0					-250.0	
Substance Misuse	Improved commissioning of substance misuse service alongside Public Health activity		-200.0					-200.0	
Homelessness	Joint working with partner organisations to introduce a new homelessness strategy focussed on prevention and better outcomes that ensures support is provided to vulnerable homeless people in Kent		-300.0					-300.0	
GEN2 LATCo	Reduction of the commissioned budget to GEN2				-282.0			-282.0	
Cloud Based Solution	Move Medway disaster recovery data centre to 'Cloud-based' solution				-90.0			-90.0	
Integrated Commissioning	Increased efficiencies through integrated commissioning and working with the NHS		-2,000.0					-2,000.0	
Social Care	Improved negotiations with Health partners in relation to continuing health care eligibility		-200.0					-200.0	
Other	Other minor contracts and procurement savings		-204.0	-23.7	-50.0			-277.7	

Appendix A(ii) - Detailed 2017-20 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W (Including PH)	GET	S&CS	FI	U	Total	
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Other									
Operational Support Unit	Efficiencies across operational support unit		-125.0					-125.0	-6,479.0
Adult Social Care	Review calculation of bad debt provision in relation to client income for social care debt		-1,500.0					-1,500.0	
Youth Participation Workers	Partnership working with Headstart	-120.0						-120.0	
Insurance	Reduce contribution to insurance fund based on recent years' performance					-600.0		-600.0	
Discretionary Spend	Pro-rata cut to discretionary spend	-248.0	-214.0	-309.5	-399.0			-1,170.5	
Public Health Grant	Internal commissioning of services to deliver public health outcomes	-2,649.3						-2,649.3	
Training budget	Identify existing training expenditure permitted to be funded from the new Apprenticeship Levy, to partially offset the pressure above				-100.0			-100.0	
Other	Other minor efficiency savings			-47.0	-167.2			-214.2	
Financing Savings									
Draw-down central reserves	Net draw-down of central reserves to support future years' budgets					-5,015.1		-5,015.1	-15,465.1
Draw-down directorate reserves	Draw-down directorate reserves to support future years' budgets					-2,000.0		-2,000.0	
Debt repayment	Review amounts set aside for repayment (MRP)					-5,550.0		-5,550.0	
Use of underspend	Use of uncommitted 2015-16 underspend					-2,400.0		-2,400.0	
Modernisation of the Council	Reduce modernisation of the Council budget					-500.0		-500.0	
Use of capital receipts	Use of capital receipts to fund transformation (subject to headroom), therefore reducing the base contribution to reserves					-2,500.0		-2,500.0	-2,500.0

Appendix A(ii) - Detailed 2017-20 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W (Including PH)	GET	S&CS	FI	U	Total	
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Policy Savings									
Home to School Transport	Final instalment of 2012 decision to remove discretion on Home to School Transport Policy	-100.0						-100.0	-3,153.4
Soft Landscaping	Review of contracts			-90.0				-90.0	
Children's Social Care	Review means testing for financial support to new Adopters and Special Guardians		-100.0					-100.0	
Adults with a Learning Disability	Implementation of accommodation model for the short breaks service		-145.0					-145.0	
Older People / Physical Disability	Review In-House services		-380.0					-380.0	
Older People / Physical Disability Charging	Change to charging policies		-302.0					-302.0	
Accommodation for Offenders	Reviewing with partners specialist accommodation with an expectation that suitable alternative accommodation will be jointly commissioned		-350.0					-350.0	
Partnership Arrangements with Districts	Rationalise current support payments				-167.0			-167.0	
Older People / Physical Disability Residential Homes	Full year effect of closure of in-house residential homes		-608.9					-608.9	
Kent Support and Assistance Service	Review of the KSAS service		-340.5					-340.5	
Turner	Full year effect of review of funding agreement for 2016-18			-50.0				-50.0	
Libraries	Reduce library book Fund by Approximately 20% (one-off)			-250.0				-250.0	
Other	Other minor policy savings		-120.0	-150.0				-270.0	
Total savings and Income		**-9,150.3**	**-24,582.5**	**-7,460.7**	**-6,724.1**	**-20,938.1**	**-4,500.0**	**-73,355.7**	**-73,355.7**

Appendix A(ii) - Detailed 2017-20 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W (Including PH)	GET	S&CS	FI	U	Total	
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Public Health & other grants									
Public Health - Grant Reduction	Estimated reduction in Public Health Grant		1,753.0					1,753.0	-3,360.0
Public Health - Service Reduction	Public Health Service Reductions		-1,753.0					-1,753.0	
ESG	The retained element of the former Education Services Grant which has transferred into Dedicated Schools Grant, and this will reduce net spend as it will now be treated as grant income	-3,360.0						-3,360.0	
Proposed Budget		**57,230.2**	**535,118.9**	**162,307.3**	**63,148.0**	**114,929.7**	**242.7**	**932,976.8**	**932,976.8**

Appendix A(ii) - Detailed 2017-20 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W (Including PH)	GET	S&CS	FI	U	Total	
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Funding									
Final Settlement	*Notification of funding from central government*								
Revenue Support Grant	Comprises share of previous Formula Grant, Early Intervention Grant, Learning Disability Grant, Council Tax Freeze Grant, Care Act Grant etc. allocated as revenue support grant, including impact of overall reductions in the provisional local government finance settlement							66,475.8	66,475.8
Transition Grant	Additional allocation for 2016-17 and 2017-18 announced in the local government finance settlement on 8th February 2016 to help ease the implementation of Revenue Support Grant changes for those councils with the sharpest reductions							5,684.7	5,684.7
Social Care Support Grant	New one-off grant announced for 2017-18 in provisional Local Government Settlement							6,192.0	6,192.0
Business Rate Top-up	Top-up derived by comparing local share of business rates according to historical average and business rate baseline share of previous grants including annual uplift in line with business rate multiplier, as per the provisional local government finance settlement							128,863.8	128,863.8
Improved Better Care Fund	DCLG un-ring-fenced grant allocated towards improved integration between social care and health							301.2	301.2
Additional Adult Social Care Allocation	Additional adult social care funding announced in the Chancellor's Spring Budget on 8th March 2017.							26,090.8	26,090.8
Education Services Grant	One-off transitional protection							3,372.1	3,372.1
New Homes Bonus Grant	DCLG un-ring-fenced grant allocated according to increase in tax base, as per the provisional local government finance							7,804.9	12,515.8
Business Rate Compensation	Compensation for additional reliefs on business rates for small businesses, retail premises and reduction in multiplier paid as un-ring-fenced grant by DCLG (estimate)							3,341.7	
Un-ring-fenced grants	Un-ring-fenced grants from other Government Departments (estimate)							1,369.2	

Appendix A(ii) - Detailed 2017-20 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W (Including PH)	GET	S&CS	FI	U	Total	
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Business Rates									
Business Rate Baseline	Local share of business rates baseline based on historical average with annual uplift in line with business rate multiplier, as per the provisional local government finance settlement							46,608.1	50,599.9
Business Rate Local Share	KCC 9% share of local tax base as notified by district councils less baseline share identified above, including proceeds from local business rate pool							3,991.8	
Business Rate Collection Fund	KCC share of surpluses and deficits on business rate collection in 2016-17							-140.3	-140.3
Local Taxation									
Council Tax Base	KCC band D equivalent tax base as notified by district councils based on 2016-17 Council Tax							585,231.9	597,123.2
Council Tax Increase	Impact of proposed increase in Council Tax up to the 2% referendum level							11,891.3	
Social Care Levy	Impact of proposed further 2% increase in Council Tax for Social Care Levy (total shown relates to 2016-17 and 2017-18 increases combined)							23,403.6	23,403.6
Council Tax Collection Fund	KCC share of surpluses and deficits on Council Tax collection in 2016-17							12,494.2	12,494.2
Total Funding								**932,976.8**	**932,976.8**

Key:

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

Appendix B
Prudential Indicators

1. Estimate of capital expenditure (including PFI)

Actual	2015-16	£251.462m
Estimate	2016-17	£327.059m
	2017-18	£261.303m
	2018-19	£196.179m
	2019-20	£178.358m

2. Gross Debt and the Capital Financing Requirement (CFR):

The Corporate Director of Finance and Procurement reports that, in light of current commitments and plans reflected in the budget forecast, gross debt is not envisaged to exceed the CFR in 2016-17, 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

	2015-16 Actual £000	2016-17 Forecast £000	2017-18 Estimate £000	2018-19 Estimate £000	2019-20 Estimate £000
Capital Financing Requirement	1,348,259	1,371,627	1,369,445	1,327,933	1,273,544
Annual increase (decrease) in underlying need to borrow	(34,597)	23,368	(2,182)	(41,512)	(54,389)

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

Actual	2015-16	13.90%
Estimate	2016-17	13.74%
	2017-18	13.18%
	2018-19	13.19%
	2019-20	13.12%

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

	2017-18 £	2018-19 £	2019-20 £
Impact on Band D – cumulative	0.48	0.51	0.67

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 31/03/2016	**£m**
Borrowing	980
Other Long Term Liabilities	245
Total	**1,225**

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

	2016-17 Approved £m	**2016-17 Revised £m**	**2017-18 Estimate £m**	**2018-19 Estimate £m**	**2019-20 Estimate £m**
Borrowing	1,015	1,015	1,020	1,036	1,043
Other Long Term Liabilities	248	245	245	245	245
Total	**1,263**	**1,260**	**1,265**	**1,281**	**1,288**

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

	2016-17 **Approved £m**	2016-17 **Revised £m**	2017-18 **Estimate £m**	2018-19 **Estimate £m**	2019-20 **Estimate £m**
Borrowing	1,055	1,055	1,058	1,072	1,077
Other Long Term Liabilities	248	245	245	245	245
Total	**1,303**	**1,300**	**1,303**	**1,317**	**1,322**

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

	2016-17 Approved £m	2016-17 Revised £m	2017-18 Estimate £m	2018-19 Estimate £m	2019-20 Estimate £m
Borrowing	975	975	980	996	1,003
Other Long Term Liabilities	248	245	245	245	245
Total	**1,223**	**1,220**	**1,225**	**1,241**	**1,248**

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

	2016-17 Approved £m	2016-17 Revised £m	2017-18 Estimate £m	2018-19 Estimate £m	2019-20 Estimate £m
Borrowing	1,015	1,015	1,018	1,032	1,037
Other Long Term Liabilities	248	245	245	245	245
Total	**1,263**	**1,260**	**1,263**	**1,277**	**1,282**

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.

	2016-17 Approved %	2016-17 Revised %	2017-18 Estimate %	2018-19 Estimate %	2019-20 Estimate %
Upper limit for Fixed interest rate exposure	100	100	100	100	100
Upper limit for Variable rate exposure	40	40	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	10
24 months and within 5 years	0	15
5 years and within 10 years	0	15
10 years and within 20 years	5	20
20 years and within 30 years	5	25
30 years and within 40 years	10	25
40 years and within 50 years	10	30
50 years and within 60 years	10	30

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

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. The increased limits from 2016-17 onwards reflect the Council's proposed investment in bonds and establishment of an investment portfolio.

Upper limit for total principal invested over 364 days	2016-17 Approved £m	2016-17 Revised £m	2017-18 Estimate £m	2018-19 Estimate £m	2019-20 Estimate £m
	230	230	260	260	260

Appendix C
Annual Minimum Revenue Provision (MRP) Statement

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

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

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

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

The total of these two methods has provided the annual MRP figure since the regulations changed up until 1 April 2014. However, what this did not do was align the MRP with the repayment of debt and other long term liabilities. Since 1 April 2014 we have continued with the existing calculations but then considered whether an adjustment is required to reflect the timing of internal and external debt repayment and other long term liabilities. We will continue with this approach which is more prudent, given the challenges that the Authority is facing over the next few years. The adjustment for the MTFP 2017-20 reflects a deferment of MRP against the previous calculation. This approach was agreed unanimously at County Council on the 20th October 2016.

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

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

Each year an updated MRP statement will be presented.

Appendix D - Fiscal Indicators

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

	Forecast Financing costs £'000	Less: Investment Income £'000	Net Financing costs £'000	Total Revenue Spending £'000	%
2015-16	124,627	2,700	121,927	916,479	13.3
2016-17	120,803	3,200	117,603	911,050	12.9
2017-18	118,621	5,500	113,121	932,977	12.1

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

	Management & Operating Overheads £'000	Net Revenue Spending £'000	%
2015-16 (revised)	83,674	916,479	9.1
2016-17 (revised)	79,975	911,050	8.8
2017-18	72,159	932,977	7.7

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

	Corporate & Democratic Core £'000	Net Revenue Spending £'000	%
2015-16 (revised)	8,265	916,479	0.9
2016-17	8,072	911,050	0.9
2017-18	10,112	932,977	1.1

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

	Net income from Commercial Activities £'000	Overheads £'000	Contribution achieved %
2015-16 (revised)	6,700	83,674	8.0
2016-17 (revised)	8,700	79,975	10.9
2017-18	6,800	72,159	9.4

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

<u>Other Financial Management Indicators</u>

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

	General Reserve £'000	Gross Expenditure (exc. Schools) £'000	%
2015-16	37,213	1,468,811	2.5
2016-17	37,213	1,501,191	2.5
2017-18	41,134	1,521,908	2.7

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

	Service Income (exc. Schools) + Council Tax £'000	Gross Expenditure (exc. Schools) £'000	%
2015-16	811,274	1,468,811	55.2
2016-17	895,552	1,501,191	59.7
2017-18	944,974	1,521,908	62.1

Appendix E - Corporate Risk Register
Summary Risk Profile
As at 10th March 2017

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

Risk No.*	Risk Title	Current Risk Rating	Target Risk Rating
CRR 2(a)	Safeguarding – protecting vulnerable children	20	15
CRR 2(b)	Safeguarding – protecting vulnerable adults	20	15
CRR 3	Access to resources to aid economic growth and enabling infrastructure	16	9
CRR 4	Civil Contingencies and Resilience	12	8
CRR 9	Health & Social Care Integration – delivery of Sustainability and Transformation plan	16	9
CRR 10(a)	Management of Adult Social Care Demand	20	12
CRR 10(b)	Management of Demand – Early Help and Preventative Services and Specialist Children's Services	20	12
CRR 12	Potential implications associated with significant migration into Kent	12	9
CRR 17	Future financial and operating environment for local government	20	12
CRR 22	Implications of high numbers of Unaccompanied Asylum Seeking Children (UASC)	20	12
CRR 23	Evolution of KCC's strategic commissioning approach	12	6
CRR 25	Delivery of 2017/18 savings	16	2
CRR 26	Cyber and information security threats	16	6
CRR 27	Managing and working with the social care market	20	9
CRR 28	Delivery of new school places is constrained by capital budget pressures and dependency on the Education Funding Agency	20	9

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

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

Risk ID	CRR2(a*)*	Risk Title	Safeguarding – protecting vulnerable children		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council must fulfil its statutory obligations to effectively safeguard vulnerable children. In addition, the Government's "Prevent Duty" requires the Local Authority to act to prevent people from being drawn into terrorism, with a focus on the need to safeguard children at risk of being drawn into terrorism.	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. Failure to recruit and retain suitably experienced and qualified permanent staff. Failure to meet the requirements of the new "Prevent Duty" placed on Local Authorities.	Serious impact on vulnerable people. Serious impact on ability to recruit the quality of staff critical to service delivery. Serious operational and financial consequences. Attract possible intervention from a national regulator for failure to discharge corporate and executive responsibilities. Incident of serious harm or death of a vulnerable child.	On behalf of CMT: Andrew Ireland, Corporate Director Social Care Health & Wellbeing (SCHW) **Responsible Cabinet Member(s):** Peter Oakford Specialist Children's Services Mike Hill (Lead Member for PREVENT)	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Major (5)

Risk ID	CRR2(b)	Risk Title	Safeguarding – protecting vulnerable adults		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council must fulfil its statutory obligations to effectively safeguard vulnerable adults. In addition, the Government's "Prevent Duty" requires the Local Authority to act to prevent people from being drawn into terrorism.	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. Failure to meet the requirements of the new "Prevent Duty" placed on Local Authorities.	Serious impact on vulnerable people. Serious impact on ability to recruit the quality of staff critical to service delivery. Serious operational and financial consequences. Attract possible intervention from a national regulator for failure to discharge corporate and executive responsibilities. Incident of serious harm or death of a vulnerable adult.	On behalf of CMT: Andrew Ireland, Corporate Director SCHW **Responsible Cabinet Member:** Graham Gibbens, Adult Social Care & Public Health Mike Hill (Lead Member for PREVENT)	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Major (5)

Risk ID	CRR3	Risk Title	Access to resources to aid economic growth and enabling infrastructure		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council seeks access to resources to develop the enabling infrastructure for economic growth, regeneration and health. However, in parts of Kent, there is a significant gap between the costs of the infrastructure required to support growth and the Council's ability to secure sufficient funds through s106 contributions, Community Infrastructure Levy and other growth levers to pay for it. At the same time, Government funding for infrastructure (for example via the Local Growth Fund) is limited and competitive and increasingly linked with the delivery of housing and employment outputs. Several local transport schemes proposed will require preparatory work without knowledge of funding allocation in order to deliver on time. The EU referendum result has created uncertainty over levels of EU funding available for projects in the longer term.	Inability to secure sufficient contributions from development to support growth. Failure to attract sufficient funding via the Local Growth Fund and other public funds to both support the cost of infrastructure and aid economic growth and regeneration. Insufficient return on investment from Regional Growth Fund schemes or significant level of default on loans.	Key opportunities for growth missed. The Council finds it increasingly difficult to fund KCC services across Kent (e.g. schools, waste services) and deal with the impact of growth on communities. Kent becomes a less attractive location for inward investment and business. Our ability to deliver an enabling infrastructure becomes constrained. Reputational risk.	Barbara Cooper, Corporate Director Growth, Environment and Transport **Responsible Cabinet Member(s):** Mark Dance, Economic Development Matthew Balfour, Environment & Transport	Likely (4) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Significant (3)

Risk ID	CRR4	Risk Title	Civil Contingencies and Resilience		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council, along with other Category 1 Responders in the County, has a legal duty to establish and deliver containment actions and contingency plans to reduce the likelihood, and impact, of high impact incidents and emergencies. This includes responses associated with the Counter-terrorism and Security Act 2015 (CONTEST). The Director of Public Health has a legal duty to gain assurance from the National Health Service and Public Health England that plans are in place to mitigate risks to the health of the public including outbreaks of communicable diseases e.g. Pandemic Influenza. Ensuring that the Council and its providers works effectively with partners to respond to, and recover from, emergencies and service interruption is becoming increasingly important in light of recent national and international security threats, severe weather incidents and the increasing threat of 'cyber attacks' (links to CRR 26).	Failure to deliver suitable planning measures, respond to and manage these events when they occur. Critical services are unprepared or have ineffective emergency and business continuity plans and associated activities. Lack of preparedness for new or emerging threats. Lack of resilience in the supply chain hampers effective response to incidents.	Potential increased harm or loss of life if response is not effective. Serious threat to delivery of critical services. Increased financial cost in terms of damage control and insurance costs. Adverse effect on local businesses and the Kent economy. Possible public unrest and significant reputational damage. Legal actions and intervention for failure to fulfill KCC's obligations under the Civil Contingencies Act or other associated legislation.	On behalf of CMT Barbara Cooper, Corporate Director Growth, Environment & Transport **Responsible Cabinet Member(s):** Mike Hill, Community Services	Possible (3) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

Risk ID	CRR9	Risk Title	Health & Social Care Integration – Delivery of Sustainability and Transformation Plans		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The health & social care 'system' is under extreme pressure to cope with increasing levels of demand and financial constraints. Consequently, there is an urgent need to develop integrated health & social care services to meet these challenges. A local Sustainability and Transformation Plan (STP) is being developed to outline a 'place-based' plan for the future of health and care services in Kent.	Failure to maximise opportunities presented for health & social care integration, and ensure changes achieve maximum impact. Pressures within the acute health sector result in repercussions for social care and threaten successful implementation of the STP. Insufficient Better Care Fund monies to support preventative services, which means plans to reduce hospital admissions are destabilised. Lack of 'system' leadership. Insufficient Local Authority involvement.	Collapse of Health and Social Care system Gaps between services or in some instances duplication of services or inefficient use of the available joint resources. Additional budget pressures.	Andrew Ireland, Corporate Director SCHW **Responsible Cabinet Member(s):** Roger Gough, Education & Health Reform Graham Gibbens, Adult Social Care & Public Health	Likely (4) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Significant (3)

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

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

Risk ID	CRR 12	Risk Title	Potential implications associated with significant migration into Kent		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
Migration to Kent is not a new phenomenon and is an inevitable outcome of being a London-peripheral authority, symptomatic of differentials in housing markets across the country and the desirability of living in the county. Welfare reform policy changes combined with an overheating London housing market continues to drive London residents to more affordable temporary and permanent accommodation in Kent. Over the past year, a number of London Boroughs have procured large sites to place residents in temporary accommodation into Kent. KCC needs to be prepared to manage the impact on local communities, and any significant additional pressure on KCC services.	Arrival of significant numbers of vulnerable households into the county, particularly if migration is into concentrated areas. London Boroughs, utilising higher per-capita funding and large capital/reserve budgets to procure sites in Kent to ease their overspend on housing/homelessness. Failure of KCC to plan with partners (Districts, Police, Health) to deal appropriately with potential consequences on Kent services. Failure of London Boroughs to provide information about incoming vulnerable households e.g. those known to children's social services in accordance with statutory requirements and agreed protocols.	Potential impact on community cohesion in parts of the county. Additional pressure on KCC services e.g. school admissions, demand for adults and children's social care, community safety, public health Impact on availability of accommodation for Kent residents, placing more pressure on services such as KSAS, and/or displacing them outside of the county.	Corporate Management Team **Responsible Cabinet Member(s):** Graham Gibbens, Adult Social Care & Public Health Mike Hill, Community Services Peter Oakford, Specialist Children's Services Roger Gough, Education and Health Reform	Possible (3) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Significant (3)

Risk ID	CRR 17	Risk Title	Future financial and operating environment for Local Government		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The operating environment for local government will continue to change during the coming years, presenting both opportunities and risks for the Council and its partners / service providers. Government funding is set to continue reducing over the medium term and the business rate retention scheme due to be implemented by 2020 may present opportunities but also threat to the Council. The Local Government, Cities and Devolution Act could have wide-ranging implications, including the potential for significant Local Government reorganisation. The EU referendum result in June 2016 has added additional uncertainty to the environment.	Additional spending demands and continued public sector austerity measures threaten financial sustainability of KCC, its partners and service providers. Quality of KCC commissioned / delivered services suffers as financial situation continues to worsen.	Unsustainable financial situation. Potential for partner or provider failure – including sufficiency gaps in provision. Reduction in resident satisfaction and reputational damage.	All Corporate Directors **Responsible Cabinet Member (s):** All Cabinet Members	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Serious (4)

Risk ID	CRR22	Risk Title	Implications of high numbers of Unaccompanied Asylum seeking children (UASC)		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
Since May 2015 there has been an unprecedented increase in the numbers of UASC arriving in Kent, which places increased pressure on all aspects of specialist children's services delivery. This issue is the source of a number of risks. In addition, a significant number of these children will turn 18 in the coming months, requiring care leaver support.	There is a risk that there will be insufficient accommodation, social work assessment capacity and support for UASC. Shortfall in funding the full cost associated with fulfilling the Council's statutory duties. Risk that other Local Authorities do not voluntarily accept UASC that arrive in Kent in sufficient numbers.	Serious impact on vulnerable young people. The Council would be unable to fulfil its statutory duties effectively. Additional budget pressures on the Authority if UASC costs are not fully funded by Govt.	Andrew Ireland, Corporate Director, SCHW **Responsible Cabinet Member(s):** Peter Oakford, Specialist Children's Services	Very Likely (5) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Serious (4)

Risk ID	CRR23	Risk Title	Evolution of KCC’s Strategic Commissioning Approach		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Authority is developing a strategic commissioning approach, as it looks to transform and respond to the challenging local government environment. This includes exploring alternative service delivery models as well as embedding commissioning principles for ‘internally commissioned’ services. This involves the development of appropriate ‘client-side’ arrangements.	Insufficient programme control on key change activity. Insufficient management capacity and / or capability in key skill areas to support sustained change. ‘Client-side’ commissioner arrangements not developed in time to drive effective relationships with, and performance management of, suppliers.	Potential to fall short of achieving financial and non-financial benefits if changes introduced are not fully embedded. Disproportionate effort could be spent on areas of change that do not provide the greatest return on investment. Potential implications for staff wellbeing, morale and engagement.	All Corporate Directors **Responsible Cabinet Member:** Paul Carter, Leader of the Council	Likely (4) **Target Residual Likelihood** Unlikely (2)	Significant (3) **Target Residual Impact** Significant (3)

Risk ID	CRR25	Risk Title	Delivery of 2017/18 savings		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The ongoing difficult public finances situation and economic uncertainty continue to mean significant reductions in funding to the public sector and Local Government in particular, at a time when spending pressures on councils are increasing. KCC has already made significant cost savings and still needs to make significant ongoing year-on-year savings in order to "balance its books".	Robust plans to achieve the required savings are not developed in time to enable implementation and realisation of benefits in 2017/18. Plans are not aligned with Cabinet Member priorities.	Urgent alternative savings need to be found which could have an adverse impact on service users and/or residents of Kent. Potential adverse impact on council transformation plans. Reputational damage to the council.	On behalf of CMT: Andy Wood, Corporate Director Finance & Procurement **Responsible Cabinet Member:** John Simmonds, Finance & Procurement	Likely (4) **Target Residual Likelihood** Very unlikely (1)	Serious (4) **Target Residual Impact** Moderate (2)

Risk ID	CRR26	Risk Title	Cyber and information security threats		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council has a duty to protect personal and other sensitive data that it holds on its staff, service users and residents of Kent. KCC repels a high number of cyber-attacks on a daily basis, although organisations across all sectors are experiencing an increasing threat in recent times and must ensure that all reasonable methods are employed to mitigate them, both in terms of prevention and preparedness of response in the event of any successful attack. KCC's ICT Strategy will move the Authority's technology to cloud based services. It is important to harness these new capabilities in terms of both IT security and resilience, whilst emerging threats are understood and managed. In information terms the other factor is human. Technology can only provide a level of protection. Our staff must have a strong awareness of their responsibilities in terms of IT and information security.	Successful cyber-attack (e.g. 'phishing' scam) leading to loss or unauthorised access to sensitive business data. Significant business interruption caused by a successful attack.	Data Protection breach and consequent Information Commissioner's Office (ICO) sanction. Damages claims Reputational Damage Potential significant impact on business interruption if systems require shutdown until magnitude of issue is investigated.	Corporate Management Team **Responsible Cabinet Member:** Gary Cooke, Corporate & Democratic Services	Likely (4) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Moderate (2)

Risk ID	CRR27	Risk Title	Managing and working with the social care market		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
A significant proportion of adult social care is commissioned out to the private and voluntary sectors. This offers value for money but also means that KCC is dependent on a buoyant market to achieve best value and give service users optimal choice and control. Factors such as the introduction of the National Living Wage, potential inflationary pressures and uncertainty over care market workforce status in light of the vote to leave the EU mean that the care market is under pressure.	Care home and domiciliary care markets are not sustainable Inability to obtain provider supply at affordable prices Significant numbers of care home closures or service failures Providers choose not to tender for services at Local Authority funding levels or accept service users with complex needs.	Gaps in the care market for certain types of care or in geographical areas meaning difficulty in placing some service users.	Andrew Ireland, Corporate Director SCHW **Responsible Cabinet Member:** Graham Gibbens, Cabinet Member for Adult Social Care and Public Health	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Significant (3)

Risk ID	CRR28	Risk Title	Delivery of new school places is constrained by capital budget pressures and dependency upon the Education Funding Agency (EFA)		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
A significant expansion of schools is required to accommodate major population growth in the short term to medium term (primary age) and medium to long term (secondary age). The "Basic Need" capital grant from Dept of Education (DfE) will not fund the expansion in full. A funding gap to deliver the programme for schools will be created by cost pressures from higher than expected build costs, low contributions from developers and increases in pupil demand. Whilst the funding gap identified with the Kent Commissioning Plan has been closed, the delivery of the plan is highly dependent upon securing 15 Free Schools in Kent over the period and that the EFA complete the Free School projects on time and to an appropriate standard.	The expansion required may not be delivered, meaning KCC is not able to provide appropriate school places.	The duty to provide sufficient school places is not met, which may lead to legal action against the council. Some children have to travel much further to attend a school, with a resulting impact on the transport budget.	Patrick Leeson, Corporate Director EYPS **Responsible Cabinet Member:** Roger Gough, Cabinet Member for Education & Health Reform	Very Likely (5) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Significant (3)

Appendix F
Assessment of Level of Reserves

1 Introduction

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

2 Background

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

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

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

3 Local Government Finance Settlement (LGFS)

The Local Government Finance Settlement was published on 20 February 2017. Subsequent to the LGFS the Spring Budget on 8 March 2017 included £2.021 billion supplementary funding to the improved Better Care Fund for Councils over the next three years, with Kent County Council receiving £26.1 million in 2017-18. This is to enable Councils to "help ensure people receive the social care support they need and to reduce pressure on the NHS". The details of the LGFS and spring budget are reported elsewhere in this document. The impact on our reserves is reflected in this assessment.

4 Comparison with other County Councils

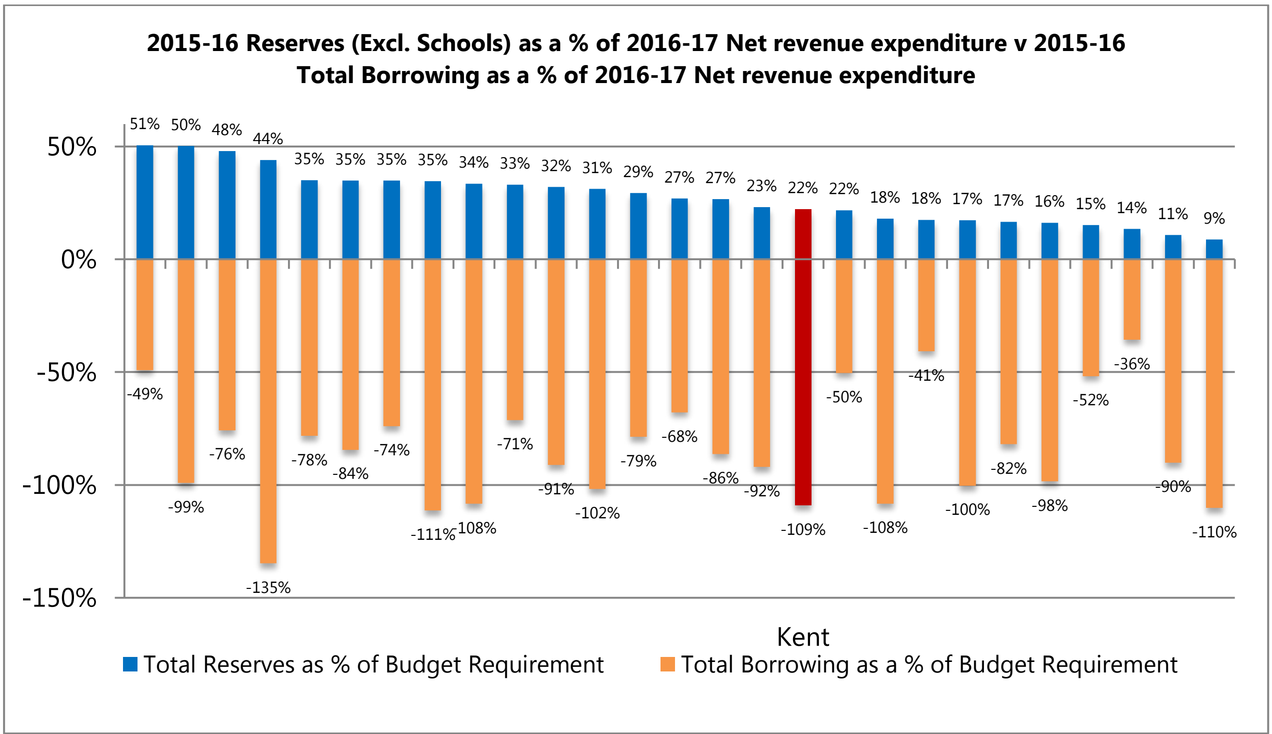
There continues to be national scrutiny of Councils' reserves. As funding for local government continues to be cut, Councils are, perhaps naturally, protecting themselves from the possibility and impact of these cuts continuing until the end of the decade at least. The result is that nationally up until 2015 reserves had increased rather than, as might be expected, reduced. However, that trend reversed in 2016, and is likely to continue given the pressure on County Councils funding and demand.

Each Council must make their own decisions about the level of reserves they hold, taking into account all of the issues referred to in Section 2 above.

A graphical analysis of the 2015-16 reserves is shown below. Kent is ranked 17 out of 27 County Councils in terms of the percentage of reserves held.

The range of reserves held as a percentage of budget is vast; the lowest Authority at 9%, up to the highest at 51%. Kent's figure is 22%.

It is also worth looking at reserves alongside borrowing, as borrowing can be used to protect reserves, or reserves used to reduce borrowing. The graph shows that Kent is ranked 24 out of the 27 Counties. There is little that can be done in the short term to affect this. We have though capped our borrowing costs at 15% of our net revenue budget for the past five years (and have remained under that cap), and have stabilised our overall borrowing during that time.



5 Analysis of Risk

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

- Assumptions regarding inflation and interest rates:
  Although inflation has been well under the Government target of 2.0%, and at times has been negative, forecasts show an increase over the coming months. Interest rates are largely determined by base rate, which had been at 0.5% since March 2009, until it was reduced to 0.25% in August 2016. The lower the actual and expected rate of inflation, the better it is for our budget in net terms, but the converse may be true of interest rates.

- Estimates of the level and timing of capital receipts:
  Our reliance on capital receipts is significant, in order to part fund our capital programme and transformation programme. Delivery against target is encouraging, but remains challenging.

- The capacity to manage in-year demand led pressures:
  As each year passes, with reduced funding and increased demand, our discretionary spend that can be 'turned-off' at short notice diminishes. Only as we approach 2016-17 year-end can we be sure that we will deliver a small underspend. The Council's biggest in-year demand is adult social care pressures and the additional £26.1 million adult social care funding for 2017-18 announced in the Spring Budget will help with this.

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

- Risks inherent in any new partnerships:
  Our biggest risk is from our Health partners. The financial difficulties in the health sector mean we have to be vigilant in managing any unmet demand.

- Financial standing of the Authority (level of borrowing, debt outstanding etc.):
  The proposed use of reserves to support the 2017-18 revenue budget does reduce our protection against a major unforeseen financial event, including any overspend from 2016-17 but the general financial health of the Council remains fairly static.

- The Authority's record of budget management and ability to manage in year budget pressures; this continues to be excellent with sixteen consecutive years of underspend up to 2015-16. With an expected underspend in 2016-17 this record will improve to seventeen consecutive years.

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

- The general financial climate.

The 2015 Spending Review has given local authorities greater scope to raise local taxes, and will create a larger Better Care Fund targeted specifically at adult social care. The approval of our four year efficiency plan also gives us a degree of certainty. But the demographic changes and impact of the National Living Wage will place significant additional cost on upper-tier Authorities. Further real-terms reductions will be needed in order to balance this Council's budgets over the medium-term plan

- The adequacy of insurance arrangements.
  We renewed our insurance policies in January 2016, insuring the same levels of risk as previously, albeit at a higher premium. Consideration was given to a greater level of self-insurance, but this was deemed too risky given our limited level of general and insurance reserves

Of the ten factors, none show an improvement from twelve months ago, seven are relatively unchanged, and three have deteriorated. No weighting has been applied to the ten factors, but the general financial risk to the Council should now be regarded as increased compared with a year ago.

Only our general reserves of £41.1m are available to offset any in-year overspends, and of course can only be used once.

The overall conclusion is that we have an increased risk profile since the 2016-17 budget, and will have a slightly lower level of earmarked reserves. Although this is something to monitor very closely (as we constantly do) and a trend that we should reverse if possible over the medium term, there is no immediate action needed.

6 The detail of our Reserves

The Statement of Accounts that we produce each year details our **Earmarked Reserves** and explains why we hold each of them. There will continue to be draw-down and contributions to these reserves in line with the patterns of expenditure anticipated when the reserves were created. There is no proposal within the budget to change this strategy.

A review of the earmarked reserves, in light of the local government finance settlement, has resulted in a proposal within the 2017-18 budget to draw-down a net £12.1m of earmarked reserves (including base contributions and draw-downs). These reserves are either no longer needed (e.g. Directorate specific reserves) or were created for exactly this situation.

7 Role of the Section 151 Officer

The duties of the Council's Section 151 Officer include the requirement 'to ensure that the Council maintains an adequate level of reserves, when considered alongside the risks the Council faces and the general economic outlook'. The reserves that this Council will hold as at 1 April 2017 are, in the opinion of the Section 151 Officer, adequate.

Appendix G
Glossary of Abbreviations

A to Z of Services	Presentation of KCC's annual budget according to services provided
AME	Annually Managed Expenditure - Central Government measure for money spent in areas outside DEL
AS	Autumn Statement
Autumn Budget Statement	Chancellor’s Annual midyear update to national budget
Bail In	Arrangement whereby regulatory authorities keep a failing bank open for essential business and pass the cost of that failure onto the bank’s investors principally bondholders and unsecured depositors.
BoE	Bank of England
BCF	Better Care Fund
BSF	Building Schools for the Future
Budget	Annual spending plan for 2017-18
Business Rates (NNDR)	Local property tax levied on businesses and redistributed by the Government.
Capital Budget	Investment programme on infrastructure, property & IT improvements
Capital Receipts	A sum received by the authority in respect of the disposal by it of an interest in a capital asset
CCG	Clinical Commissioning Group
CCLA	Church Charities Local Authorities – an investment portfolio
CFR	Capital Financing Requirement
CIL	Community Infrastructure Levy
CIPFA	Chartered Institute of Public Finance & Accountancy
CLG	Government Department for Communities & Local Government
CMT	Corporate Management Team of the Council attended by Corporate Directors
CoCo	Code of Connection
CPI	Consumer Price Index - Government measure of inflation
DBS	Disclosure and Barring Service (formerly Criminal Records Bureau (CRB) and Independent

	Safeguarding Authority (ISA))
DDA	Disability Discrimination Act
DEFRA	Government Department for Environment, Food & Rural Affairs
DEL	Departmental Expenditure Limits - the amount that government departments have been allocated to spend
DfE	Government Department for Education
DfT	Government Department for Transport
DoH	Government Department of Health
DMO	Debt Management Office
DSG	Dedicated Schools Grant - government grant 100% funded from national taxation to fund schools
DWP	Government Department for Work and Pensions
EFA	Education Funding Agency
EU	European Union
E&YP	Education and Young People's Services Directorate
ERP	Enterprise Resource Planning; computer systems
ESG	Education Services Grant –grant provided to local authorities on a national per pupil basis to provide central services for maintained schools
Facing the Challenge	The Council's strategic vision document
Fiscal Indicators	Measures of the Council's financial health
FTE	Full Time Equivalent - standard used to assess equivalent number of full time and part time employees
FYE	Impact in a full financial year of an initiative that has been implemented part way through the year
GAC	Governance & Audit Committee
Gateway	Customer contact points for all local councils' services
GDP	Gross Domestic Product - Government measure for the overall health of the economy
GET	Growth, Environment and Transport Directorate
GLA	Greater London Authority
GP	General Practitioner
GUF	Guaranteed Unit of Funding - mechanism used to determine DSG for each local authority
HO	Home Office

HWRC	Household Waste Recycling Centre
iBCF	Increased Better Care Fund
ICO	Information Commissioners Office
ICT	Information Communication Technology
KCC	Kent County Council
KCS	Kent Commercial Services
KDAAT	Kent Drug & Alcohol Action Team
KSAS	Kent Support and Assistance Services
LAC	Looked After Children - children placed into care by the local authority
LAMS	Local Authority Mortgage Scheme
LATCo	Local Authority Trading Company - a company created and either wholly or partially owned by a local authority to provide existing or new services through a trading model.
LD	Learning Disability
LDF	Local Development Framework
LEA	Local Education Authority
LEP	Local Enterprise Partnership - regional grouping of local authorities to promote economic prosperity
LGA	Local Government Association
LOBO	Lender Option Borrower Option – lender has the option to call in loan at pre-determined future date
LSSG	Local Service Support Grant – grant introduced in 2011 to summarise a number of small grants
MFG	Minimum Funding Guarantee - guaranteed level of funding for individual schools
MRP	Minimum Revenue Provision - prudent amount needed to cover the revenue consequences of capital investment
MTFP	Medium Term Financial Plan
NHS	National Health Service
NNDR	National Non Domestic Rates
NLW	National Living Wage
NMW	National Minimum Wage
NQT	Newly Qualified Teacher
OBR	Office for Budget Responsibility - independent body advising the chancellor on economic forecasts
OfSTED	Office for Standards in Education, Children's Services and Skills

ONS	Office for National Statistics
PCT	Primary Care Trust
PFI	Private Finance Initiative
PROW	Public Right of Way
Prudential Indicators	Set within the Prudential Code which is a code of practice to support local authorities in taking decisions around their programmes of capital investment in fixed assets
PSN	Public Sector Network
PSND	Public Sector Net Debt
PWLB	Public Works Loan Board
QE	Quantitative Easing
Repo	Reverse Purchase Agreements – a form of investment
Resource DEL/ RDEL	Resource Departmental Expenditure Limit
Revenue Budget	Annual recurring expenditure on staff, buildings, contracts, supplies, etc.
RPI	Retail Price Index - alternative measure of inflation
RSG	Revenue Support Grant - grant to local government funded from national taxation and share of business rates
S&CS	Strategic and Corporate Services Directorate
SCH&W	Social Care, Health and Wellbeing Directorate
Schools' Funding Forum	Statutory body representing views of schools in relation to a number of financial matters
SDLT	Stamp Duty Land Tax
SEN	Special Educational Needs
SEND	Special Educational Need & Disability
SFA	Skills Funding Agency
SIP	Supporting Independence Programme
SORP	Statement of Required Practice - KCC risk management tool
SR	Spending Review
TMAG	Treasury Management Advisory Group
TCP	Total Contribution Pay - performance reward payments to staff
TIGER	Thames Gateway Innovation, Growth and Enterprise programme - offering direct financial support to business in North Kent and Thurrock

TM	Treasury Management
TME	Totally Managed Expenditure – national measure for the total amount that the government spends on public services
UASC	Unaccompanied Asylum Seeking Children
Un-ring-fenced grant	A grant received by the Council that does not have restrictions over how it should be spent
WCA	Waste Collection Authority
WDA	Waste Disposal Authority
VAT	Value Added Tax

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medium term financial plan
2017-20