Appendix 3

draft for Cabinet

medium term financial plan

2013/15

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Appendix 3

Leader's Foreword to Budget and Medium Term Financial Plan

Setting next year's budget continues to pose a significant challenge. While the scale of savings we anticipated was initially not as great as previous years (we have known since Spending Review 2010 was announced that 2013/14 had lesser reductions for local government than other years), we have only been working with estimated figures until very late in the process (we had no provisional grant figures from Government until 19th December). We also had the added uncertainty of a major overhaul of the Local Government funding arrangements following the Local Government Finance Act 2012 (which did not receive Royal Assent until 31st October). This tight timescale has only added to the challenge.

In spite of these uncertainties we took the bold step of launching our budget proposals for consultation much earlier than previous years. This allowed for a longer consultation period (8 weeks) and longer for the Cabinet and Members to consider the feedback. Cabinet considered the feedback from Budget Consultation on 3rd December and its response is incorporated into the revised proposals outlined in this final draft Budget Book and Medium Term Financial Plan (MTFP). This approach was a significant step forward in improving our consultation and public engagement in helping to set the Council's spending priorities.

Since we launched the consultation the Government has introduced substantial changes to the grants being transferred into the new local authority funding arrangements. We did not know the details or impact of these changes until the provisional settlement was announced on 19th December. This has changed the equation from that included in our consultation and has necessitated further changes to the proposed budget. We have outlined in detail these changes in the revised draft Budget Book and MTFP and welcome any comments on these new proposals. Unfortunately time is now tight due to the late announcement of the provisional settlement and the revised proposals are open for comment until 31st January 2013.

The Chancellor of the Exchequer made his autumn statement on 5th December. This set out the latest key economic forecasts. These were gloomier than previous forecasts and it is now accepted that the impact of the recession in 2008 and 2009 was more severe than previously thought and recovery will take longer. Nonetheless, the Government has re-affirmed its commitment to eliminate the budget deficit and to restore the UK economy to be competitive in the global economy. As part of this the Chancellor announced a further 2% spending reduction for 2014/15 in addition to the reductions already announced in the 2010 Spending Review. He also forecast the need for similar levels of public spending reductions in 2015/16 and 2016/17 although we have no indication where these might be made until the next spending review. All this means we need to think very carefully about how we react to this challenge over the next few years as reductions of this magnitude over a sustained period are unprecedented.

In spite of the financial challenge our budget proposals for next year protect the services which are most valued by Kent residents and make a difference to their daily lives. In this vein we have been committed to not increasing Council Tax in 2013/14 throughout the development of our budget proposals in recognition of the pressure on many household budgets as a result of the recession and wages not keeping pace with inflation. We appreciate that many working age benefit recipients will be asked to pay a proportion of their Council Tax for the first time next year under the localisation of Council Tax support. However, we had to respond to the 10% reduction in funding for Council Tax support and we resolved that this cut should not be borne by other Council Tax payers or at the expense of KCC services.

The overall impact of grant reductions, freezing Council Tax and meeting additional spending demands means we need to find £94m next year to balance the books. This challenge gets increasingly more difficult but we will continue to drive out all that we can from efficiencies and the way that we do business so that we can protect front-line services.

We are proposing some of the savings next year through the transformation of adult's and children's social services. These savings are not only aimed at reducing the cost on the public purse of some of our most expensive services but also at achieving better outcomes for individuals. We are conscious that these proposals may concern some people and we will continue to work with those who provide and receive these services to ensure they understand what we are proposing and why we are doing it.

We remain committed to doing as much as we can to support the Kent economy so that Kent businesses and residents are best placed to benefit from economic recovery. In particular we want to maintain the capital investment programme as this provides vital local jobs. We also need to ensure that we have the right public assets to provide the services we need and we do not hold onto assets which could be better used for economic gain.

Finally, we must recognise that our staff are a most important resource and their dedication, responsiveness and willingness to change in difficult times is admirable. We need to continue to invest in our staff and their well being, and have a package of terms & conditions which enable us to recruit and retain the best individuals and rewards those who go the extra mile to achieve outstanding performance.

Paul Carter
Leader of the Council

KCC Medium Term Financial Plan

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Appendix 3

KCC Medium Term Financial Plan

SECTION 1

Executive Summary

Executive Summary

National Context

1.1 In our Foreword, we have referred to the fact that we are in one of the most challenging financial periods ever faced by local government. The situation is that local government and the wider public sector must realign itself to a new and permanent financial reality. KCC made £95 million savings in 2011/12, £79 million savings in 2012/13 and we need to save £94 million in 2013/14. It is likely we will have to make savings of a similar magnitude over the next 3 years as part of an unprecedented period of sustained reductions in public spending.

1.2 The Government has set out its aim to eliminate the budget deficit, although the Chancellor has now recognised this will not be achieved by the end of this Parliament. The weak economic recovery (with continued low rate of growth) and uncertainty in the eurozone plus the apparent reluctance of banks to lend to businesses present significant risks to the national recovery plan and local authority budgets.

1.3 The scale of the deficit reduction is also driving huge change across all public services, many of which also directly impact on local government. The welfare reform agenda, through the introduction of a localisation of the social fund, housing benefit and council tax benefit regime changes all directly affect local government, transferring additional responsibilities, financial pressures and financial risk to local authorities. Reform of the NHS through the shift to GP commissioning, whilst presenting an opportunity to deliver more integrated provision with social services, also presents a significant challenge as the entire NHS adjusts to its new structure.

1.4 Significant savings are expected throughout the spending review period and beyond. Local government's contribution is still expected to be substantial, while spending on health, schools and overseas development will be protected from further reductions, as in Spending Review (SR) 2010. The Chancellor's Autumn Statement announced a further reduction of 2% for local government in 2014/15, calculated as a reduction of £445m nationally, which added to previous announcements is likely to mean a reduction of £32.4m for KCC.

1.5 The cumulative effect is that local government is working within an increasingly uncertain and challenging public service landscape.

Local Context

1.6 In 2013/14, investments will be made by KCC in a number of essential areas including promoting choice in schools, providing care to adults with "moderate" needs and beyond (unlike most other Councils, who use "critical" criteria), keeping the Freedom Pass, financing new facilities and in supporting economic growth. Demand across a range of services continues to increase, particularly in children's and adult social care, at the time when grants from Central Government are being cut.

1.7 Through this Comprehensive Spending Review (CSR) period, KCC has delivered significant budget savings without having to make the significant cuts to services seen in some local authorities, through a focus on increased efficiency and a reshaping of the size and structure of the council. Our approach will be to continue to avoid direct cuts to services wherever possible, and instead deliver transformational change which continues to provide, and further improve, the quality of service delivery with the reduced monies now available.

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

- **Prevention** - we will move away from expensive reactive service provision that responds once problems have already occurred, to investing in preventative models that not only deliver better outcomes, but are also more cost effective. A preventative approach with health, the voluntary sector, other Councils and the business community, will also allow us to better manage future demand on services, especially from a rapidly ageing population.

- **Productivity** - we must deliver a step change in the productivity of our services and staff through greater integration around our key client groups and investing in our back office support systems and procedures to release resources to the front line.

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

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

1.9 The recent unannounced inspection from OfSTED shows that investment in recent years in response to the 2010 “poor” rating has made a significant impact on the quality of Children’s Services. Throughout the next year the emphasis will be on placing the service on a more sustainable financial footing. There will be a greater focus on preventative activity, whilst maintaining an improved level of service, and looking to reduce the number of Looked After Children/length of time they are in care.

1.10 KCC Adult Social Services (in line with many departments nationally) is experiencing a slowdown in demand pressures which goes against the underlying demographic trend of an ageing population. This is due to a number of factors including the benefits of early intervention and preventative programmes. This is a welcome development and we aim to create a more sustainable service through transformation, with greater emphasis on better procurement, increased prevention and improved partnership with the NHS to deliver better outcomes for Kent residents at lower cost.

Treasury Strategy

1.11 Treasury management remains a key strategic issue for the Council, not least because of low interest rates and limited investment opportunity. The latest Treasury Management Strategy is included in Section 5, subject to approval by the County Council at the same time as the 2013/14 Budget and 2013/15 MTFP.

Risk Strategy

1.12 Effective risk management will be essential in ensuring we can deal with the difficult times ahead. Improved links between risk management and the performance management, business planning and business intelligence functions within KCC continues to ensure risk management supports the delivery of organisational priorities and objectives. The Risk Strategy can be found at Section 6.

Appendices

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

Council Tax

1.14 In this Budget and MTFP for 2013/14 we have proposed a *third consecutive freeze on Council Tax*, meaning the KCC precept for a Band D property remains the same as in 2010/11, 2011/12 and 2012/13, at £1,047.78. Inflation since April 2010 has been nearly 12%.

1.15 The freeze is assisted by Government grant equivalent to 1% of Council Tax for the next two years. KCC recognises that by accepting this additional grant and freezing Council Tax, it creates additional pressure on future years' budgets. This is because the equivalent monies must be found from savings or new income into the base budget. While the Council remains committed to keeping Council Tax increases to an absolute minimum, at this stage an increase for 2014/15 cannot be ruled out. Neither can the possibility of refusing further one-off Council Tax grant for 2014/15, should it be offered.

1.16 Thousands of households will pay Council Tax for the first time in Kent, following changes in welfare rules. The actual charge households pay will depend upon levies from other authorities including District Councils, Police Authority, Fire and Rescue and where applicable Parish and Town Councils. We are anticipating a small increase in Council Tax receipts, due to continued growth in the number of Council Tax payers in the County.

Revenue Medium Term Financial Plan Format

1.17 We have concentrated on 2013/14. Accordingly, the MTFP format comprises of three separate sections:

a) A high level 2013/14 KCC budget summary.

b) A more detailed 2013/14 budget summary.

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

c) The traditional Portfolio by Portfolio format, for one year only.

Each Portfolio plan provides the detail of all the new spending demands and savings/income for 2013/14.

Capital Budget and Format

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

1.19 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 ongoing maintenance and running costs associated with the project itself. KCC has resolved that no more than 15% of the revenue budget will be spent in servicing debt related to the capital programme. A number of our capital schemes rely on grants from Government departments, in many cases e.g. schools basic need, we are still awaiting these grant announcements.

1.20 As with the revenue MTFP the most appropriate presentation remains in a Portfolio by Portfolio order. The format for showing the individual schemes within each Portfolio has been continued from last year – it now combines the three year plan (2013/16) and details the funding of each project over this period.

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

Conclusion

1.22 The Revenue and Capital MTFP set out in this document represents the culmination of nearly a year's work in developing how the Council can respond to the unique financial challenge of reduced Government Grants, a slow economic recovery and increased demand for council services whilst keeping Council Tax at the same level for the fourth year in a row.

1.23 If the economy continues to show a slow recovery the indicative position for 2014/15 and 2015/16 could get worse and we could face further additional spending demands and/or further reduced/frozen income necessitating greater savings.

KCC Medium Term Financial Plan

SECTION 2

National Financial and Economic Context

National Financial and Economic Context

Introduction

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

The Economy

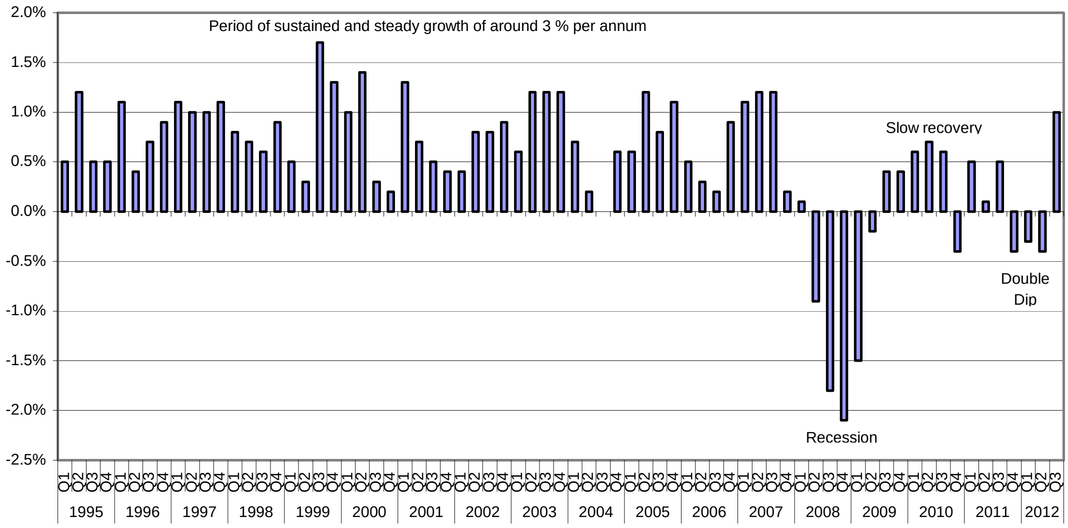
2.2 The Government's economic strategy as set out in the June 2010 Budget remains committed to reducing the national budget deficit, restoring economic stability, equipping the UK to succeed in the global market and to rebalance the UK economy. In particular the Chancellor set targets in his first budget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

2.3 Since the original 2010 budget statement economic recovery has been slower than originally forecast with a knock-on consequence for tax receipts. As a result the original targets to eliminate the deficit and to reduce debt as a percentage of GDP are not likely to be met by 2015/16, although the deficit is reducing.

2.4 The Office for Budget Responsibility (OBR) has identified three reasons for the subdued and uneven recovery; the impact of the financial crisis on GDP and underlying productivity was greater than previously assumed; the euro area sovereign debt crisis and global uncertainty have damaged confidence and reduced external demand; commodity driven price inflation in 2011 has reduced real incomes and increased business costs.

2.5 The UK economy returned 1% growth in the third quarter of 2012 after three successive quarters when the economy was in recession (so called double dip). Chart 1 below shows UK output (Gross Domestic Product – GDP) since 1995. Economic growth is essential to the Government's fiscal strategy which relies on increasing the tax yield as much as public spending reductions in order to eliminate the budget deficit.

Chart 1



2.6 The government has set a target of 2% for the underlying rate of inflation as measured by the Consumer Price Index (CPI). The annual rate of inflation has been running more than this throughout 2012 but the annual rate of price increases has been substantially less than the preceding year.

2.7 CPI in the year to September 2012 showed an increase of 2.2% (down 0.3% on August), RPI was 2.6% (down 0.3% on August). The September indices are important as they are usually used to uplift a number of benefits, tax credits and pensions for the forthcoming year. The uplifting of benefits is important to the County Council as it links to the charges we make for social care, although for pensioners the increase will be the minimum 2.5% under the “triple lock” arrangements.

2.8 The October indices showed a comparative increase (CPI 2.7% and RPI 3.2%). More than half of this was attributed to the impact of increased university tuition fees. November indices show no change in CPI and a small reduction in RPI to 3% with increases in food and energy offset by reductions in petrol. The longer term forecast is for inflation to continue to decline but it is not estimated to reach the Government’s target until 2015.

2.9 Unemployment peaked at the end of 2011 at 2.7m (the highest level for 17 years). Since then unemployment has started to decline and the latest statistics (quarter to October 2012) show that the number unemployed stood at 2.51m (7.8%). Within this, levels of youth unemployment remain significantly higher. The number of people in work in the quarter to October 2012 increased slightly to 29.6m (71.2%), within this private sector employment represents 23.9m (a record level) and public sector 5.7m (lowest level since 2002).

2.10 The latest release from the Office for National Statistics shows average earnings rising by 1.7% (excluding bonuses), well below the rate of inflation. This provides further evidence that households continue to be significantly worse off than before the financial crisis.

The Autumn Budget Statement

2.11 The Chancellor of the Exchequer made his Autumn Statement on 5th December 2012. The statement usually affords the opportunity for the Chancellor to launch the latest economic forecasts and recommendations from the independent Office for Budget Responsibility (OBR). However, this year's statement had more of a mini budget feel about it as not only did the Chancellor respond to the economic forecasts, but he also took the opportunity to announce further tax and benefit changes and public spending reductions.

2.12 The Chancellor announced that the Government is now unlikely to meet its' targets to eliminate the budget deficit and reduce debt as proportion of national income by 2015/16. He indicated that austerity would have to carry on longer than had originally planned (into 2017/18) to meet revised target dates. Table 1 below sets out the original targets on debt, growth and inflation set out in the 2010 budget and the latest estimates in the 2012 Autumn Statement.

Table 1	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Budget Deficit (£bn)									
June 2010 Budget	154.7	149.1	116	89	60	37	20		
March 2012 Budget		136.8	126	120	98	75	52	21	
December 2012 AS forecast			121.4	108	99	88	73	49	31
Debt as % of GDP									
June 2010 Budget		61.9	67.2	69.8	70.3	69.4	67.4		
March 2012 Budget		60.5	67.3	71.9	75	76.3	76	74.3	
December 2012 AS forecast		60.4	66.4	74.7	76.8	79	79.9	79.2	77.3
(excl Asset Purchase Facility)				75.4	79.5	82.2	83.6	83.2	81.4
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Economic Growth % (GDP)									
June 2010 Budget	-4.9	1.2	2.3	2.8	2.9	2.7	2.7		
March 2012 Budget			0.8	0.8	2.0	2.7	3.0	3.0	
October 2012 ONS data	-4.0	1.8	0.9						
December 2012 AS forecast			0.9	-0.1	1.2	2.0	2.3	2.7	2.8
Inflation % (CPI)									
June 2010 Budget	2.1	2.7	2.4	1.9	2.0	2.0	2.0		
March 2012 Budget			4.6	2.3	1.9	2.0	2.0	2.0	
October 2012 ONS data	2.2	3.3	4.5						
December 2012 AS forecast			4.5	2.8	2.5	2.2	2.0	2.0	2.0

2.13 Table 1 clearly demonstrates the uneven recovery referred to above with growth better than originally anticipated in 2010 but lower in 2011 and 2012, and the recovery taking longer. The table also shows the deficit reducing but not as fast as originally estimated in 2010, with the deficit not being cleared and debt as a proportion of income not falling until a year later than the revised predictions included in the March 2012 budget. In The Autumn Statement the Chancellor quoted debt figures both including and excluding the excess cash held by the Bank of England under the Asset Purchase Facility.

2.14 The Chancellor announced a further round of public spending reductions within the current spending review period (up to 2014/15). A further 1% reduction in 2013/4 will deliver an additional £980m, and an extra 2% in 2014/15 will deliver £2.4bn. Health and schools continue to be protected from reductions and Her Majesty's Revenue and Customs will also be exempt. Local Government will be exempt from additional cuts in 2013/14, but faces a further £445m reduction in 2014/15 (in addition to reductions already announced in the Spending Review).

2.15 The additional spending reductions together with savings on welfare spending (and reduced amount for overseas aid to meet the target of 0.7% of Gross National Income) will deliver a total of £6.6bn. The majority will be used to pay for an additional £5.5bn of capital spending announced for the remainder of the current Spending Review period. This spending includes £1.3bn on roads and transport, £1.5bn on housing and local infrastructure, £0.5bn on regional growth and business, £0.9bn on science and innovation, and £1.2bn on schools.

2.16 The Chancellor also announced that he anticipates that spending in 2015/16 and 2016/17 will need to reduce at similar levels to reductions in the current Spending Review period in order to meet the revised deficit targets. He also revealed that he intends to devolve more of the economic growth related investment to local areas from April 2015.

2.17 Unlike previous years the Autumn Statement included some important changes to tax and benefits (such changes are normally confined to the annual budget statement in March). In relation to tax the Chancellor increased the basic personal allowance by over 2.5% from April 2013 (upper thresholds will only be increased by 1% in 2014/15 and 2015/16); cancelled the planned rise in fuel duty from 1st January; reduced the rate of Corporation Tax from 24% to 23% from April 2013 and from April 2014 to 21%; and increased the annual investment allowance for small to medium sized business from £25k to £250k for two years from January 2013.

2.18 On benefits the Chancellor confirmed that the triple lock would continue to apply to state pensions, meaning an increase of 2.5% in April 2013. Most other working age benefits would only be uprated by 1% per annum for 3 years from April 2013, as would Child Tax Credit and Working Tax Credit (other than those elements already frozen). Child Benefit will be uprated by 1% per annum for two years from April 2014. Disability/ carer benefits and tax credits will be uprated in line with prices. Housing benefit increases will be capped to 1% in most areas in 2014/15 and 2015/16.

2.19 The overall package within the Autumn Statement is aimed to support/stimulate economic growth and to reward employment and investment.

KCC's assessment of the economic position

2.20 The general state of the economy is an important factor in setting the County Council's budget and MTFP. The previous budget and MTFP recognised that the economy had emerged from recession in 2008 and 2009, but that recovery was slower than forecast and economic activity had not yet returned to the pre 2008 levels. The budget and MTFP reflected that the Council was less optimistic of a sustained recovery and identified the risk of further spending reductions.

2.21 The County Council recognises that household budgets are stretched in these difficult times and that income levels have not kept pace with inflation. The cabinet proposed in its budget consultation launched in September 2012 that the County Council's element of Council Tax should be frozen for a third successive year (this was before the Government announced the availability of a further grant to support a freeze equivalent to 1% on Council Tax).

2.22 In proposing the freeze Cabinet Members recognised that despite the challenge the Council faces to respond to additional spending demands at the same time as Government funding is reducing, we could not ask residents to pay more Council Tax and add to the burdens on already stretched household budgets. Cabinet Members welcomed the feedback from consultation supporting this stance, even if it meant greater spending reductions than would otherwise be needed.

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

2.24 Generally unemployment in the county is below the national average (3.2% according to latest ONS release), although there are pockets where unemployment is at or above the national average. The Council is also concerned about high levels of youth unemployment and through our "Kent Jobs for Kent Young People" programme we will continue to look to generate training and employment opportunities in the county.

2.25 The Council is concerned about the impact of welfare benefit restrictions and changes. We have worked closely with district councils to promote early debate and resolution of the transfer of Council Tax support to local schemes. In particular we welcome the Government's offer to limit Council Tax benefit reductions for working age recipients in 2013/14 to 8.5% and have encouraged districts to take-up the grant even though it doesn't fully compensate for the overall 10% reduction in funding for Council Tax benefit. We are also working with district councils to find the best ways to increase Council Tax collection without having to increase the basic rates of Council Tax for bands A to H.

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

2.27 Overall the Council recognises the need to tackle the budget deficit and the imperative for reductions in public spending. Nonetheless, we need to manage these through genuine efficiency savings and by transforming the way we provide essential front-line services so that they are available when people most need them and we deliver better outcomes and improved life opportunities for individuals. As part of the budget proposals we will continue to use the Council's cash reserves in order to protect front-line services, although we have to recognise these reserves are not inexhaustible (and can only be used once). This means we will need to take further action in future years either through increased tax yields (on the back of economic recovery delivering more Council Tax and business rate tax payers) or further spending reductions.

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

Local Government Expenditure

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

Table 2	2010/11 Baseline £bn	2011/12 £bn	2012/13 £bn	2013/14 £bn	2014/15 £bn
Original SR 2010					
CLG Total Resource	28.5	26.1	24.4	24.2	22.9
Formula Grant funding	28	25	23.4	23.2	21.9
Revised CLG Total Resource following addional reductions (as at Dec 2012 but before EIG and LACSEG reductions)				23.8	21.8

2.30 As already indicated the Chancellor has confirmed that there will be a further 2% reduction in spending total for local government in 2014/15, amounting to £445m which is reflected in table 2. The Chancellor's Autumn Budget Statement also confirmed a 1% pay cap for public sector pay in each of 2013/14 and 2014/15 and that the spending totals have been adjusted accordingly. The revised totals as a result of these reductions are shown in table 2.

2.31 The introduction of the new local government funding arrangements under the Local Government Finance Act 2012 will transfer additional funding from other government departments into CLG. This will include the Early Intervention Grant, Learning Disability and Health Reform Grant, and Council Tax Support Grant. This funding will be incorporated into revised CLG spending totals which are covered in the subsequent section on the new arrangements. While comparison with previous years is complicated, over the four year horizon we can say that Local Government will have seen a reduction in its main grants of 25%. The changes to Local Authority Central Spend Equivalent Grant (LACSEG) will transfer money out of CLG into Department for Education (DfE).

2.32 The Autumn Budget Statement confirmed there would be further reductions in 2015/16 and 2016/17. We will not have any details of departmental allocations until after the outcome of the forthcoming Spending Review 2014. However, the Government has already announced its intention that under the new local government funding arrangements local authority spending will be kept within the bounds of the spending review totals. The new business rates funding model is considered at more length later in this section of the report

2.33 In addition to Formula Grant the CLG resource also includes funding for the Council Tax Freeze Grant, The original 2011/12 Council Tax Freeze Grant is fixed for four years to compensate Councils for not increasing Council Tax between 2010/11 and 2011/12 and has now been incorporated into the baseline for the new local government funding arrangements. The freeze grant for 2012/13 was one-off funding and the new grant to support a further freeze for 2013/14 is anticipated to be paid as a separate grant in 2013/14 and 2014/15.

2.34 Of the additional capital funding announced in the Autumn Statement we have so far only been notified of the local authority share of the additional £333m for essential highways maintenance. KCC's allocation is £4.075m in 2013/14 and £2.198m in 2014/15. These amounts have been included in the capital programme.

Local Government Finance Settlement and New Funding Arrangements

2.35 The provisional Local Government Finance settlement for 2013/14 was announced on 19th December 2012. This provides details of the grant allocations for individual authorities. This announcement was 2 weeks later than last year and nearly a month later than we have generally been accustomed to. The late announcement, coupled with the significant changes as a result of the new funding arrangements has made analysis and comparison very complicated. The late announcement has also delayed publication of the County Council's draft Budget Book and MTFP, leaving only a short period for comment prior to agreement by County Council on 14th February.

2.36 For simplicity we have excluded the amounts for police authorities and single purpose fire authorities from the subsequent analysis and focussed on the amounts allocated to local government authorities in two tier areas, London boroughs, metropolitan districts and unitary areas. This means the tables in this analysis do not equal the total CLG resources included in public spending totals.

2.37 The national provisional allocations of the equivalent of Formula Grant for 2013/14 are set out in Table 3 below together with like for like comparison to 2012/13.

2.38 Table 3 shows the overall reduction in the equivalent of Formula Grant of just under £550m. This reduction includes the transfer of funding into New Homes Bonus as well as the planned reduction in Local Government funding for 2013/14 announced in the SR 2010 (including the additional reduction following the announcement on public sector pay) outlined in table 2 above. In addition to the overall reduction there have been some changes to the formula methodology which affects the distribution of Formula Grant between individual authorities.

Table 3	Council Tax Freeze (2011/12) £m	Tailored £m	Relative Needs £m	Relative Resources £m	Central £m	Damping £m	Top Up £m	Total £m	Change per Head of Population
2012/13									
Shires	216.0	606.1	4,094.9	-2,207.0	1,820.8	-168.7	1.3	4,363.4	
London	75.5	445.9	3,279.3	-1,089.0	976.6	266.5	0.0	3,954.8	
Metropolitan	103.7	495.1	4,149.3	-616.7	1,405.2	-0.6	0.0	5,536.1	
Unitary	123.2	456.8	3,370.7	-1,025.2	1,514.4	-97.2	0.0	4,342.7	
Districts	32.7	0.0	464.1	-313.1	956.2	0.0	0.0	1,139.9	
Total	551.1	2,003.9	15,358.4	-5,251.1	6,673.3	0.0	1.3	19,336.9	
2013/14									
Shires	216.0	608.7	3,861.7	-2,576.3	2,154.2	-71.3		4,193.0	-£7.88
London	75.5	430.9	3,229.1	-1,196.7	1,164.6	181.9		3,885.4	-£8.21
Metropolitan	103.7	501.5	3,961.0	-718.8	1,602.6	-26.5		5,423.5	-£9.67
Unitary	123.2	460.2	3,236.7	-1,228.1	1,712.9	-84.1		4,220.9	-£9.88
Districts	32.7	0.0	531.2	-452.0	952.9	0.0		1,064.7	-£3.47
Total	551.1	2,001.3	14,819.7	-6,171.9	7,587.3	0.0		18,787.5	-£10.16

2.39 The calculation of the Formula remains a key component under the new Local Government funding arrangements through retained business rates. The “Start-Up Funding Assessment” for the new system comprises of Formula Grant plus transfers of other grants. Table 4 shows the calculation of the overall start-up assessment for the different classes of authority.

Table 4	Formula (incl. Council Tax Freeze 2011/12) £m	LACSEG £m	Council Tax Support £m	Early Intervention Grant £m	Homeless-ness Prevention £m	Lead Local Flood Authority £m	Learning Disability & Health Reform £m	Total Start-up for New System £m
Shires	4,193.0	-402.9	920.9	554.4	0.0	4.9	560.7	5,831.0
London	3,885.4	-160.2	524.2	321.5	35.8	4.5	223.5	4,834.7
Metropolitan	5,423.5	-239.8	807.1	430.9	8.2	4.5	319.2	6,753.7
Unitary	4,220.9	-235.8	724.5	401.6	15.1	7.0	309.3	5,442.6
Districts	1,064.7	0.0	168.0	0.0	20.8	0.0	0.0	1,253.6
Total	18,787.5	-1,038.7	3,144.8	1,708.4	80.0	20.9	1,412.7	24,115.5

2.40 The Government has calculated an adjusted 2012/13 Start-up Assessment for comparison purposes. The 2012/13 adjusted amounts are shown in table 5 below. The Formula grant has been adjusted to add back the previous £265m LACSEG deduction. The Early Intervention Grant has been reduced by the £291m identified in the current grant to fund the 2 year old programme (to be transferred to DSG) and the £150m being held back by Department for Education in 2013/14 for future allocation. The other grants are largely unchanged.

Table 5	2012/13 Adjusted Formula (incl Council tax Freeze) £m	2012/13 Adjusted Council Tax Support £m	2012/13 Adjusted EIG £m	Homeless-ness Protection £m	Lead Local Flood Authority £m	Learning Disability & Health Reform £m	2012/13 Adjusted LACSEG £m	2012/13 Adjusted Total £m
Shires	4,459.2	922.3	611.5	0.0	4.9	547.1	-408.2	6,136.8
London	4,000.0	525.1	360.0	35.8	4.5	218.0	-159.3	4,984.1
Metropolitan	5,598.1	808.3	494.4	8.2	4.5	311.4	-242.0	6,983.0
Unitary	4,404.8	725.7	452.9	15.1	7.0	301.8	-237.7	5,669.5
Districts	1,139.9	168.1	0.0	20.8	0.0	0.0	0.0	1,328.8
Total	19,601.9	3,149.5	1,918.9	80.0	20.9	1,378.4	-1,047.2	25,102.3

2.41 We are concerned that comparison of the 2012/13 adjusted and 2013/14 start-up assessments does not reflect the reality faced by local authorities. In particular the pro rata adjustments for EIG and LACSEG to the 2012/13 funding takes no account of individual local decisions on the use of the existing un-ring-fenced grants which include this funding. This pro rata approach could seriously under state the impact for a number of authorities.

2.42 Putting aside the concern with the 2012/13 adjustments, comparison of tables 4 and 5 shows an 11% reduction between the adjusted EIG 2012/13 and the amount transferring into the new funding arrangements for 2013/14. This reduction had not been made explicit in previous funding announcements and the impact on KCC is explored in more depth in our revenue strategy in section 3. Looking forward it now transpires there is a further 6.4% reduction in EIG implicit within the 2014/15 provisional settlement. The overall reduction for Local Government in 2013/14 using the adjustment methodology is £990.8m (3.9%).

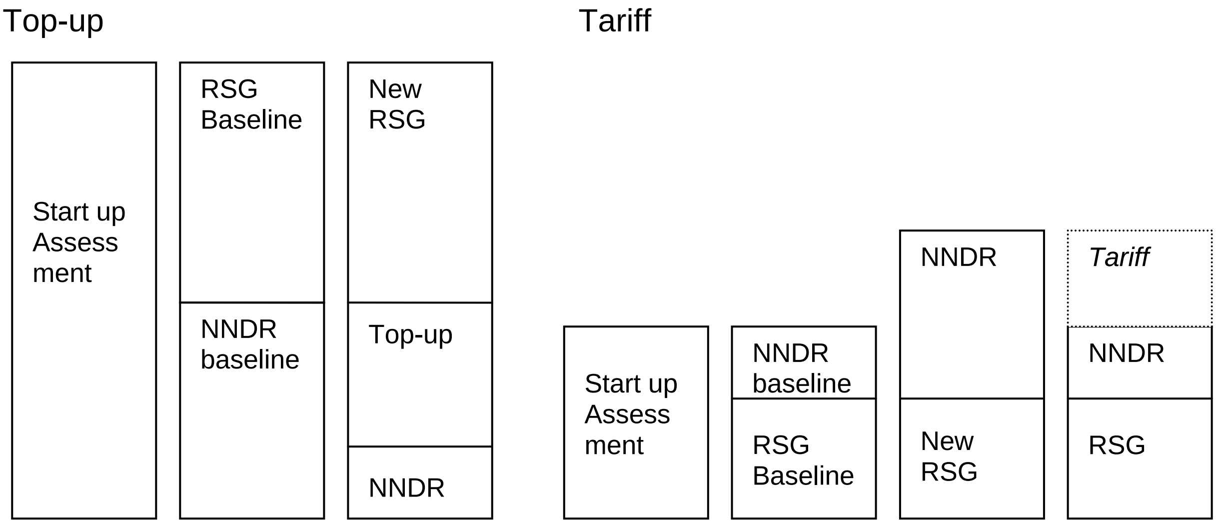
2.43 The 2013/14 start-up assessment (table 4) is split between the baselines for Revenue Support Grant (RSG) and Business Rates. 60.05% of the overall resources for local government in 2013/14 will be allocated as RSG (this comprises 50% of the overall business rate yield retained centrally and the remainder of original RSG in the overall SR2010 total for Local Government).

2.44 In future years the business rates proportion will increase due to the impact of the NNDR multiplier and the RSG proportion will fall (in order to keep overall resources within the spending review total). The provisional baseline figures for 2013/4 and indicative figures for 2014/15 are shown in table 6. Table 6 also shows the magnitude of overall reduction in local authority spending anticipated for 2014/15 of a further £2.182bn (9.05%).

Table 6	2013/14			2014/15		
	Business Rates £m	Revenue Support Grant £m	Total £m	Business Rates £m	Revenue Support Grant £m	Total £m
Shires	2,329.5	3,501.6	5,831.0	2,400.9	2,980.7	5,381.6
London	1,931.4	2,903.2	4,834.7	1,990.7	2,384.1	4,374.8
Metropolitan	2,698.1	4,055.6	6,753.7	2,780.8	3,350.9	6,131.7
Unitary	2,174.3	3,268.3	5,442.6	2,241.0	2,710.1	4,951.1
Districts	500.8	752.8	1,253.6	516.2	577.9	1,094.0
Total	9,634.1	14,481.4	24,115.5	9,929.6	12,003.6	21,933.2

2.45 The RSG baseline for each authority is the same 60.05% of each authority's start-up assessment (hence the Formula calculation is still a key component as this represents the majority of the start-up assessment although this will decline over time as the RSG proportion falls and authorities become more reliant on business rates levied locally).

2.46 The final element within the new arrangements is to compare the business rates anticipated in each area to the baseline. Authorities where the baseline is less than the anticipated NNDR yield will pay a tariff. Authorities where the anticipated yield is less will receive a top up. Initially this means every authority will be funded at the start-up level for 2013/14. In future years the tariffs and top-ups will be inflated in line with the NNDR multiplier. The graphic below illustrates how tariffs and top-ups will apply.



2.47 Table 7 shows the impact of the tariffs and top-ups in the 2013/14 provisional settlement and indicative inflated figures for 2014/15. As we anticipated the overall effect of the tariffs and top-ups preserves the existing redistribution of business rates into metropolitan areas and within London from inner to outer boroughs. Within shire areas the 80/20 split between lower tier and upper tier authorities means that all upper tier authorities receive significant top-ups and all lower tier pay significant tariffs. Overall the system preserves the existing redistribution of business rates from shire areas to urban areas.

Table 7	2013/14 Effect of Tariffs and Top-ups £m	2014/15 Indicative Effect of Tariffs and Top-ups £m
Shires	1,664.4	1,715.4
London	13.2	13.6
Metropolitan	783.8	807.8
Unitary	13.8	14.2
Districts	-2,321.5	-2,392.7

2.48 The tariffs and top-ups will be compared to the actual business rates collected to enable individual authorities to retain any excess growth (over and above anticipated levels) but also to bear the consequences of any decline. A system of levies will limit excessive business rate retention (these levies are proportionate and therefore do not apply to top-up authorities). The highest levy rates (maximum 50p in the £) will apply to those authorities with the highest proportionate tariffs (mainly shire districts and metropolitan authorities with disproportionately high business rates compared to population e.g. City of London, Trafford in Manchester, etc.). A safety net mechanism ensures that no authority can suffer more than a 7.5% reduction in business rate yield compared to their baseline from table 6.

Education Funding and Dedicated Schools Grant (DSG)

2.49 The Dedicated Schools Grant (DSG) is funded 100% by government with no funding from local taxation (Council Tax or business rates). The grant is specific and has to be spent on schools (although local authorities are able to provide a top-up from Council Tax or other local sources).

2.50 There have been significant changes to how DSG will be determined in future. Previously the overall value of DSG has only been uprated for changes in pupil numbers through the Guaranteed Unit of Funding (GUF). In the last two years GUF has been the same as the previous years. The DSG did not take account of any other changes in pupil characteristics e.g. relative age, levels of special need/deprivation.

2.51 Following extensive consultation the DSG will in future be calculated in three blocks; Schools, Early Years and High Needs. The Schools and Early Years block are both allocated on a per pupil basis. The amount per pupil is determined by splitting the 2012/13 DSG for each authority into the relevant blocks. For Schools and Early Years this is divided by the number of pupils used to allocate 2012/13 DSG to determine the amount per pupil. The same amounts per pupil are used to allocate 2013/14 provisional DSG (based on October 2012 schools census). This methodology means that each authority receives a different amount of DSG per pupil for these two blocks (based on historical allocations under the previous arrangement), and for 2013/14 receives the same per pupil as they would have received under the old GUF (albeit allocations now more accurately reflect changes in early years and school pupil numbers).

2.52 The calculation of the high needs block is based on the 2012/13 baseline (i.e. not adjusted for any changes in the number of high needs pupils or their needs). The baseline is set on an agreed number of high need places (based on local authority returns) and includes the removal of inter authority recoupment. There is also an adjustment relating to changes in 16+ high needs pupils not the responsibility of the Education Funding Agency (EFA) for the academic year starting August 2013.

2.53 The provisional DSG for 2013/14 includes additional funding for the expansion of the two year old programme (including the transfer from local authority EIG), transition funding following the end of floor protection for 3 year old funding and transfer of funding for induction of newly qualified teachers (NQTs). Finally, there is provision for a cash floor to protect any overall reduction due to falling pupil numbers to no more than 2% (although no authority qualifies for this floor in 2013/14 provisional allocations). The National Totals for DSG are set out in table 8 below.

2.54 Although the overall value of DSG has increased this is mainly due to the additional pupils within the Schools block, the transfer of responsibility for 16+ high needs students, the transfer of additional responsibilities for 2 year olds and NQT induction. Individual schools allocations are still governed by a minimum funding guarantee (MFG) of -1.5% per pupil which the Government has confirmed will apply in 2013/14 and 2014/15.

Table 8	£m	£m	Total £m	Per Pupil £
2012/13			36,855	
2012/13 Adjusted				
Schools Block	30,072			4,549.96
Early Years Block	2,100			4,282.41
High needs Block	4,841			n/a
2013/14				
Schools Block		30,412		4,549.96
Early Years Block		2,100		4,282.41
High Needs Block		4,883		n/a
Adjusted Baseline	4,841			
16+ Adjustment	42			
2 Year Olds		525		
Transition Funding for 3 Year Olds		29		
NQT Induction		10		
2013/14 Total			37,960	

2.55 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. The MFG protects individual schools allocations from detrimental changes as a result of the more restrictive formula criteria. The formula is agreed by the local authority following consultation with schools and the Schools' Funding Forum.

2.56 A separate Pupil Premium was introduced in 2011/12. This grant is passed on in full to schools and for 2013/14 equates to £900 per child eligible for a free school meal or looked after by the authority, and £300 per child from armed service families. These represent an increase of £300 and £50 per child respectively and are in line with previous announcements.

2.57 As outlined in the Local Government Settlement responsibility for local authority central spend equivalent grant (LACSEG) has transferred to DfE. Current spending at a national level (adjusted for planned reductions in SR2010 spending totals) has been deducted from the baseline used for the new business rates arrangements. DfE will allocate a new Education Services Grant (ESG) to individual local authorities on a national per pupil basis to provide central services for maintained schools. The 2013/14 ESG for local authorities has been announced as £116 per pupil in maintained schools plus £15 per pupil in all schools to reflect statutory duties not transferring to academies although provisional allocations have not yet been released. Academies will also receive an ESG allocation of £150 per pupil in 2013/14 (reducing to £140 in 2014/15), some academies will also receive transitional protection to mitigate reductions against previous higher LACSEG allocations.

Other Government Grants and Funding

2.58 The Government has confirmed that a further Council Tax Freeze Grant will be available in 2013/14 and 2014/15 for authorities which do not increase the basic band D Council Tax rate in 2013. Nationally this additional grant is worth £265m to local authorities in addition to the Local Government Settlement outlined above but is conditional on not increasing Council Tax. This equates to a 1% increase in Council Tax. The Government has also announced that the threshold for a referendum on Council Tax increases has been set at 2% for 2013/14.

2.59 The New Homes Bonus (NHB) Grant continues to be rolled out over the original 6 year period albeit through diverting funds that would otherwise have been in the Formula grant and therefore transferred into the new local government funding arrangements. The overall amount available for NHB will increase to £750m in 2013/14 (from £432m in 2012/13) and is planned to increase further to £1.05bn in 2014/15 with funds transferred from the Formula Grant element within the new business rates model.

2.60 The Public Health Grant allocations were not announced as part of the local government finance settlement and were only announced on 10th January. This was too late to include in this version of the draft Budget Book and MTFP. The £49.8m public health allocation for 2013/14 will be included in the final budget book for County Council.

2.61 The Department for Work and Pensions (DWP) Social Fund has transferred funding to upper tier authorities for the Social Fund to replace Community care Grant and Crisis Loans which it previously provided. This funding is allocated as un-ring-fenced grant and totals £3.5m for KCC, which includes £0.6m for administration.

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

2.63 There have been some significant changes to Council Tax under the Local Government Finance Act 2012. The changes relate to the localisation of Council Tax support and changes to Council Tax discounts and exemptions. The localisation of Council Tax support transfers over £3bn of spending from DWP to local government. Individual billing authorities are responsible for determining local schemes for Council Tax support. These schemes are subject to consultation with major precepting authorities as they will have the effect of reducing their tax base. Billing authorities were also given discretion to reduce/remove some council exemptions and discounts. The impact of these changes on KCC’s tax base is set out in section 2 of the Budget Book.

KCC Medium Term Financial Plan

SECTION 3

Revenue Strategy

REVENUE STRATEGY

Introduction

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

3.2 Over the past 3 years we have had to make significant reductions in revenue spending in response to the national economic situation and the squeeze on public spending to tackle the budget deficit.

3.3 We began planning for this squeeze as far back as April 2010, when we started considering the implications of the predicted significant reductions in Government Grant combined with additional spending demands. As part of this early planning we predicted that the County Council would need to make budget savings/income generation of £340m over the 4 years for 2011/12 to 2014/15 in real terms (i.e. after allowing for the effects of additional spending pressures and reductions in government funding).

3.4 Evolving the strategy for 2013/14 and 2014/15 has proved extremely difficult due to the changes to local government funding as a result of the Local Government Finance Act 2012 and the lack of provisional grant allocations. The main features of these changes are:

- Introduction of new arrangements to replace the existing grant system with retained business rates
- Transfer of responsibility for Council Tax support to local billing authorities
- Additional freedoms and flexibilities over Council Tax discounts and exemptions

3.5 The uncertainty around these arrangements, particularly the introduction on the new local government funding arrangements (described in paragraphs 2.35 to 2.48) has created significant issues for the revenue strategy. In particular detailed consultation around key aspects, especially the transfer of Early Intervention Grant and changes to the funding for local authority central support functions (LACSEG) took place during the autumn, and we did not get the outcome until the provisional settlement was announced on 19th December.

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

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

Funding Estimate

3.7 The funding estimate is based on a forecast of the funding settlement using the best available information. This includes forecasting the impact of the overall reduction arising from SR2010, the impact of funding transfers and the impact of the new funding arrangements. The initial strategy included an assumption of freezing the rate of Council Tax for the third successive year (with no Government support) and changes to existing Council Tax benefit would be agreed by district councils to offset the impact of 10% reduction in funding. Freezing Council Tax for the third year was at the heart of the budget strategy.

3.8 Our initial estimates of the funding that would be available were included in the budget consultation launched in September, as per table 1.

Table 1	2012/13 Budget £'000s	2013/14 Estimate £'000s
Council Tax		
Precept	577,914	508,366
Collection Fund Balance	2,239	
Un-ring fenced grants		
Formula Grant/new Business Rates model	303,446	293,400
Council Tax Support Grant		69,146
Council Tax Freeze	14,446	
New Homes Bonus	2,839	4,200
Other Grants	3,437	888
Early Intervention Grant	54,883	54,883
Learning Disability & Health Reform Grant	35,627	35,627
Specific Grants		
Dedicated Schools Grant	746,564	708,141
Other Specific Grants	35,372	35,372
Total	**1,776,767**	**1,710,023**
Change (excluding DSG)		-28,321

3.9 The forecast Council Tax precept included an estimate of 0.3% growth in the overall tax base, an additional yield from increasing the collectable base through reviewing discounts and exemptions and the estimated reduction to the base through localisation of Council Tax support (including estimated impact on Council Tax collection rates).

3.10 The Formula Grant prediction was based on the SR2010 adjusted total for local government for 2013/14 referred to in paragraphs 2.29 and 2.30 in section 2. We made the assumption that this reduced grant figure (including the Council Tax Freeze element for 2011/12 which has previously been guaranteed) would form the baseline for the new business rates arrangements. We also planned for the removal of the 2012/13 Council Tax Freeze grant (this was provided as one-off funding only), increase in New Homes Bonus, removal/transfer of grants for extended free travel and community safety.

3.11 At the time we formulated the initial strategy we had no indicative figures for EIG or Learning Disability Grant. We made the assumption that the planned transfer of funding for the 2 year old programme to DSG would not have any detrimental impact on the remaining EIG. The DSG assumption was based on estimated increase in pupil numbers and impact of academy conversions.

3.12 During the summer and autumn the government launched a number of consultations on the 2013/14 funding arrangements. These included detailed consultation on the new business rates model and technical changes to the Formula, transfer of funding to support the expansion of free early years' places for two year olds, and changes to the deductions for local authority central services (LACSEG). The consultation did not include detailed financial models and the full impact of the outcome from these consultations only became clear when the provisional local government finance settlement was announced on 19th December. These have had a significant impact on the planned budget for 2013/14.

3.13 During October the government announced that a further grant would be available to support local authorities to freeze council tax for 2013/14. The grant would be equivalent to 1% increase in Council Tax and would be payable for both 2013/14 and 2014/15. At the same time the Government announced its intention to reduce the referendum threshold on Council Tax increases to 2%.

3.14 The government also announced in October the offer of a one-off transitional grant to limit Council Tax benefit reductions for working age recipients on full benefits to 8.5%. This grant would be paid in 2012/13 and thus will not feature as funding towards the 2013/14 budget even though the impact of lower benefit reductions would impact on the tax base for 2013/14.

3.15 We do not get final notification of Council Tax base for 2013/14 until 31st January. Provisional indications show the tax base is approx £1m higher than we anticipated for the consultation. This is principally due to a greater than 0.3% increase in the overall base although individual decisions from billing authorities on their local Council Tax support schemes and changes to discounts and exemptions have also had an impact. A reconciliation of all Council Tax changes between 2012/13 and 2013/14 is included in section 2 of the Budget Book.

3.16 It is vital to the revenue strategy the county council continues to foster good relationships with district councils to maximise the collectable Council Tax base and collection rates, to our mutual benefit. For its part the county council has committed to help district councils cover their additional costs in managing local Council Tax support schemes, and to underwrite the district council's share of Council Tax support in the local government settlement in the event that the number of claimants is more than assumed in the grant estimates. The county council is also committed to supporting districts in other ways to maximise the Council Tax yield whilst being consistent with the principle of freezing the headline Council Tax band rates.

3.17 Table 2 sets out the changes to the Formula Grant between 2012/13 and the provisional 2013/14 settlement. The provisional settlement is very similar to our original forecast in the consultation and overall the technical changes have had very little difference on KCC's share of the overall national resources outlined in tables 2 to 5 in section 2.

<table>
<tr><th>Table 2</th><th>2012/13
Budget
£000s</th><th>2012/13
Adjusted
£000s</th><th>2013/14
Prov.
£000s</th></tr>
<tr><td>Formula</td><td colspan="3"></td></tr>
<tr><td>Council Tax Freeze</td><td>14,342</td><td>14,342</td><td>14,342</td></tr>
<tr><td>Tailored</td><td>44,966</td><td rowspan="6">295,714</td><td>44,677</td></tr>
<tr><td>Relative Need</td><td>313,015</td><td>297,231</td></tr>
<tr><td>Relative Resource</td><td>-161,381</td><td>-180,083</td></tr>
<tr><td>Central</td><td>114,435</td><td>140,259</td></tr>
<tr><td>Damping</td><td>-22,058</td><td>-23,199</td></tr>
<tr><td>Top Up</td><td>127</td><td>0</td></tr>
<tr><td>Total</td><td>303,447</td><td>310,056</td><td>293,227</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td>Share of Shire Total
(from Section 2 tables 3 & 5)</td><td>7.0%</td><td>7.0%</td><td>7.0%</td></tr>
<tr><td>Share of National Total
(from Section 2 tables 3 & 5)</td><td>1.6%</td><td>1.6%</td><td>1.6%</td></tr>
</table>

3.18 Table 3 sets out the changes in the other grants for KCC including those being rolled into the "Start-up" calculation under the new arrangements (see table 4 in section 2). In particular this highlights the significant and unanticipated changes to EIG and LACSEG. Excluding the localisation of Council Tax support (which is offset by a reduction in Council Tax yield) and DSG we have seen a reduction in Government Grants of £42.4m, this is £16m worse (excluding DSG) than we anticipated when we launched the consultation.

3.19 On the most appropriate like for like measure (by deducting our local spend on support for 2 year olds from EIG) this equates to a £39m reduction in non specific grants, a year on year reduction of 9.5%. This is equivalent to a reduction of just under 4% of net spending excluding schools. Table 3 includes the Government's adjusted calculation although we contend this does not adequately reflect the impact of changes to EIG or LACSEG.

Table 3	2012/13 KCC Adjusted Budget £000s	2012/13 CLG Adjusted £000s	2013/14 Prov £000s	Assumed for Consultation £000s	Change from 2012/13 £000s	Change from Consultation £000s
Formula (from Table 2)	303,447	310,056	293,227	293,400	-10,220	-173
LACSEG		-30,367	-30,007		-30,007	-30,007
Council Tax Support		69,913	69,809	69,146	69,809	663
Early Intervention Grant	51,791	44,638	40,772	54,883	-11,019	-14,111
Lead Local Flood Authority		260	260		260	260
Learning Disability & Health Reform	35,706	35,706	36,598	35,627	892	971
Start-Up for New System		430,206	410,659			
Education Services Grant			20,642		20,642	20,642
Council Tax Freeze Grant	14,446		5,820		-8,626	5,820
New Homes Bonus Grant	2,839		4,383	4,200	1,544	183
Other Un-ring-fenced Grants	3,437		628	888	-2,809	-260
Dedicated Schools Grant	746,564		729,633	708,141	-16,931	21,492
Other Specific Grants	35,372		35,372	35,372	0	0
Total	1,193,602		1,207,137	1,201,657	13,536	5,480
Change (excluding Council Tax Support and DSG)					-39,342	
Amounts in grey are estimates and have not yet been formally notified						

3.20 Table 4 shows how the £410.659m start-up for the new arrangements is split between Revenue Support Grant (RSG) and business rates baselines. The RSG baseline for 2013/14 equates to the same 60.05% of the Start-up assessment as for all local authorities. The table demonstrates how the business rate top-up has been calculated by comparing the county's 18% share of the 50% of estimated business rates to be retained locally (£45.816m) to the business rates baseline (£164.057m).

Table 4	2013/14 Prov £000s	2013/14 Top-up / (Tariff) £000s	2014/15 Indicative £000s
Start-up assessment	410,659		378,280
Revenue Support Grant	246,602		209,190
Business Rates	164,057		169,089
County Top-Up		118,242	121,868
Kent District Tariffs		-168,466	
Local Authority 50% Share of Business Rates	254,532		
County Share (18%)	45,816		
Fire Share (2%) - Excluding Medway	5,091		
District Share (80%)	203,626		

3.21 Table 4 also shows the district and fire share of the 50% of estimated business rates, and the combined tariffs for Kent districts of £168.466m. Kent Fire and Rescue Authority will also receive a top-up of £7.072m, although this includes an element for Medway which is impossible to isolate.

3.22 Table 4 includes the indicative figures for 2014/15 based on an estimated 3.07% increase in business rates via the annual inflation uplift (including the top-up). The RSG is determined as the difference between estimated business rates and the revised calculation of the Start-up assessment based on the 2014/15 spending review totals. This demonstrates that there is a further overall reduction of £32.4m in funding for 2014/15 through the new arrangements. We do not have indicative allocations for all the grants outside the new arrangements (and in particular the Education Services Grant as this is dependent on academy conversions).

3.23 Table 5 shows how the overall funding available for 2013/14 equates to the net budget, with a year on year reduction of £40.1m. The table demonstrates the difficulty in making comparisons between 2012/13 and 2013/14 due to the complexity of changes.

Table 5	2012/13 Revised Budget £000s	2013/14 Final Draft £000s	Change £000s
Council Tax			
Precept	577,914	*509,579*	
Collection Fund	2,239		
Business Rates		45,816	
Un-ring-fenced Grants			
Formula Grant	303,446		
Early Intervention Grant	51,791		
Learning Disability & Health Reform	35,706		
Revenue Support Grant		246,602	
Business Rate Top-Up		118,241	
Education Services Grant		20,642	
Council Tax Freeze Grant	14,446	5,820	
New Homes Bouns Grant	2,839	4,383	
Other Grants	3,437	628	
Net Budget	991,818	951,711	-40,107
Amounts in grey are estimates and have not yet been formally notified			

Spending Demands

3.24 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. As in previous years we have distinguished between unavoidable demands (inflation, demand/demography, legislation) and local priorities. Spending demands also include the impact of one-off actions agreed as part of the 2012/13 budget.

3.25 At the time of the budget consultation we estimated £18.7m of unavoidable additional spending demands and £13.1m of local priorities as shown in table 6. For simplicity this did not include £23.5m for the reversal of one-offs from 2012/13 as this was offset against £13.7m of further one-off proposals for 2013/14 and £9.7m removal of one-off spending from 2012/13. We ignored any spending under Section 256 agreement in the consultation following the funding transfer from NHS to social care as these were unavoidable.

Table 6	Consultation £000s	Final Draft Budget £000s
One-Offs netted off in Consultation		
Reversal of 2012/13 one-off savings	23,512	23,512
Removal of 2012/13 one-off spending	-9,706	-9,706
2013/14 proposed one off savings	-13,650	-13,650
	156	156
NHS Funding ignored for consultation		22,064
Unavoidable spending		
Pay and Prices	11,431	7,965
Demand Demography	5,556	8,703
Looked After Children		6,000
Expansion of 2 Year Old programme (DSG)*		9,125
Landfill Tax	1,504	1,454
SEN Recoupment		800
Other	227	320
Local Policy Proposals		
Capital Financing	8,179	1,679
Repayment of Reserves	1,403	
Waste collection, recuycling and disposal	2,329	1,377
Commercial Services	723	1,669
Payments to Districts from Council Tax yield		2,663
Other	496	983
Total Spending Demands (as per consultation)	31,848	33,613
Total Spending Demands (as per final budget)*		88,314

* The total spending demands exclude the DSG element

3.26 Since the consultation a number of changes to spending demands have been identified, particularly in relation to inflation and demand for services (especially numbers of Looked After Children). Table 6 compares the original consultation with the final draft budget. On a like for like basis i.e. ignoring those items ignored/netted-off in the consultation and the 2 year old expansion funded from DSG, there has been a net £1.8m increase in additional spending demands. Full details of the additional demands are set out in the budget summaries under appendix A.

Savings and Income

3.27 The original consultation identified £60.3m of savings in order to balance the estimated funding reduction and additional spending demands (including the netted one-offs). This savings target has increased to £73.9m on a like for like basis as a result of the funding and spending demand changes outlined above. Table 7 compares the savings in the original consultation to those now proposed in the final draft budget.

Table 7	Consultation £000s	Final Draft Budget £000s
One-offs netted off in Consultation		
Reversal of 2012/13 one-off savings	23,512	23,512
Removal of 2012/13 one-off spending	-9,706	-9,706
2013/14 proposed one off savings	-13,650	-13,650
	156	156
NHS Funding ignored for consultation		-22,064
Additional funding for 2 year olds (DSG)		-12,125
Income Generation	-4,920	-3,280
Effiicency and Other Savings	-18,752	-23,645
Transformation	-36,653	-28,231
Additional One-off Savings		-15,720
Total (as per consultation)	-60,325	-73,876
Total (as per final draft budget)		-128,421

3.28 The details of all the changes to planned savings are set out in the budget summaries under appendix A.

Budget Summaries & Medium Term Financial Plan

3.29 The budget templates in appendix A show a high level "at a glance" summary of the proposals for 2013/14 as well as the whole council summary and individual portfolio proposals we have previously presented. The templates do not show the high level 3 year plan included in the 2012/15 Medium Term Financial Plan.

3.30 We have not shown a three year plan as we only have indicative funding allocations for 2014/15 for the start-up assessment used for the new business rates model (which shows the reduction of £32.4m referred to in paragraph 3.18 above). Other than the indicative start-up assessment we have no indicative grants (particularly Education Service Grant which hasn't a provisional allocation for 2013/14, let alone an indicative figure for 2014/15).

3.31 We do not know what impact changes in business rates will have on the overall funding (although any significant reduction would be mitigated by the 7.5% safety net which would limit the impact on KCC to £12.3m). However, to trigger this safety net would require an unlikely 26.9% reduction in business rates across the county. A 5% reduction in the business rates would amount to a £2.3m loss of funding for the county. Similarly a 5% increase would yield £2.3m to the county.

3.32 We only have estimates of the impact of Council Tax support localisation on the tax yield and collection funds at this stage. We are concerned that the changes could be highly volatile, particularly for the 45,000 working age recipients who were previously passported into Council Tax Benefit from other benefits, many of whom will be asked to make a small contribution towards their Council Tax for the first time.

3.33 Individual district councils have developed local proposals. Some have proposed an 18.5% reduction in working age benefits and reduced exemptions on empty properties from 6 to 3 months to offset the funding reduction and cost of managing local schemes. Others have proposed lower reductions in working age benefits and/or protected other vulnerable groups and made further reductions to empty property exemptions and second home/empty property discounts.

3.34 We have agreed to these proposals on the basis they offset the overall package of reduction to the Council Tax base, through local support and the additional costs of managing local schemes (including the underwriting of risks) are offset by the additional funding included, the provisional settlement and any additional Council Tax from reviewing exemptions and discounts. We have also agreed that all districts should apply transitional arrangements for 2013/14 to limit benefit reductions for working age recipients to 8.5% although this will not be confirmed until we have the final tax base.

3.35 We have agreed with districts that we need to put in place monitoring arrangements on both business rates and council tax so that we will obtain more accurate assessments to factor into funding assumptions for 2014/15.

3.36 In light of the uncertain funding for 2014/15 we have concluded it would be imprudent to set out even a high level plan beyond 2013/14. Within the proposed 2013/14 budget we have £29.4m of one-off savings which would need to be replaced. This together with the reduction in the start-up assessment and a similar level of spending demands as this year would equate to a savings/income target of £90m to £100m.

3.37 The revenue strategy for 2014/15 will once again focus on an early estimation of the uncertainties and early public consultation on how to balance the budget. Early consultation allows participants longer to consider their feedback and allows the county council more time to consider its response. Early consultation is also more important as it seems settlement announcements will be later and we no longer get the three year provisional settlements which we had become accustomed to.

Budget Consultation and Engagement

3.38 We launched consultation on the budget proposals on 6th September 2012. This was much earlier than we have previously been able to consult. This was a bold step as we had to include many more estimated figures than we would have liked and means there are some significant changes between the proposals outlined in the consultation and the final draft budget.

3.39 Our strategy for consultation was to seek much wider involvement and engagement in the council's budget decisions. The consultation included a variety of engagement approaches including:

- Media launch
- Easy to read consultation document (available in printed and on line versions)
- Tick-box questionnaire with the option of submitting a more detailed response
- 2 all day workshops with a cross section of Kent residents organised by independent market research firm Ipsos MORI
- Specific briefings and workshop sessions with a range of other stakeholders including business representatives, voluntary sector, youth county council and trade unions
- Engagement with representative member panels from Cabinet Committees
- Presentations by County Councillors to locality/local boards
- Briefing sessions for staff including Challenger group

3.40 This comprehensive consultation and communication strategy was endorsed by Cabinet members with the aim of striking the right balance between in-depth engagement with a representative sample of Kent residents as well as wider engagement. We have devoted the majority of expense in engaging Ipsos MORI. Previous experience has demonstrated the additional benefits of independent in–depth interactive market research.

3.41 A full report on the consultation was presented to Cabinet on 3rd December and cabinet provided a response to the feedback from consultation. We have not reproduced the full report as part of this document but it can be accessed via the following link https://democracy.kent.gov.uk/documents/s36916/Budget%20consultation%20response%20final.pdf

3.42 Any additional proposals in this latest draft budget (which are necessary as a consequence of the late funding changes) that were not included in the consultation have been reviewed and concluded that no further Equality Impact Assessments are required. As in previous years there will be detailed consultation and impact assessment on individual proposals within each portfolio prior to implementation. The responses received to the consultation have been carefully considered and KCC's response is reflected in these final proposals.

Response to the 2013/14 Provisional Settlement

3.43 The County Council responded to the provisional settlement by the deadline of 15th January. The very short timescales meant there was little scope for a detailed response, and due to the late announcements we are concerned that authorities would not be able to cope with further last minute changes if significant issues were raised with the provisional settlement. We therefore urged ministers not to make any further changes for 2013/14. We have commented on the difficulties the timescales have presented.

3.44 We re-iterated our concerns about the using the current Formula Grant as the baseline for the new funding arrangements. In particular we are concerned that the inadequacies of the formula methodology are now crystallised into the new funding arrangements until the next reset maintaining the disparity in grant allocations between shire and urban areas. We have also re-iterated our concerns about the changes made to EIG and LACSEG transferring into the new arrangements and the severely adverse impact these have had on the overall resources for 2013/14.

3.45 We also re-iterated our concerns about top-slicing funds from the main local authority funding arrangements to fund New Homes Bonus grant and the 80/20 split of this between lower and upper tier authorities. We have also re-iterated concerns about the 80/20 split of business rates in two tier areas.

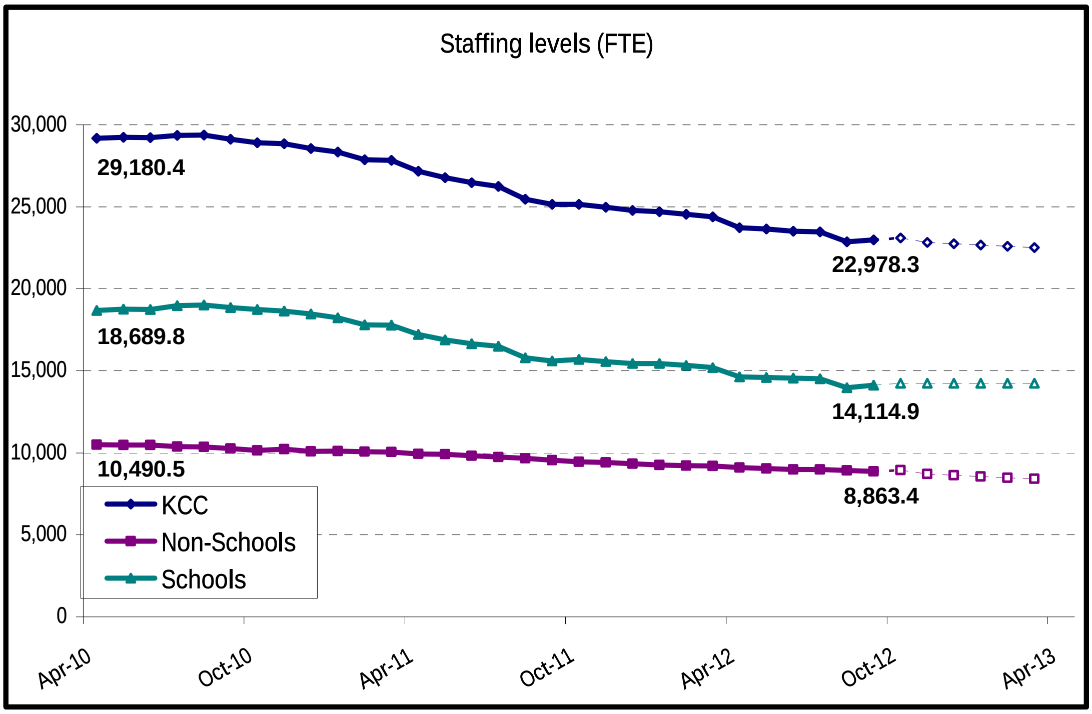
Workforce Strategy

3.46 As part of KCC's "Change to Keep Succeeding" transformation programme there is a declared intent to reduce the non-schools staffing level by 1,500 jobs. This was to be achieved over the 4 year period to March 2014, however this has already been exceeded, as illustrated in chart 1 below.

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

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

Chart 1



3.49 Between April 2010 and September 2012 KCC's total workforce fell by over 6,200 full-time equivalents (FTE):

Non-schools:

- Over one quarter of the staffing reduction came from the non-schools sector (1,627 FTE). There are further reductions of approximately 450 FTE expected before the end of the financial year. During the period, there were around 950 redundancies.
- Sickness levels in the non-schools sector, calculated as a 12 month rolling average, reduced from 8.55 days per FTE in April 2010 to 7.47 days per FTE in September 2012. The latest survey conducted by the Chartered Institute of Personnel & Development shows the average sickness levels for the public sector as 7.9 days per FTE.

Schools:

- The Schools sector declined by 4,575 FTE between April 2010 and September 2012, primarily due to around 90 schools converting to academy status during the period.

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

Strategies to Support the Local Economy

3.51 Within the proposed budget and MTFP we have embarked on a number of initiatives to support the local economy and to help Kent to be well placed to recover from the economic recession. These initiatives are summarised in table 8 below showing the amount of KCC investment together with the value of other external funds secured and anticipated.

Table 8	Capital £000s	Revenue £000s	Treasury Strategy £000s	External Funding Secured £000s	External Funding Anticipated £000s	Estimated benefits
Expansion East Kent	-	1,300		35,000	140,000*	5,000 jobs
TIGER	-	715		20,000	80,000*	1,700 jobs
High Growth Kent		297		440		300 jobs
Workspace Kent	3,000			1,500	4,500	9000 sq m's
No Use Empty	6,625	150**		12,445		2,300 homes
Live Margate	10,000			18,600	5,000	300 homes
Local Authority Mortgage Scheme			12,000	2,000	8,000	650 homes
Broadband Infrastructure	10,000			9,870	20,000	90% superfast broadband coverage; universal coverage at 2mb
Trade development		200		380		350 businesses supported

* Calculated at intervention rate of 20% on initial investment of funding. Long term leverage (including recycled funds) will be higher
** per year

Draft Budget 2013/14

3.52 Table 9 below shows the revised net base budget by portfolio after adjustments for the grants transferring into the new funding arrangements and the proposed budget for 2013/14. This provides the best like for like comparison of KCC's priorities. It should be noted that the Adult Social Care portfolio figure is netted down by £22m of income transferred from NHS under Section 256 agreement. Detailed examination of the draft Budget Book shows that gross expenditure on Adult Social Care has risen between 2012/13 and 2013/14 as a result of the proposed budget.

Table 9	Revised Base £000s	Spending Demands £000s	Savings & Income £000s	**Proposed Budget £000s**	Change £000s	Change %
ASC&PH	335,741	44,814	-47,955	**332,600**	-3,141	-0.94
BSP&HR	58,454	1,051	-3,059	**56,446**	-2,008	-3.44
C&C	79,450	1,517	-5,311	**75,656**	-3,794	-4.78
D&P	7,372	0	-150	**7,222**	-150	-2.03
ELS	58,714	1,834	-6,940	**53,608**	-5,106	-8.70
EHW	150,161	9,370	-8,883	**150,648**	487	0.32
F&BS	147,422	14,233	-38,562	**123,093**	-24,329	-16.50
R&E	3,652	0	0	**3,652**	0	0.00
SCS	150,852	15,495	-17,561	**148,786**	-2,066	-1.37
Total	**991,818**	**88,314**	**-128,421**	**951,711**	**-40,107**	**-4.04**

3.53 Table 10 shows the proposed gross and net budget position for 2013/14 for each Portfolio.

Table 10	Gross Expenditure £000s	Service Income £000s	Net Expenditure £000s	Govt. Grants £000s	Net Cost £000s
ASC&PH	447,147	-107,255	339,892	-7,292	332,600
BSP&HR	97,024	-35,000	62,024	-5,578	56,446
C&C	126,171	-47,296	78,875	-3,219	75,656
D&P	7,482	-260	7,222	0	7,222
ELS	877,060	-79,439	797,621	-744,013	53,608
EHW	174,021	-22,518	151,502	-854	150,648
F&BS	139,373	-14,397	124,976	-1,883	123,093
R&E	5,311	-1,413	3,898	-246	3,652
SCS	223,026	-5,577	217,449	-68,663	148,786
TOTAL	**2,096,615**	**-313,156**	**1,783,459**	**-831,748**	**951,711**

See the draft Budget Book 2013/14 for detailed proposed revenue budgets for each service.

3.54 Our proposed budget provides for the following major new investments for 2013/14:

- An additional £6m into Specialist Children's Services to fully fund placements for all the extra children brought into care over the last 18 months.
- Additional £29m into Adult Social Care to include enhanced preventative services, provision for price increases and sufficient to meet anticipated increases in client numbers (particularly elderly, adults with learning disabilities and those entitled to Ordinary Residence).
- Financing the Capital Programme to ensure we continue to deliver new facilities and improved infrastructure for our residents, businesses and visitors
- Support to district councils from additional Council Tax from review of discounts and exemptions to manage the introduction of local schemes for Council Tax support.

3.55 Our proposed budget includes the following major areas for savings in 2013/14:

- Staffing efficiencies £5.0m
- Procurement efficiencies £8.0m
- Reduced waste tonnage to be disposed of £1.4m
- Fewer children to transport to school £1.25m
- Savings from better management or our money and cashflow £2m
- A moratorium on Directorates' discretionary spend £2.5m
- Reduced reactive/discretionary maintenance due to increased planned maintenance from capital £1.5m
- Staff savings from service transformation £5.6m
- SEN transport £0.75m

- Streetlight energy £0.5m
- Transformation of specialist children's services £2m
- Transformation of adult social care £18.1m
- Use of previously earmarked reserves £9m
- Drawdown of specific reserves £9.4m
- Use of current year and prior year's under spends £10m

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):

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

3.57 Our proposed budget reflects:

- A freeze in Council Tax for the third consecutive year
- A decrease in the net budget (excluding schools) of 4.04%
- A decrease in government un-ring-fenced grants of 9.5% on like for like basis.
- Overall reduction in Council Tax base of 11.8% due to combination of changes to the number of tax payers, introduction of local support schemes and changes to discounts and exemptions

Resource Management

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

3.59 Our Commercial Services Team and our Companies generate significant annual income to support the Revenue Budget. As well as the proposed £4.9m surplus generated by Commercial Services (which is the equivalent of 1% on Council Tax), we have a number of services that we provide to other Councils, at their request, which deliver further net income to KCC and value for money for the purchaser.

Sensitivity Analysis

3.60 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 proposed budgets can be delivered.

3.61 We are fully aware of the high risk budgets within the Council, which are largely those over which we have limited or no control in the short term. In 2011/12 we increased the totality of general reserves to £31.725m which equates to over 3% of net expenditure to cover unforeseen circumstances. This is considered a reasonable level of reserves to manage risk.

3.62 We are proposing to drawdown a further £9m from previously earmarked reserves in 2013/14 in addition to the £19m borrowed to balance the last 2 year's budgets budget. As a general rule we would not recommend using such reserves to balance the budget but in difficult times this was supported as one of the most popular approaches in the budget consultation

Conclusion

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

KCC Medium Term Financial Plan

SECTION 4

Capital Strategy

CAPITAL STRATEGY

4. Overview

Introduction

4.1 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.

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

4.3 In recent years KCC has spent an average of £290m per year on capital projects. We plan to invest £692m over the next three years and to finance 16% of this expenditure from borrowing which will impact our revenue budget.

4.4 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.

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

4.6 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?

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

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

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

Ambition

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

Drivers for Change

4.11 This is a time of unprecedented change in the public sector and the following drivers for change have informed and impacted our capital strategy.

A challenging financial environment

4.12 The Coalition Government has put in place stringent reductions in revenue and capital grant funding for public services, with a strong drive towards austerity and value for money. Local authorities are facing rising demand (particularly in social care and waste management) and customer expectations for public services. To respond to this KCC is seeking creative new ways of providing services which may require capital investment to deliver best value for Kent’s communities and taxpayers. Our future capital programme must deliver tangible benefits that support sustainable, long term delivery of the three ambitions in **Bold Steps for Kent** and our core budget themes of productivity, prevention, procurement and partnership.

4.13 The challenge of an ambitious capital programme is that due to the nature of capital projects (e.g. building projects delayed by funding, planning or construction issues) they do not always deliver to anticipated timescales or budgets, which can increase costs and create additional revenue pressures. In a challenging financial environment, effective procurement, robust contract management and strong management grip are essential to manage costs and ensure every penny counts.

Stimulating growth

4.14 Capital investment needs to focus on delivering the essential strategic priorities of our long term regeneration framework - **Unlocking Kent's Potential**. It can be a catalyst for transformational regeneration and infrastructure projects, providing jobs, enhancing skills and creating an efficient highways network that supports the vision in **Growth without Gridlock.** This will benefit both the Kent economy and our residents.

4.15 Collaboration with our public, private and voluntary & community sector partners will enable us to seize appropriate external capital funding opportunities, joining-up bids that attract and stimulate growth. We will develop a partnership response to national funding challenges such as reductions in Homes & Communities Agency grants. The 'Community Right to Buy' is an area where KCC is working with District Councils (as the local planning authority responsible for holding the register of 'assets of community value') to recognise opportunities that may be suitable for 'right to buy' to maximise community benefit and drive local regeneration.

Community Infrastructure Levy

4.16 The Community Infrastructure Levy (CIL) is being introduced to help ensure that new development pays its way in terms of the infrastructure required to support new dwellings (schools, roads, leisure facilities etc). However, for the first time economic viability is now a material consideration in setting tariff levels. While the concept of a strategic tariff is welcome (and may be very helpful over the next ten years should the economy improve) the recession means that there is a widening gap between the viability of new development and the ability of local public agencies to gather resources to offset infrastructure pressures. The Government's proposed objective for a "meaningful" amount of CIL being passed to Parishes could further compromise viability.

4.17 Districts are legally responsible for CIL collection and there is no obligation to collect on behalf of KCC. However, KCC is working closely with boroughs and districts in the preparation of their infrastructure funding schedules. Furthermore, the Kent Forum has agreed that KCC and the districts will jointly lobby the government about the implications of CIL for growth.

4.18 This is an important strategic challenge for Kent as a place – the Government's aim is to stimulate growth through CIL and a number of other 'growth levers' (e.g. retained business rates, New Homes Bonus) but in the short term at least these levers will not produce the funding required to cover infrastructure costs, particularly in east and north Kent. It is vital that KCC work with the Districts to ensure an adequate level of CIL is passed across to KCC to deliver the infrastructure required. KCC cannot afford to put the infrastructure in place without CIL funding, but the infrastructure is needed to ensure these areas are desirable to live in. The implications for KCC's budgets of CIL (and any renegotiations of existing S106s) are reported to the Development Contributions Sub Group and/or the Budget Programme Board as appropriate.

A rapidly changing education landscape

4.19 The 2010 'Education Act' has prompted fundamental change in the education landscape and the role of the Local Education Authority. With an increasing number of academies, free schools and federations between schools, the education property estate is moving away from direct local authority control towards independent academies taking responsibility for the ownership, management and maintenance of schools. By 2013/14 the Education estate will look radically different in Kent.

4.20 We need to ensure that any capital investment in education reflects these changes and takes a flexible, pragmatic asset management approach, ensuring KCC invests money in assets we are likely to retain. The **education commissioning plan** sets out our capital investment in education. The Priority Schools Build provides a focus to ensure we meet our requirements on basic need (e.g. increasing school primary places in growth areas, or keeping schools open, safe and warm). We will work closely with our local schools to ensure that capital investment is targeted where limited resources can be used to best effect.

Enhancing community facilities

4.21 The transformation of frontline services means we must ensure our assets continue to be fit for purpose to respond to rising customer demands, expectations and changing needs. Capital investment can be a key enabler for high quality design that helps to deliver more vibrant community facilities. The 'Social Care White Paper' (2012), advocates that local authorities maximise the potential for innovative use of community assets to reduce social isolation and increase connections for social care service users, their families and carers. The increasing integration of frontline services will require different types of facilities and enabling technology to work smarter and better together. It will increase demand for asset collaboration solutions which may require disposals to generate capital receipts, to reinvest in modernising and enhancing community facilities to make them more sustainable.

Strategic asset management

4.22 Capital and assets are two sides of the same coin and it is vital that our capital programme complements our emerging **Strategic Asset Management Plan.** The challenge is to turn the inefficient properties into efficient ones, or if this is not possible, sell and to realise a capital receipt to re-invest in a property from which an improved service can be offered. Our asset rationalisation and disposals policy will be more rigorous, creating headroom in the capital programme. We will focus on meeting basic need to secure an acceptable market value and target capital investment on facilities that enable service transformation. We will focus on investing in priority property locations where modernising assets may help to promote opportunities for co-location, asset collaboration and service integration.

Smarter ways of working

4.23 We need to ensure that capital investment can be seen not only as a way to respond to and help implement service changes, but also as a catalyst to initiate broader cultural change. Through modernising an office work space or introducing enabling technology through our **New Work Spaces** programme, we will enable frontline staff to carry out their roles closer to service users, and ensure office-based workers can work more effectively.

4.24 This needs to be complemented by investment in ICT infrastructure that supports our **ICT Digital Strategy**, to transform the way we work and provide new ways for customers to communicate, access and interact with our services. We want to create more efficient, streamlined systems and promote economic growth (e.g. investment in broadband infrastructure will support learning, employment, skills and business growth, particularly in our rural communities). Over time this will reduce the need for costly face-to-face locations. Unified Communications will also be a key enabler to support this. This is consistent with our priorities around ‘channel shift’ to enhance the customer experience – a key part of our **Customer Services Strategy**. We will target capital funding on projects that redesign our services from the customer’s point of view and transform initial access points for services.

Smarter and greener investment

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

Funding

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

Borrowing

4.26 KCC currently has borrowing of just over £1 billion and our policy is that net debt costs must not exceed 15% of the net revenue budget. However, this indicator is at risk of being exceeded, particularly as over the coming years our revenue budget is forecast to reduce, so we must continue to effectively manage our borrowing and look at alternative sources of funding to ensure that we stay within the 15% target over the 5 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

4.27 The challenging financial environment means that national government grants (currently 52% of our financing for capital projects) are reducing, or changing in nature. A large proportion of this funding is currently un-ringfenced which means it is not tied to particular projects but it is often tied to a particular area such as education or highways so we do not have complete freedom on where to spend our grants. Our aim is to use only up to the level of grant provided and we will not use prudential borrowing to 'top up'. However, we must also meet our statutory obligations and where the grant is not sufficient, other sources of funding such as New Homes Bonus, CIL and capital receipts will be sought to fund the gap.

4.28 There will be an ‘approval to bid’ process which will create a centralised mechanism for flagging when external funding/grants are being bid for, and identifying the implications including the impact on the Authority’s budget. This will ensure that funding is bid for within an agreed framework, that information is being shared with appropriate colleagues in a timely manner, and that opportunities for joined up working are identified at the beginning of projects.

Community Infrastructure Levy

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

Capital Receipts

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

Partnership Working

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

Targeting investment

4.32 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

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

4.34 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

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

Making the available headroom count

4.36 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.

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

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

Encouraging innovative ideas

4.38 Another dimension to how we put the available headroom to best use is being more creative with the use of banding and specific pots of money within the capital programme.

4.39 A pot of £3m has been set aside in the 2013-16 capital programme for people to bid against at intervals throughout 2013/14. With the organisation changing so fast, it is possible that opportunities will be missed on our static business cycle. Creating this process in addition to the annual cycle enables the organisation to be more flexible and agile, and encourages creativity. This also creates more regular opportunities for bids to be re-worked if not quite right the first time or if opportunities for collaboration are identified, and to come back in a relatively short time period for bid to be reassessed. This pot will not be funded from borrowing.

Governance and process

4.40 In order to deliver the strategy, there will be a strong “one route” governance framework. This will ensure that decisions taken are agreed by the right people at the right point, to ensure that the agreed strategy for the capital programme is delivered.

KCC Medium Term Financial Plan

SECTION 5

Treasury Strategy

Treasury Management Strategy Statement and Investment Strategy 2013/14 to 2014/15

Background

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

5.2 CIPFA has defined Treasury Management as:

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

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

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

Regulatory Framework

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

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

5.6 Internal Audit re-examined Treasury Management in May 2012. The Audit Opinion was "Substantial" and there were two recommendations, one Medium priority and one Low.

KCC Governance

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

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

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

5.10 Whilst Council will agree the Treasury Management Strategy all amendments to the strategy during the year will be agreed by the Corporate Director of Finance & Procurement and the Cabinet Member for Finance & Business Support or Cabinet where required.

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

Borrowing Requirement and Strategy

5.12 Borrowing

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

(2) As at 30 November 2012 long term borrowing was £1,013m including £44m attributable to Medway Council.

5.13 Interest Rate Forecasts

(1) Arlingclose, the Council's treasury advisers, in common with most forecasters now expect short term interest rates to stay at their low levels for longer – their central forecast is that the official Bank Rate will remain at 0.5% until the end of 2016.

(2) From 1 November 2012, the Government reduced by 20 basis points (0.2%) the interest rates on loans from the PWLB to principal local authorities who provided the required information on their plans for long-term borrowing and associated capital spending. KCC completed the information request and, as a consequence, qualifies to receive the certainty rate discount on PWLB loans from 1 November 2012 to 31 October 2013.

5.14 Borrowing Strategy

(1) Capital expenditure levels, market conditions and interest rates levels will be monitored to minimise borrowing costs over the medium to longer term and maintain stability. The differential between debt costs and returns on deposits, the so called "cost of carry", remains acute and is expected to remain so in the short term. The Council has therefore been actively trying to reduce its cash holdings by deferring long term borrowing. The use of internal cash resources in lieu of borrowing is likely to continue to be the most cost effective way of financing capital expenditure. In 2012/13 two loans totalling £75m were repaid rather than being refinanced, saving the Council £2.8m per annum.

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

- Affordability of new borrowing in light of the Council's overall finances.
- Maturity of existing debt.
- Continue where possible to defer borrowing and fund from internal resources.
- Use the Public Works Loan Board (PWLB) as the main source of funding.
- Consider use of market loans and Lender Option Borrower Option (LOBO) loans. Currently there is very little interest from banks in this market.
- The Council has historically borrowed at fixed rates. This gives certainty over debt financing costs and can be seen as reducing interest rate risk. Fixed rate borrowing will

remain a core part of the strategy with the Council seeking to borrow at advantageous points in interest rate cycles.

- Consideration will also be given to borrowing at variable rates – the Council currently has no variable rate borrowing.
- Borrowing short term for cash flow reasons if necessary.

5.15 Borrowing Requirement

(1) Moving forward it is anticipated that the level of borrowing to fund capital expenditure will be significantly lower than previously, not least because of the focus on utilising internal cash resources.

(2) The Authority's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs. The Council will continue to examine options for this with the rationale of:

- Savings in risk adjusted interest costs.
- Rebalancing the interest rate structure of the debt portfolio with potentially the introduction of shorter term or variable rate debt.
- Changing the maturity profile of the debt portfolio.

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

Investment Strategy

5.16 Principles

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

(2) Since March 2012 Arlingclose have been gradually extending the duration of investments and adding to the range of counterparties. This reflects a whole range of different consideration but in particular in the UK the impact of the Funding for Lending Scheme and in the Euro Zone action taken by the European Central Bank. This action does seem to have improved the liquidity of the banking sector at least in the short term. The Council would never exceed a duration limit

recommended by Arlingclose and invariably will apply its own shorter duration to investments.

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

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

(4) Whilst security remains the overriding criteria for deposits in the very difficult financial environment faced by the Council it is important to maximize returns for a given level of risk. The Council has been able to add to return in 2012/13 through initiatives such as the purchase of Standard Chartered Certificates of Deposit, 3 and 6 month deposits with Lloyds and the heavy use of call accounts paying generally higher interest rates than for fixed duration deposits. The improving liquidity position of UK banks means that there is now a marked trend for all counterparties to substantially reduce the rates that they will pay. In light of this the Council will need to consider making non-specified investments with different asset classes and for longer duration.

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

5.17 Criteria for Counterparty Selection

The criteria for the selection of counterparties are:

- A strong likelihood of Government intervention in the event of liquidity issues based on the systemic importance to the UK economy.
- Publicised credit ratings for financial institutions.
- Other financial information eg Credit Default Swaps, share price, corporate developments, news, articles, market sentiment, momentum.
- Country exposure e.g. Sovereign support mechanisms, GDP, net debt as a percentage of GDP.
- Exposure to other parts of the same banking group.
- Reputational issues.

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

5.18 Current Counterparties

(1) The current counterparties are:

- Debt Management Office (DMO)
- Barclays Bank Plc
- HSBC bank Plc
- Lloyds Banking Group – Lloyds TSB / HBOS
- RBS Group – Royal Bank of Scotland / NatWest
- Santander UK Plc
- Nationwide Building Society
- Standard Chartered Bank Plc
- Australia and New Zealand Banking Group
- Commonwealth Bank of Australia
- National Australia Bank Ltd
- Westpac Banking Corp
- Bank of Montreal
- Bank of Nova Scotia
- Canadian Imperial Bank of Commerce
- Royal Bank of Canada
- Toronto Dominion Bank

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

(2) The current maximum duration of deposits is 12 months.

5.19 Counterparty Proposals

(1) The permitted deposits will be:

- Call accounts.
- Term deposits
- Certificates of deposit
- T-Bills

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

Director of Finance & Procurement and Cabinet Member for Finance & Business Support will report to Cabinet any proposals for non-specified investments after discussion at TAG and agreement by Cabinet.

(3) The Council plans to continue to use those institutions on its current list of counterparties.

5.20 Counterparty Limits

The Counterparty Limits proposed are:

- DMO £450m
- UK Banks/Building Societies £50m
- Australian and Canadian banks £25m each with a country limit of £50m.
- A group limit of £75m would be applied to Lloyds Banking Group and RBS Group.

5.21 Duration of Deposits

Arlingclose's recommended maximum duration is 12 months. It is recommended that the Corporate Director of Finance & Procurement with the Cabinet Member for Finance & Business Support and after consultation with TAG can increase the maximum duration in line with Arlingclose's recommendations.

Treasury Advisers

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

Training

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

KCC Medium Term Financial Plan

SECTION 6

Risk Strategy

RISK MANAGEMENT STRATEGY

Introduction

6.1 As an organisation concerned with service provision and the social and economic development of the County it is essential that the risks to achieving our objectives are managed so that we create an environment without surprises.

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

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

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

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

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

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

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

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

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

Risk Management Aims

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

- continuing to strengthen the common links between business planning, performance and risk management;
- integrating effective risk management practices into Council's management, decision making and planning activities;
- exploiting available business technology to store and share risk information and providing the business with access to a repository of risk knowledge and learning;
- maintaining (and increasing where necessary) the frequency and effectiveness of monitoring of key risks in line with the council's internal control framework.

- embedding risk management into the *Kent Manager* Standard;
- providing risk management training and awareness sessions 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'.

Roles and responsibilities

6.10 Responsibility for risk management runs throughout the Council. Everyone has a role to play. However, for risk management to be successful there has to be a clear identification of roles and responsibilities at management level. The key roles and responsibilities are set out below:

Group or Individual	Responsibilities
County Council	Ensure that an effective system of risk management is in place.
Governance & Audit Committee	On behalf of the Council ensure that risk management and internal control systems are in place that are adequate for purpose, and are effectively and efficiently operated.
Cabinet	Responsibility for the operation of the risk management system, including the establishment of the Council's risk appetite.
Cabinet Member for Business Strategy, Performance & Health Reform	On behalf of Cabinet ensure effective risk management arrangements are put in place
Cabinet Portfolio Holders	Responsibility for the effective management of risk within their portfolio areas and ensuring that they consider risks in all decisions they make
Cabinet Committees	To provide scrutiny pre-decision to ensure that due consideration is given to associated risks.
Section 151 Officer	Active involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered.
Corporate Management Team (CMT)	To ensure the Council manages risks effectively through the Risk Management Policy and actively consider, own and manage key strategic risks affecting the Council through the Corporate Risk Register. Keep the Council's risk management framework under regular review and approve and monitor delivery of the annual risk work programme

Performance & Evaluation Board	On behalf of the Executive monitor the Corporate Risk Register to ensure that actions are being implemented to mitigate risk within the Council's risk appetite and report on exceptions and key changes to risk impact or immediacy. Obtain assurance from those responsible for the delivery of the council's priorities and major change programmes that the associated risks are effectively identified and managed and report by exception.
Programme / Project Boards	To ensure that 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 Programme Office	To develop and ensure implementation of programme and project governance, controls and risk management arrangements to successfully deliver outputs and secure desired outcomes and benefits.
Directorate Management Teams (DMT)	Responsibility for the effective management of risk within the directorate, including risk escalation and reporting to the Performance & Evaluation Board and Corporate Management Team as appropriate.
Divisional Management Teams (DivMT)	Responsibility for the effective management of risk within divisions, including risk escalation, and reporting to DMT as appropriate.
Corporate Director Business Strategy & Support (Head of Paid Service)	Responsibility for the overall monitoring of strategic risks across the Council, including the endorsement of priorities and management action. Responsible for ensuring that risk management resources are appropriate.
Head of Business Intelligence	Establish the organisational context and objectives for risk management and map the external and internal risk environment. Develop and maintain the Risk Management Policy, Strategy, management guidance and support resources.
Corporate Risk Manager	Promote a positive risk management culture within KCC, developing and implementing the risk management framework and strategic approach and continuing to develop and embed an effective infrastructure for managing and reporting risk. Facilitate maintenance of an up to date Corporate Risk Register and provide reports on corporate risk to Cabinet members and the Corporate Management Team. Facilitate the risk management process within the Council and advise on developments on risk management. Assist key individuals with implementing and embedding risk within key Council areas and provide guidance, training and support as

	required.
Corporate Risk Team	Day to day responsibility for developing and co-ordinating risk management across the Council and providing advice, support and training, and contributing to ongoing regular reporting on risk management
Internal Audit	Assesses the effectiveness of the risk management framework and the control environment in mitigating risk
Directors and Kent Managers	Ensure that effective risk management arrangements are in place in their areas of responsibility to minimise the Council's exposure to risk and uncertainty.
All staff members	Understand, accept and implement risk management processes. Report inefficient, unnecessary or unworkable controls. Report loss events or near-miss incidents

6.11 Other Officer groups will deal with related risk specialisms, such as Health and Safety; Treasury; Emergency Resilience and Business Continuity; Insurance; Information Security etc. These groups link into the governance arrangements for the Council so that their work is co-ordinated with the Council's overall risk management framework.

Embedding of Risk Management

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

6.13 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.

Partnerships

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

Appendix A (i)

Appendix 3

Draft High Level 2013/14 KCC Budget

2012/13 (restated)				2013/14		
£000s	£000s	£000s		£000s	£000s	£000s
		996,551	**Revised Base**			**991,818**
			Additional Spending Pressures			
	15,934		Pay & Prices		7,965	
	11,621		Legislative		24,638	
	22,670		Demand/Demographic		23,828	
	29,288		Services Strategies & Improvements		8,371	
	260		Change in grant treatment		0	
		79,773	**Total Additional Spending**			**64,802**
		15,431	Reversal of One-Off Savings			23,512
		95,204	**Total Pressures**			**88,314**
			Income & Savings			
	-5,456		Increases in Grants and Contributions		-34,189	
	-24,699		Income Generation		-3,280	
	-11,363		Removal of one-off spending in previous year		-9,706	
			Efficiency Savings			
-7,925			Staffing	-4,974		
-1,270			Premises	-151		
-9,984			Contracts / Procurement	-8,022		
-6,228			Demand Management	-2,350		
-2,210			Other	-8,148		
	-27,617				-23,645	
			Transformation Savings			
-9,749			Staffing	-5,589		
-3,730			Contracts	-1,667		
-9,289			Service Transformations	-20,014		
-722			Other	-961		
	-23,490				-28,231	
	-7,312		One-off savings and release of reserves		-29,370	
		-99,937	**Total Savings & Income**			**-128,421**
		991,818	**Proposed Annual Budget**			**951,711**
			Funded by			
	577,914		Council Tax Yield		509,579	
	2,239		Council Tax Collection Fund		0	
	0		Retained Business Rates		45,816	
			Un-ring-fenced Grants			
	303,446		Formula Grant		0	
	54,883		Early Intervention Grant		0	
	35,706		Learning Disability & Health Reform Grant		0	
	0		Revenue Support Grant		246,602	
	0		Business Rate Top-Up		118,241	
	0		Education Services Grant		20,642	
	14,446		Council Tax Freeze Grant		5,820	
	2,839		New Homes Bonus Grant		4,383	
	345		Other Un-Ring-Fenced Grant		628	
		991,818	**Total Funding**			**951,711**

Appendix A (ii)

Appendix 3

Section	Portfolios		2013/14 £'000
	DRAFT WHOLE COUNCIL 2013/14 SUMMARY		
	Dark blue text represents full year effect of previous years		
1	**Base Budget Requirement (Net Cost)**		**904,321**
	Base Budget Adjustments - Internal		0
	Base Budget Adjustments- External		87,497
	Revised Base Budget		**991,818**
2	**ADDITIONAL SPENDING PRESSURES**		
2.1	**Employment Costs:**		
	F&BS	Provision for pay and performance reward adjusted to take account of savings from a review of Terms and Conditions	3,700
			3,700
2.2	**Prices:**		
	ELS, EHW, C&C, SCS, ASC&HR	Transport	1,206
	EHW, BSP&HR	Energy	110
	EHW	Waste contracts	1,348
	EHW	Highways maintenance contracts	689
	Various	Other	912
			4,265
	Sub Total for Employment Costs and Prices		**7,965**
2.3	**Unavoidable Government/Legislative Pressures:**		
	EHW	Additional tax on waste put to landfill	1,454
	ASC&PH	Investment of Health money in reablement and other preventative services	22,064
	ELS	Loss of other Local Authority income for their children placed in Kent schools	800
	Various	Other	320
			24,638
2.4	**Demand/Demographic Led:**		
	EHW	Concessionary Fares and Freedom Pass take-up	636
	ASC&PH	Increased adult social care demand, higher dependency, provision for contract renegotiation and re-let	7,094
	ELS	SEN Home to School transport to meet current demand levels	700
	SCS	Full year effect funding for the current number of looked after children	6,000
	SCS	Expansion of pilot for 2 year olds to receive early years education	9,125
	Various	Other	273
			23,828
2.5	**Service Strategies & Improvements:**		
	F&BS, BSP&HR & C&C	Financing the Capital Programme, net of debt management	1,679
	EHW	Joint agreements between the County and Districts on waste arrangements	1,377

Section			2013/14 £'000
	DRAFT WHOLE COUNCIL 2013/14 SUMMARY		
	Dark blue text represents full year effect of previous years		
Section	Portfolios		2013/14 £'000
	EHW	Full year effect of restructure of Commercial Services	1,669
	F&BS	A provision to transfer share of Council Tax yield to District councils to part fund increased costs of collection and underwrite Council Tax Support Schemes	2,663
	C&C & BSP&HR	Investment in ICT	340
	Various	Other	643
			8,371
2.6	**Reversal of one off savings from previous years**		
			23,512
	Total Pressures		**88,314**
3	**SAVINGS AND INCOME:**		
3.1	**Increases in Grants and Contributions**		
	ASC&PH	NHS support for Social Care	-22,064
	SCS	Additional DSG for 2 year old early years education	-12,125
			-34,189
3.2	**Income Generation**		
	EHW	Increased income from sale of recyclable waste materials	-500
	ASC&PH	Increase in Social Care charges in line with benefits uplift	-1,649
	C&C	Registration charges	-50
	ELS	Increased income from trading with Schools and Academies	-997
	Various	Other	-84
			-3,280
	Savings and Mitigations:		
3.3		**Removal of one-off spending in previous years**	
			-9,706
3.4		**Efficiency and Other Savings**	
		Staffing	
	All	Full Year Effect of non frontline staffing & management restructure from previous years	-392
	BSP&HR	Support staff reduction in line with overall FTE reductions	-350
	C&C	Integration of new services into Contact Centre	-573
	F&BS	Further reduction of 100 non frontline posts (to be allocated)	-1,000
	SCS	Review of support services and central functions relating to the running of Children's Centres	-1,379
	SCS	Reduction in the use of Agency staff	-640
	C&C & SCS	Other staffing efficiencies	-640
		Premises	

Section	Portfolios		2013/14 £'000
		DRAFT WHOLE COUNCIL 2013/14 SUMMARY	
	Dark blue text represents full year effect of previous years		
	BSP&HR	Rationalisation of accommodation	-151
		Contracts and Procurement	
	EHW	Waste contract and procurement efficiencies	-4,334
	ELS	Full year effect of Connexions contract renegotiation in 2012/13	-500
	BSP&HR	Multi Agency ICT provision	-1,250
	C&C	Full year effect of Supporting People contract negotiation in 2012/13	-750
	SCS	Contract and Procurement efficiencies within Specialist Children's Services	-805
	EHW	Reduction in street lighting energy contract prices	-383
		Demand	
	EHW	Reduction in waste tonnage	-1,400
	ELS	Fewer children being transported to school	-950
		Other	
	F&BS	Treasury management	-2,000
	F&BS	Moratorium on discretionary spend within Directorates (to be allocated)	-2,500
	EHW	Highway Maintenance and Management - reduced reactive/discretionary maintenance due to increased planned maintenance from capital	-1,500
	C&C	Contribution to Turner Contemporary	-100
	C&C	Change to service specifications	-570
	ELS	Continuation of previous policy decision on discretionary transport	-300
	Various	Other efficiencies and service reductions	-1,178
			-23,645
3.5		**Transformation**	
		Staffing	
	ELS	Full year effect of ELS staff restructuring including Kent Challenge in 2012/13	-3,534
	C&C	Full year effect of Youth Service review in 2012/13	-555
	ASC&PH	Full year effect of in house services for vulnerable Adults in 2012/13	-450
	SCS	Review of commissioning and support services	-350
	C&C	Other transformation savings	-700
		Contracts and Procurement	
	EHW	Street Lighting Energy saving through Part Night approach or removal - this would be achieved through selective turning off streetlights between midnight and 5 am	-467
	ELS	SEN Transport - reduction in costs through continued efficient procurement and a more flexible approach to provision including personalised budgets	-750

Section	DRAFT WHOLE COUNCIL 2013/14 SUMMARY		
	Dark blue text represents full year effect of previous years		
Section	Portfolios		2013/14 £'000
	ASC&PH & C&C	Other contract and procurment savings	-450
		Transformation	
	SCS	Net savings arising from investment in prevention services to reduce the number of looked after children	-1,043
	SCS	Legal charges on Specialist Children's Services - reduced cost through process change	-756
	SCS	Other preventative Specialist Children's Services	-100
	ASC&PH	Adults Transformation Programme	-18,115
		Other	
	C&C	Reduction in Home Office community safety grants	-631
	Various	Other	-330
			-28,231
3.6		**One-off savings**	
	F&BS	Drawdown from Council Tax Equalisation Reserve	-9,370
	F&BS	Use of 2011/12 uncommitted underspend	-5,000
	F&BS	Use of 2012/13 forecast underspend	-5,000
	F&BS	Drawdown from general reserves	-9,000
	F&BS	Big Society Fund re-phasing	-1,000
			-29,370
	Total Savings and Mitigations		**-90,952**
	Total Savings and Income		**-128,421**
	PROPOSED NET BUDGET REQUIREMENT		**951,711**
4	**Funded By**		
	Un-ring-fenced Grants		
	Government Funding - Other un-ring-fenced Grants		628
	Business Rate Top Up Grant		118,241
	Revenue Support Grant		246,602
	Retained Business Rates		45,816
	New Homes Bonus Grant		4,383
	Council Tax Freeze Grant		5,820
	Education Services Grant		20,642
	Council Tax		509,579
	TOTAL NET FUNDING		**951,711**

Adult Social Care and Public Health Portfolio
Revenue Budget

		2013/14 £'000
Base Budget (Net Cost)		**336,004**
Base Budget Adjustments - Internal		**-263**
Total Base Adjustments		**-263**
Revised Base Budget		**335,741**
ADDITIONAL SPENDING PRESSURES		
Unavoidable Government/Legislative Pressures:		
Other Adult Services	Investment of Health Monies in re-ablement	22,064
		22,064
Demand/Demographic Led:		
Various	Increased demand, higher dependency, provision for contract renegotiation and re-let	7,094
		7,094
Reversal of one-off savings from previous years		
		15,656
Total Pressures		**44,814**
SAVINGS AND INCOME		
Increases in Grants and Contributions		
Other Adult Services	NHS funding	-22,064
		-22,064
Income Generation		
Various	Income increase in line with Benefits Uplift	-1,649
		-1,649
Savings and Mitigations:		
Removal of one-off spending in previous years		
		-5,406
Efficiency and Other Savings		
Various	Essential/Lease user	-21
		-21
Transformation Savings		
Older Persons	Encouraging Self Funders of Residential Care to seek independent financial advice	-250
Learning Disability	Review of In-house services - LD	-450
All	Adults Transformation Programme	-18,115
		-18,815
Total Savings and Mitigations		**-24,242**
Total Savings and Income		**-47,955**
Budget controlled by this portfolio (Net Cost)		**332,600**

Business Strategy, Performance and Health Reform Portfolio Revenue Budget

		2013/14 £'000
Base Budget (Net Cost)		**52,738**
Base Budget Adjustments - Internal		**5,716**
Total Base Adjustments		**5,716**
Revised Base Budget		**58,454**
ADDITIONAL SPENDING PRESSURES		
Prices:		
Property & Infrastructure	Gas & Electricity	110
Property & Infrastructure	Rent	223
Property & Infrastructure	Rates	148
		481
Demand/Demographic Led:		
Property & Infrastructure	Dilapidations	123
		123
Service Strategies & Improvements:		
BSS Management & Support	Prudential borrowing costs for Portfolio Capital Programmes	180
Property & Infrastructure	Additional running costs for extended buildings	37
ICT	Sharepoint licences	102
ICT	Oracle Business Intelligence and Collaborative Planning on-going support and maintenance	128
		447
Total Pressures		**1,051**
SAVINGS AND INCOME		
Income Generation		
HR	Additional income from trading with schools and academies	-96
		-96
Savings and Mitigations:		
Removal of one-off spending in previous years		
		-950
Efficiency and Other Savings		
Business Strategy	Essential/Lease User	-2
Business Strategy & HR	Reduction in staff travel	-3

Business Strategy, Performance and Health Reform Portfolio Revenue Budget

		2013/14 £'000
HR	Training - Streamlining of training budgets following centralisation	-200
Property & Infrastructure	Review of staffing - Full year effect of previous years saving	-57
ICT	Multi Agency (Network) ICT unification - Reduced cost to KCC through sharing overheads with more partner organisations	-1,000
ICT	Multi Agency Aggregation of operational activity - Reduced cost of support services to KCC through sharing across other agencies	-250
Property & Infrastructure	Total Place - Rephased Rationalisation of office accommodation and improved cost control through the implementation of corporate landlord model	-151
ICT	Internal efficiency & Demand reduction - Reductions in hardware, software and support costs as number of KCC staff reduces	-350
		-2,013
Total Savings and Mitigations		**-2,963**
Total Savings and Income		**-3,059**
Budget controlled by this portfolio (Net Cost)		**56,446**

Customer & Communities Portfolio
Revenue Budget

		2013/14 £'000
Base Budget (Net Cost)		**79,926**
Base Budget Adjustments - Internal		**-476**
Total Base Adjustments		**-476**
Revised Base Budget		**79,450**
ADDITIONAL SPENDING PRESSURES		
Prices:		
Various	Transport	16
Corners and Youth Service	Other	20
Libraries, Registration and Archives Services	Civica contract	6
Coroners	Post Mortem contract	20
		62
Unavoidable Government/Legislative Pressures:		
Youth Offending Service	Transfer of responsibility to Local Authorities for the remand costs of young people within the secure estate	320
		320
Demand/Demographic Led:		
Contact Centre & Consumer Direct	One-off funding to address performance issues following increased demand, call duration and complexity	150
		150
Service Strategies & Improvements:		
Libraries, Registration and Archives Services	Prudential Borrowing Costs - Kent History & Library Centre, funded through rationalisation of premises	147
Communications & Consultation	Replacement of web platform	110
Arts Development (incl. grant to Turner Contemporary)	Compensation for loss of expected income from Rendezvous site, Margate until a viable commercial option is developed	295
		552
Reversal of one-off savings from previous years		**433**
Total Pressures		**1,517**
SAVINGS AND INCOME		
Income Generation		

Customer & Communities Portfolio
Revenue Budget

		2013/14 £'000
Libraries, Registration & Archives	Registration - A further increase in fees chargeable for ceremonial and other services in line with inflation	-50
		-50
Savings and Mitigations:		
Efficiency and Other Savings		
Contact Centre & Consumer Direct	Contact Centre to enable savings with units transferring services/budgets in and synergies achieved through integration	-573
C&C Management and Support	Review of middle management structures and groupings	-135
All	Removal of essential/lease user allowances	-1
Supporting People	Over delivery of 2012/13 savings through tendering process	-750
Community Safety and Emergency Planning	A further review of management and back office arrangements following the integration of commissioned services and removal of funding for a partnership post	-130
Youth Service	A review of management and staffing following the integration of back and middle office functions	-135
Community Wardens	Reduction in management post and only one recruitment campaign per annum	-280
Sports Development	Reduced capacity after Olympic and Paralympic games	-200
Trading Standards	A further review of back office arrangements following the integration of services	-75
Arts Development (incl. grant to Turner Contemporary)	A reduction in the level of financial support provided to the Turner Contemporary Trust, representing a diminution of 10% of the annual grant provided	-100
Supporting Employment	A review of staffing levels in light of current contract and activity levels	-100
Libraries, Registration & Archives	Further management, back office and staffing savings following the integration of these three services	-150
Trading Standards	Further management, back office and staffing savings following the integration of services and a review of the 'buy with confidence' and 'consumer advice' schemes	-145
Coroners	Reduction in post-mortem contract (part year effect)	-50
Countryside Access (inc Public Rights of Way)	Better procurement and specification changes	-225

Customer & Communities Portfolio
Revenue Budget

		2013/14 £'000
		-3,049
Transformation Savings		
Libraries, Registration & Archives	Aggregation of staff restructuring and service integration proposals including management and archives	-500
Youth Service	Service transformation model - staff impact	-555
Youth Service	Service transformation model - non staff impact	-46
Country Parks	Staffing review	-80
Community Safety & Drug & Alcohol services	Reduction in Home Office community safety grants (previously Safer Stronger Communities Fund)	-631
Arts Development (incl. grant to Turner Contemporary)	More robust funding criteria of Music	-200
Drug & Alcohol Services and Supporting People / Directorate Management & Support	A further review of management and back office arrangements following the integration of KDAAT and Supporting People	-200
		-2,212
Total Savings and Mitigations		**-5,261**
Total Savings and Income		**-5,311**
Budget controlled by this portfolio (Net Cost)		**75,656**

Democracy and Partnerships Portfolio
Revenue Budget

		2013/14 £'000
Base Budget (Net Cost)		**7,212**
Base Budget Adjustments - Internal		**160**
Total Base Adjustments		**160**
Revised Base Budget		**7,372**
<u>ADDITIONAL SPENDING PRESSURES</u>		
Total Pressures		**0**
<u>SAVINGS AND INCOME</u>		
Efficiency and Other Savings		
Financing Items	Reduction in external audit fees	-150
		-150
Total Savings and Income		**-150**
Budget controlled by this portfolio (Net Cost)		**7,222**

Education, Learning & Skills Portfolio
Revenue Budget

		2013/14 £'000
Base Budget (Net Cost)		**59,520**
Base Budget Adjustments - Internal		**-806**
Total Base Adjustments		**-806**
Revised Base Budget		**58,714**
ADDITIONAL SPENDING PRESSURES		
Prices:		
Fair Access	Transport	209
Teachers and Education Staff Pension Costs	Historic liability arising from previous early retirements	125
		334
Unavoidable Government/Legislative Pressures:		
Special School and Hospital Recoupment	Loss of other Local Authority income for their children placed in Kent schools	800
		800
Demand/Demographic Led:		
SEN Home to School Transport	Increase in SEN Home to School transport to meet current demand levels	700
		700
Total Pressures		**1,834**
SAVINGS AND INCOME		
Income Generation		
Various	Additional income from trading with schools and academies	-609
		-609
Savings and Mitigations:		
Efficiency and Other Savings		
Various	Reduction in staff travel	-10
Home to School Transport (Mainstream)	Continuation of previous policy decision on discretionary transport	-300
14-19 year olds	Reduction in staffing	-71
Home to School Transport	Fewer children being transported to school	-950
Directorate Mgmt and Support	Realignment of Inclusion budgets	-216
Connexions	Contract review	-500
		-2,047

Education, Learning & Skills Portfolio
Revenue Budget

		2013/14 £'000
Transformation Savings		
All	Full Year Effect of ELS restructure	-3,534
Home to School Transport (SEN)	SEN Transport - reduction in costs through continued efficient procurement and a more flexible approach to provision including personalised budgets	-750
		-4,284
Total Savings and Mitigations		**-6,331**
Total Savings and Income		**-6,940**
Budget controlled by this portfolio (Net Cost)		**53,608**

Environment, Highways & Waste Portfolio Revenue Budget

		2013/14 £'000
Base Budget (Net Cost)		**149,535**
Base Budget Adjustments - Internal		**626**
Total Base Adjustments		**626**
Revised Base Budget		**150,161**
ADDITIONAL SPENDING PRESSURES		
Prices:		
Freedom Pass & Subsidised Bus Routes	Transport contracts	981
Various Waste Management	Waste contracts	1,348
General Management & Traffic Management	Maintenance contracts	689
		3,018
Unavoidable Government/Legislative Pressures:		
Various Waste Management	Additional tax on waste put to landfill	1,454
		1,454
Demand/Demographic Led:		
Freedom Pass	Increase in Freedom Pass budget to meet current demand levels	271
Concessionary fares	Increase in Concessionary fares budget to meet current demand levels	365
		636
Service Strategies & Improvements:		
Waste Disposal contracts	Disposal Costs	46
Payments to Waste collection authorities	Investment in Waste Collection Authorities - East Kent Joint Waste Contract (Enabling Payments)	1,165
Payments to Waste collection authorities	Investment in Waste Collection Authorities - Mid Kent Joint Waste Project (Enabling Payments)	212
Streetlight maintenance	Prudential Borrowing Costs - Street lighting	170

Environment, Highways & Waste Portfolio
Revenue Budget

		2013/14 £'000
Payments to Waste collection authorities	Prudential Borrowing Costs - Mid Kent Containerisation Project	99
Highways Improvements	Prudential Borrowing Costs - East Kent Access	58
Gypsies and Travellers	Prudential Borrowing Costs - Gypsy Sites	34
Planning and Transport Policy	High Speed Rail - Deal/Sandwich	165
Commercial Services	Impact of major restructure	1,669
Closed landfill sites and abandoned vehicles	Environmental Pollution Control of old landfill sites	100
		3,718
Reversal of one-off savings from previous years		
		544
Total Pressures		**9,370**
<u>SAVINGS AND INCOME</u>		
Income Generation		
Gypsies and Travellers	Increased rental income	-34
Planning Applications	Increased planning application income	-50
Household Waste Recycling Centres	Sale of recyclable materials	-500
		-584
Savings and Mitigations:		
Efficiency and Other Savings		
Planning Applications	Reduce planning support	-61
Various Waste Management	Contract renewals - Procurement savings identified as part of renewal of various contracts including Household Waste Recycling Centres and Recycling contracts	-813
Various Waste Management	East Kent Joint Waste contract - Savings on disposal contracts through joint arrangements on recycling food waste and income from sale of recyclable materials	-1,809

Environment, Highways & Waste Portfolio Revenue Budget

		2013/14 £'000
Various Waste Management	Mid Kent Joint Waste project - Savings on disposal contracts through joint arrangements on recycling food waste and income from sale of recyclable materials	-934
Various Waste Management	Reduction in the budgeted waste tonnage - rebase 2012/13 budget	-1,400
Highways - General Maintenance	Highway Maintenance and Management - Reduced reactive/discretionary maintenance due to increased planned maintenance from capital	-1,500
Streetlight energy	Reduction in street lighting energy contract prices	-383
Household Waste Recycling Centres	Review of Household Waste Recycling Centres - Implementation of policy decisions	-550
Partnership and Waste Co-ordination	Reduced work on Partnerships and Waste Co-ordination - Review of partnership working and implementation of joint waste projects	-228
		-7,678
Transformation Savings		
Environmental Management	Other environment service reductions	-154
Streetlight energy	Street Lighting Energy saving through Part Night approach or removal - This would be achieved through selective turning off streetlights between midnight and 5 am	-467
		-621
Total Savings and Income		**-8,883**
Budget controlled by this portfolio (Net Cost)		**150,648**

Finance and Business Support
Revenue Portfolio

		2013/14 £'000
Base Budget (Net Cost)		**62,363**
Base Budget Adjustments - Internal		**-4,214**
Base Budget Adjustments- External		**89,273**
Total Base Adjustments		**85,059**
Revised Base Budget		**147,422**
ADDITIONAL SPENDING PRESSURES		
Employment Costs:		
Financing Items	Provision for pay and performance reward adjusted to take account of savings from a review of Terms and Conditions	3,700
		3,700
Service Strategies & Improvements:		
Financing Items	Financing the Capital Programme	991
Financing Items	A provision to transfer share of Council Tax yield to District councils to part fund increased costs of collection and underwrite Council Tax Support Schemes	2,663
		3,654
Reversal of one-off savings from previous years		
		6,879
Total Pressures		**14,233**
SAVINGS AND INCOME		
Income Generation		
Finance & Proc	Additional Income from trading with Schools and Academies	-292
		-292
Savings and Mitigations:		
Removal of one-off spending in previous years		
		-3,350
Efficiency and Other Savings		
Financing Items	Longer term deposits for cash balances	-500
Financing Items	More aggressive management of cashflow	-1,500

Finance and Business Support
Revenue Portfolio

		2013/14 £'000
Financing Items	Moratorium on discretionary spend within Directorates (to be allocated)	-2,500
Financing Items	Further reduction of 100 non frontline posts (to be allocated)	-1,000
		-5,500
Transformation Savings		
Finance & Proc	Removal of support from Welfare Advice Service - Phased removal of support over 3 years (starting 2012/13) to enable the service to become self financing	-50
		-50
One-off savings		
Financing Items	Drawdown from Council Tax Equalisation Reserve	-9,370
Financing Items	Use of 2011/12 uncommitted underspend	-5,000
Financing Items	Use of 2012/13 forecast underspend	-5,000
Financing Items	Release of previously earmarked reserves (see Appendix F)	-9,000
Financing Items	Big Society fund re-phasing	-1,000
		-29,370
Total Savings and Mitigations		**-38,270**
Total Savings and Income		**-38,562**
Budget controlled by this portfolio (Net Cost)		**123,093**

Regeneration & Economic Development Portfolio Revenue Budget

	2013/14 £'000
Base Budget (Net Cost)	**3,672**
Base Budget Adjustments - Internal	**-20**
Total Base Adjustments	**-20**
Revised Base Budget	**3,652**
ADDITIONAL SPENDING PRESSURES	
Total Pressures	**0**
SAVINGS AND INCOME	
Total Savings and Income	**0**
Budget controlled by this portfolio (Net Cost)	**3,652**

Specialist Children's Services Portfolio
Revenue Budget

		2013/14 £'000
Base Budget (Net Cost)		**153,351**
Base Budget Adjustments - Internal		**-723**
Base Budget Adjustments- External		**-1,776**
Total Base Adjustments		**-2,499**
Revised Base Budget		**150,852**
ADDITIONAL SPENDING PRESSURES		
Prices:		
Fostering, Residential and Preventative Services	Social Care Provision	362
Legal Charges	Other	8
		370
Demand/Demographic Led:		
Fostering and Residential	Full year effect of funding for the current number of looked after children	6,000
Early Years education	Phase 1 expansion of 2 year old early years education	9,125
		15,125
Total Pressures		**15,495**
SAVINGS AND INCOME		
Increases in Grants and Contributions		
Early Years education	Additional DSG for 2 year old early years education	-12,125
		-12,125
Savings and Mitigations:		
Efficiency and Other Savings		
All	Reduction in staff travel	-3
Children's Social Care Staffing	Reduction in the use of agency staff	-640
Various	Contract and procurement efficiencies	-805
Children's Centres	Review of support services and central functions relating to the running of Children's Centres	-1,379
Preventative Children's Services	General efficiencies	-360
		-3,187
Transformation Savings		
Fostering	Net savings arising from investment in Prevention services to reduce the number of looked after children	-1,043

Specialist Children's Services Portfolio Revenue Budget

		2013/14 £'000
Legal Charges	Reduction in legal costs through process change	-756
Preventative Children's Services	Full year effect of management action to reduce section 17 payments	-100
Directorate Management and Support	Review of commissioning and support services	-350
		-2,249
Total Savings and Mitigations		**-5,436**
Total Savings and Income		**-17,561**
Budget controlled by this portfolio (Net Cost)		**148,786**

Appendix B
Prudential Indicators

1. Estimate of capital expenditure (including PFI)

Actual	2011-12	£265.761m
Estimate	2012-13	£218.698m
	2013-14	£284.103m
	2014-15	£264.143m
	2015-16	£143.834m

2. Gross Borrowing and the Capital Financing Requirement:

The Corporate Director of Finance and Procurement reports that, in light of current commitments and plans reflected in the budget forecast, gross borrowing by the Council is not envisaged to exceed the Capital Financing Requirement in 2012/13, 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

	2011-12 Actual £000	2012-13 Forecast £000	2013-14 Estimate £000	2014-15 Estimate £000	2015-16 Estimate £000
Capital Financing Requirement	1,495,873	1,486,415	1,483,590	1,461,349	1,410,452
Annual increase (decrease) in underlying need to borrow	(22,273)	(9,458)	(2,825)	(22,241)	(50,897)

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

Actual	2011-12	12.85%
Estimate	2012-13	14.25%
	2013-14	13.42%
	2014-15	14.40%
	2015-16	14.61%

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

	2013-14 £	2014-15 £	2015-16 £
Impact on Band D – cumulative	0.00	0.00	0.00

No new borrowing has been approved as part of this MTP therefore the impact on Council Tax is nil.

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 31/03/2012	£m
Borrowing	1,104
Other Long Term Liabilities	1,134
Total	**2,238**

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

	2012-13 Approved £m	2012-13 Revised £m	2013-14 Estimate £m	2014-15 Estimate £m	2015-16 Estimate £m
Borrowing	1,195	1,195	1,033	1,066	1,068
Other Long Term Liabilities	0	0	1,134	1,134	1,134
Total	**1,195**	**1,195**	**2,167**	**2,200**	**2,202**

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

	2012-13 Approved £m	2012-13 Revised £m	2013-14 Estimate £m	2014-15 Estimate £m	2015-16 Estimate £m
Borrowing	1,238	1,238	1,080	1,111	1,111
Other Long Term Liabilities	0	0	1,134	1,134	1,134
Total	**1,238**	**1,238**	**2,214**	**2,245**	**2,245**

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

	2012-13 Approved £m	2012-13 Revised £m	2013-14 Estimate £m	2014-15 Estimate £m	2015-16 Estimate £m
Borrowing	1,154	1,154	993	1,026	1,028
Other Long Term Liabilities	0	0	1,134	1,134	1,134
Total	**1,154**	**1,154**	**2,127**	**2,160**	**2,162**

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

	2012-13 Approved £m	2012-13 Revised £m	2013-14 Estimate £m	2014-15 Estimate £m	2015-16 Estimate £m
Borrowing	1,198	1,198	1,040	1,071	1,071
Other Long Term Liabilities	0	0	1,134	1,134	1,134
Total	**1,198**	**1,198**	**2,174**	**2,205**	**2,205**

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.

	2012-13 Approved %	2012-13 Revised %	2013-14 Estimate %	2014-15 Estimate %	2015-16 Estimate %
Upper limit for Fixed interest rate exposure	100	100	100	100	100
Upper limit for Variable rate exposure	30	30	30	30	30

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	15
20 years and within 30 years	5	20
30 years and within 40 years	10	20
40 years and within 50 years	10	25
50 years and within 60 years	10	30

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

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper limit for total principal invested over 364 days	**2012-13 Approved £m**	**2012-13 Revised £m**	**2013-14 Estimate £m**	**2014-15 Estimate £m**	**2015-16 Estimate £m**
	50	50	30	30	30

Appendix C
Annual Minimum Revenue Provision (MRP) Statement

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

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

For 2013-14 and the Medium Term Financial Plan we continue to adopt the asset life method. This method provides authorities with the option of applying MRP over the life of the asset once it is in operation, so for assets that are not yet operational and still under construction we effectively have an "MRP holiday".

In order to establish MRP for the MTP we have based the asset life principle on all capital expenditure funded by both supported and prudential borrowing in 2008-09, 2009-10, 2010-11 and 2011-12. This has resulted in the following projected MRP percentages on 2008-09 capital expenditure of £138m, 2009-10 capital expenditure of £113m, 2010-11 capital expenditure of £93m and 2011-12 capital expenditure of £34m with assumptions on completion dates:

Year	2013-14	2014-15	2015-16	2016-17
Based on revised completed projects within 0809 actual spend of £138m	4.4%	4.2%	4.2%	4.0%
Based on revised completed projects within 0910 actual spend of £113m	5.5%	5.5%	4.6%	4.3%
Based on revised completed projects within 1011 actual spend of £93m	5.7%	5.7%	5.6%	5.1%
Based on revised completed projects within 1112 actual spend of £34m	7.3%	7.3%	7.3%	7.3%
% of 1213 projected completed capital spend	1.2%	7.3%	7.3%	7.3%
% of 1314 projected completed capital spend		1.2%	7.3%	7.3%
% of 1415 projected completed capital spend			1.2%	7.3%
% of 1516 projected completed capital spend				1.2%

In addition to this will be MRP at 4% on our capital financing requirement less actual capital expenditure in 2008-09, 2009-10, 2010-11 and 2011-12 and projected capital expenditure in subsequent years, i.e. this will be on a reducing balance as each year additional capital spend will be deducted from the recalculated capital financing requirement.

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

Each year a new MRP statement will be presented.

Appendix E – Corporate Risk Register

Summary Risk Profile

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

Risk No.**	Risk Title	Current Risk Rating	Target Risk Rating
CRR 1	Data and Information Management	12	9
CRR 2	Safeguarding	16	12
CRR 3	Economic Growth	12	12
CRR 4	Civil Contingencies and Resilience	12	9
CRR 5	Organisational Transformation	12	8
CRR 6	Localism	9	9
CRR 9	Health Reform	12	6
CRR 10	Management of Social Care Demand	25	16*
CRR 12	Welfare Reform Act	16	9
CRR 13	Delivery of Medium Term Financial Plan savings	12	2
CRR 14	Procurement	9	6

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*Interim position, as we clearly would wish to reduce this risk further. Early intervention and transformational initiatives are being pursued and the impact of them will need to be evaluated before exploration of further mitigating actions.
**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.

Appendix E - Corporate Risk Register

Risk ID CRR1	Risk Title Data and Information Management				
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council is reliant on vast amount of good, quality data and information to determine sound decisions and plans, conduct operations and deliver services. It is also required by the Data Protection Act to maintain confidentiality, integrity and proper use of the data. With the Government's 'Open' agenda, increased flexible working patterns of staff, and increased partnership working and use of multiple information repositories, controls on data management and security have become complex and important.	Poor decision making due to ineffective use of or insufficient availability of data and information sharing. Loss, misrepresentation or unauthorised disclosure of sensitive data. Malicious attacks and sabotage The corruption, misuse, misplacement, loss or theft of the data and information could disrupt the council's ability to function effectively and result in unwelcome adverse publicity or legal action.	Under performance. Breach of Data Protection Act leading to legal actions, fines, adverse publicity, and additional remedial and data protection costs. Significant interruption of vital services leading to failure to meet duties and to protect people, finances and assets Potential damage to KCC's reputation	On behalf of CMT: Director Governance & Law **Responsible Cabinet Member(s):** Business Strategy, Performance & Health Reform	Likely (4) **Target Residual Likelihood** Possible (3)	Significant (3) **Target Residual Impact** Significant (3)

Risk ID CRR2	Risk Title Safeguarding				
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council must fulfil its statutory obligations to effectively safeguard vulnerable adults and children.	Insufficiently robust management grip, performance management or quality assurance Its ability to fulfil this obligation could be affected by the adequacy of its controls, management and operational practices or if demand for its services exceeded its capacity and capability. Insufficient rigor in maintaining threshold application/inconsistency Increase in referrals and service demand resulting in unmanageable caseloads/ workloads for social workers Decline in performance and effective service delivery leading to critical inspection findings and reputational damage	Serious impact on vulnerable people Serious impact on ability to recruit the quality of staff critical to service delivery. Serious operational and financial consequences Attract possible intervention from a national regulator for failure to discharge corporate and executive responsibilities Incident of serious harm or death of a vulnerable adult or child	Corporate Director Families & Social Care **Responsible Cabinet Member(s):** Specialist Children's Services Adult Social Care & Public Health	Likely (4) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Serious (4)

Appendix E - Corporate Risk Register

Risk ID CRR3	Risk Title	Economic Growth			
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council carries significant responsibility for encouraging and enabling growth in the County's economy. Our aim to 'grow the economy' is becoming increasingly challenging in the current economic climate.	Prolonged adverse, uneven or worse than anticipated economic situation If the current economic climate continues or worsens or other regions re-stimulate their economies more quickly than Kent, then the Council's ability to deliver its plans for economic growth will be constrained. Community Infrastructure Levy (CIL) payments, Section 106 contributions and other growth levers do not cover the cost of infrastructure	Stalled/low economic and jobs growth The Council finds it increasingly difficult to fund KCC services across Kent and deal with the impact of growth on communities. Kent becomes a less viable place for inward investment and business Without growth the county residents will have less disposable income, face increased levels of unemployment and deprivation which could lead to heightened social and community tensions Reduced income, business exodus, unplanned increase in costs, and demand for Council services beyond capacity to deliver Our ability to deliver an enabling infrastructure becomes constrained	Corporate Director Business Strategy & Support and Head of Paid Service (Corporate Director Enterprise & Environment) **Responsible Cabinet Member(s):** Regeneration & Economic Development	Likely (4) **Target Residual Likelihood** Likely (4)	Significant (3) **Target Residual Impact** Significant (3)

Appendix E - Corporate Risk Register

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

Risk ID CRR5	Risk Title	Organisational Transformation			
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council is undergoing rapid change in order to deliver *Bold Steps for Kent*. A programme of major structural, operational and cultural transformation is underway. Staff reductions are being made because of budget pressures. The move towards more strategic commissioning and other changes to ways of working requires new skill sets and the changing environment for local government requires new behaviours from all staff. A "one council" approach to workforce planning is essential to ensure we have the right numbers of suitably skilled staff in the right places. The combination of losing experienced staff, recruiting new staff, and ensuring existing staff have the right skills and behaviours is a major challenge.	Failure to manage the transformation process through adequate planning and resources Lack of appropriate skills and capacity to move to alternative delivery process Loss of excellent staff due to scale of changes Failure to deliver expected outcomes and benefits, and critical services may be impeded.	Failure to deliver key services, to maintain quality of services provided and to achieve financial savings required, leading to reputational damage and further pressure on services.	On behalf of CMT: Corporate Director Human Resources **Responsible Cabinet Member(s):** Business Strategy, Performance & Health Reform	Possible (3)* **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

*While the overall risk has diminished for the organisation over the last year because of controls put in place and the fact that many significant restructures have been completed successfully, there is still risk relating to the adult transformation programme and change in ways of working. The score for this area in isolation would remain at 4.

Appendix E - Corporate Risk Register

Risk ID CRR6	Risk Title	Localism			
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
Bold Steps for Kent envisages place-based commissioning for some KCC services, considerable opportunity for a more joined-up approach and greater efficiencies if there is a single district-based commissioning plan that is shared by KCC Members and District Councillors. In addition, the Localism Act paves the way for the Right to Buy public assets, the Right to Challenge the provision of public services and the Right to Bid to provide services, all of which potentially bring still greater complexity into the way in which services are commissioned and delivered.	Right to Challenge may not be conducive to the overall aims of Localism or corporate priorities Locality Boards fail to deliver effective & efficient place-based provision arrangements Delay in decision making due to complexity of this agenda Breakdown in critical relationships	Failure to deliver required transformation fast enough. Loss of economies of scale for service delivery and failure to deliver required budget savings. Procurement & Commissioning process for locality arrangements becomes resource intensive / duplicates effort. Key Bold Steps for Kent objectives not achieved.	Corporate Director Customer & Communities **Responsible Cabinet Member(s):** Customer & Communities	Possible (3) **Target Residual Likelihood** Possible (3)	Significant (3) **Target Residual Impact** Significant (3)

Risk ID CRR9	Risk Title	Health Reform			
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The enactment of the Health and Social Care Bill gives KCC, as an upper tier Authority, a new duty to take appropriate steps to improve the health of the people. As well as the Act introducing a generic duty, it also requires KCC to undertake a number of specific steps including establishing a Health and Wellbeing Board; development of an enhanced Joint Strategic Needs Assessment (JSNA) under the auspices of the Health and Wellbeing Board; Commissioning Kent Health Watch; assuming statutory responsibility for some of the key locality-led elements of the new national Public Health System; and appointing (by statute) a Director of Public Health. In effect, this means that KCC becomes an integral part of this new national system providing locality-led leadership and oversight of public health (PH) in the County together with responsibilities in delivering some key public health services from the 1 April 2013.	The changes outlined in the Act to the NHS, including the changes to the national Public Health system prove overly difficult to achieve in the timescales set Following successful delivery / implementation the predefined outcomes and benefits are unachievable. Not enough Public Health resource is transferred to cover the delivery of services. Insufficient resource to support Health and Well Being Board and related sub-architecture.	Existing arrangements would be undermined by changes to health structures leading to additional costs particularly in adult social services (cost shunting). Potentially ineffective health and social care provision for citizens. Inadequate budgets provided by Central Govt to sustain current levels of locality-led Public Health services. Business Continuity issues due to delay in the development and management of essential new complex partnerships between KCC and the NHS. Potential increase in debt owed to KCC by outgoing NHS organisations. Ability and commitment of successor bodies to continue with Section 31, 75 and 256 agreements. Possibility of unsafe practices in health protection as a consequence of responsibilities for this domain of Public Health being split.	Corporate Director Families & Social Care (Director of Public Health) **Responsible Cabinet Member(s):** Business Strategy, Performance & Health Reform Adult Social Care & Public Health	Possible (3) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Significant (3)

Appendix E - Corporate Risk Register

Risk ID CRR10	Risk Title	Management of Social Care Demand			
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
KCC recognises that to effectively operate its services within budget limitations and affect preventative early intervention it must examine its operations and services and how they match customer expectations and demand.	Council fails to determine, manage and resource to future demand and its services are then unable to meet future customer requirements. Fulfilling statutory obligations and duties becomes increasingly difficult against rising 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.	Corporate Director Families & Social Care **Responsible Cabinet Member(s):** Adult Social Care & Public Health Specialist Children's Services	Very Likely (5) **Target Residual Likelihood** Likely (4)	Major (5) **Target Residual Impact** Serious (4)

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

Appendix E - Corporate Risk Register

Risk ID CRR13	Risk Title	Delivery of Savings			
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The ongoing difficult economic climate has led to significant reductions in funding to the public sector and Local Government in particular. KCC has already made significant cost savings and still needs to make ongoing year-on-year savings in order to "balance its books."	The required savings from key programmes or efficiency initiatives are not achieved.	Urgent alternative savings need to be found which could have an adverse impact on service users and/or residents of Kent. Reputational damage to the council.	On behalf of CMT: Corporate Director Finance & Procurement **Responsible Cabinet Member(s):** Finance & Business Support	Possible (3) **Target Residual Likelihood** Very unlikely (1)	Serious (4) **Target Residual Impact** Moderate (2)

Risk ID CRR14	Risk Title	Procurement			
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
As part of the transformation programme set out in *Bold Steps for Kent*, the Authority is moving towards more strategic commissioning arrangements. This will put even greater emphasis on the importance of robust procurement and commissioning arrangements and contract management.	Commercial or contractual failure of suppliers A procurement process is challenged because it is considered to be discriminatory or to have failed to adhere to procedures set out in procurement law. Potential conflict between best price and *Bold Steps for Kent* objectives Non-delivery of procurement savings	Providers fail to deliver expected benefits. Service users / residents of Kent suffer – potential legal, financial and reputational implications. Procurement processes may have to be halted / restarted, which has service and financial implications	On behalf of CMT: Corporate Director Finance & Procurement **Responsible Cabinet Member(s):** Finance & Business Support	Possible (3) **Target Residual Likelihood** Unlikely (2)	Significant (3) **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 RECENT HISTORY

The spotlight has been well and truly shone on Council Reserves in the past two years, much brighter than before the current coalition government. This is in part due to reductions in funding, leading to job losses and in some Councils, service reductions. The ‘accusation’ from some quarters is/was that Councils are sitting on millions of pounds of reserves, with no good reason, while at the same time cutting essential services. That criticism has never been directly targetted at this Council.

In the past two years’ budgets, we have ‘borrowed’ some £19m of reserves from our long-term PFI reserves, and added £5m to our General Fund reserve to reflect our increased financial risk profile. Most, if not all, Councils will have experienced increased financial risk, although not all have reflected that in the balance sheet. The £19m borrowed either needs to be paid back, or built in as unavoidable budget pressures in the medium term.

3 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.

4 2012/13 BUDGETED CONTRIBUTIONS AND DRAW-DOWNS

The two main contributions to reserves are;

1) A contribution of £7.5m into the Council Tax equalisation reserve, to be used in future years to smooth the loss of the one-off Council Tax Freeze Grant awarded in 2012/13. The contribution to this is shown in the budget as a base contribution in order that the decision can be reviewed each year. It is proposed to release one-year's contribution of £7.5m
2) A contribution of £2m into an Invest to Save reserve, to be used to support innovation and transformation programmes and projects that will deliver cashable savings over the medium term

The main draw-down from reserves planned for 2012/13 is £3.8m, coming from the long-term PFI reserves (£2.25m) and the Economic Downturn Reserve (£1.55).

5 COMPARISON WITH OTHER COUNTY COUNCILS

Attached at Annex 1 is a comparison of our Reserves compared to the five next largest upper tier authorities (KCC being the biggest). This shows that we have the second lowest level of reserves of the six Councils, when measured as a percentage of the annual revenue budget (which is the only sensible measure).

To reach the level of the highest reserves (32% of budget) we would need to ADD £115m to our reserves. To drop to the lowest (14% of budget) we could REDUCE our reserves by £38m.

A detailed examination of each of those Authorities balance sheet reveals a myriad of different reserves. Many of the reserves will be effectively the same, just labelled with a different name.

A report by the Audit Commission in December 2012 titled 'Striking a balance' showed that the average reserves held by County Councils and Single-tier Councils is 27%. Kent currently holds 18.6%, and this will fall as a result of the 2013/14 budget proposals.

Regardless of what the reserves are called and for what specific purpose, the bottom-line is that individual Councils need to make their own assessment and keep a REASONABLE AND ADEQUATE level of reserves based on an assessed level of risk in their budget strategy and the financial climate in the medium to longer term.

6 ANALYSIS OF RISK

This Council has been able to deliver an underspend against its budget in each and every year since 1999/2000. That shows the Council can and has effectively managed its budget. But we live in different times. Since 1999/2000, every years' budget was bigger than the previous year, except in 2011/12. Despite reduced funding in 2011/12, the Council delivered an underspend in the most difficult of circumstances; a reduction in funding coupled with an in-year increase in demand for children's services. Doing so again in 2012/13 will be difficult, but the current forecast is to achieve an underspend despite those same two circumstances repeating. Doing so in future years, where a continued and sustained reduction in our funding is the only forecast trend-line, will be increasingly and exponentially more difficult.

Listed in Section 3 of this appendix are the factors that CIPFA recommend should be taken into account when considering the level of reserves and balances. Below, each of those factors is given a 'direction of travel' indicator since last year's budget was set. An <u>upward</u> direction means an <u>improved</u> position for this Council (ie the risk is less than it was last year).

- Assumptions regarding inflation and interest rates ⇧

Inflation is returning close to Govt target of 2.0%, from last year's high of over 5%. Forecasts for the short to medium term are encouraging (although that optimism is mainly due to the stagnant economy). Interest rates are largely determined by base rate, which has been at 0.5% for a long time. Any rate change in the next 3 years is likely to be downward.

- Estimates of the level and timing of capital receipts ⇩

Land values and house prices continue to struggle outside of London. The number of years projected to recover to 2007 values has increased, and we continue to have to fund the deficit on the Property Enterprise Fund 2 (PEF2) account.

- 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.) ⇩

By definition, this risk must have increased given the Council's additional underlying need to borrow, and lower reserves

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

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

- The general financial climate
  The squeeze looks set to last for at least another five years

- The adequacy of insurance arrangements

Of the ten factors, one shows an improvement since November 2010, six are relatively unchanged, and three have deteriorated. No weighting has been applied to the ten factors, although two of the factors that have worsened are two of the more important ones; the financial standing of the Authority and the general financial climate.

Crucially, none of the above adequately reflect the risk attached to the approved savings plans. Historically, most savings have been within our direct control eg reduce the number of staff. The budget for 2013/14 now has well over £20m based on us achieving savings that are not directly in our control, such as reducing demand for adult services, and reducing the number of looked-after children. This brings additional risk and this has increased since the 2012/13 budget.

The overall conclusion is therefore that we have an increased risk profile since the 2012/13 budget, and therefore the reserves that cover these risks should not be reduced.

7 THE DETAIL OF OUR RESERVES

The headline figure for our Earmarked Reserves is that we held £141.3m as at 31 March 2012, although the £8.6m of DSG reserve is not readily available to use. General Reserves stood at £31.7m. In addition, schools held £59.1m, although we have no access to those reserves. Therefore, the figure we should concentrate on is the total of the Earmarked and General Reserves, which is £164.4m. This represents 18.6% of our annual budget and as shown in section 5 above, is lower than 4 of the other 5 largest County Councils.

Annex 2 details all of our available earmarked revenue reserves. These are categorised into 6 groups:

Group 1
These reserves, totalling £39m are already committed in the 2012/13 or 2013/14 budgets, and are therefore not available to further support the 2013/14 budget.

Group 2
These reserves total £12m, and are for known commitments within the next 3 years, although the precise level of spend cannot be quantified, and these therefore represent our best estimate, and should not be 'raided'.

Group 3
These are our reserves held to support longer-term commitments on PFI contracts. At £14m, this is only 50% of our commitment, as we 'borrowed' the other £14m in the 2011/12 budget. A further draw-down is possible, but that plus the £14m needs to be repaid within the next ten years.

Group 4; The Economic Downturn Reserve
This reserve is currently forecast to have a balance of £16.8m as at 31 March 2013, and is made up of three significant pots:

a) £4.4m for any future impairment on Icelandic deposits. This risk is now highly unlikely
b) £6.8m for possible abortive costs relating to cancelled BSF projects. This risk is now much reduced
c) £5.4m as a general reserve against the economic downturn. However, £5m of this is already set-aside to support the 2013/14 budget as shown in the 'Use of 2011/12 uncommitted underspend' line in the draft MTFP. The remainder is available to support the 2013/14 budget

Group 5; The Prudential Equalisation Reserve
This reserve stands at £9.7m. This fund is used to pay for the short-term borrowing costs resulting from the deficits on PEF1 and PEF2. It is also the only pot available to meet any realised loss on either of those two funds. Given the current 'deficit' balances on PEF1 and 2 are much lower than previously estimated, some of this reserve could be released.

Group 6; All other Reserves
Although these total some £34m, all of these reserves have very specific use and if we did 'raid' them, we would simply have to re-provide the same amounts in the budget within the next 1-3 years. Given the financial outlook will continue to worsen, this would be a false economy. I would also have real concerns of an adverse external audit opinion should we use any of these funds.

General Fund Reserves

As illustrated earlier, our risk profile is increasing, and therefore no reduction in the General Fund Reserve is possible. The more likely scenario is the need to add to it to reflect the lower level of direct control we have over our proposed budget savings, and the reduced level of mitigation we have should things go awry. However, on balance, it is appropriate to maintain this reserve at its current level.

8 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'.

9 CONCLUSIONS

It is appropriate, during these difficult times to use some reserves, but it would be reckless to 'empty the safe' knowing that the good times are not just around the corner; we have several more years of very challenging budgets. An independent report extract published in November 2012 is attached at Annex 3, which captures some of the issues and risks Councils face in determining the appropriate level of reserves for their Authority.

In summary, it is recommended that we draw-down around £10m of Reserves, plus the £7.5m Council Tax Equalisation payment for 2013/14. This is a sensible balance between current financial risks, the economic outlook, and the need to support the various transformation programmes being delivered by the Council in order to reduce future demand. This is a one-off solution to the budget for 2013/14 and this 'saving' will need to be replaced with on-going savings for 2014/15 onwards.

	General Fund £m	Earmarked Reserves £m	Total Usable Reserves £m	Net Budget £m	Total UR as a % of NB %
Kent	31.7	132.7	164.4	883.6	18.6
Five other largest County Councils					
1	63.0	170.1	233.1	855.8	27.2
2	17.9	207.3	225.2	711.6	31.6
3	36.5	169.5	206.0	742.8	27.7
4	28.8	112.1	140.9	728.6	19.3
5	26.0	73.5	99.5	697.6	14.3
Total			1069.1	4620	23.1

Earmarked Reserves

	Balance at 01-Apr-11 £'000	Movement £'000	Balance at 31/03/2012 £'000	Group
Rolling budget reserve	-11,349	-8,893	-20,242	1
Economic Downturn reserve	-13,308	-3,313	-16,621	4
NHS Support for Social Care reserve	0	-12,900	-12,900	1
Prudential Equalisation reserve	-10,104	397	-9,707	5
Dedicated Schools Grant - Central Expenditure	-4,381	-4,227	-8,608	n/a
VPE reserve	-3,955	-1,580	-5,535	6
IT Asset Maintenance reserve	-3,898	-744	-4,642	6
Workforce Reduction reserve	-4,363	0	-4,363	2
Special funds	-5,153	987	-4,166	6
Three schools PFI	-1,429	-2,292	-3,721	3
KCC Insurance reserve	-3,099	-531	-3,630	2
Earmarked Reserve to support next years budget	0	-3,512	-3,512	1
Better Homes Active Lives PFI equalisation reserve	-3,564	709	-2,855	3
Reserve for projects previously classified as capital - now revenue	-5,300	2,453	-2,847	6
Dilapidations reserve	-1,643	-877	-2,520	2
Swanscombe School PFI equalisation reserve	-5,950	3,552	-2,398	3
Westview/Westbrook PFI equalisation reserve	-2,344	191	-2,153	3
Supporting People reserve	-3,178	1,045	-2,133	6
Turner Contemporary Investment reserve	-3,158	1,068	-2,090	6
Environmental initiatives reserve	-2,425	351	-2,074	6
Social Care Supported Living Costs reserve	-1,371	-630	-2,001	6
Corporate Restructuring reserve	-2,667	729	-1,938	6
Libraries/IT PFI grant settlement reserve	-2,270	581	-1,689	2
Six schools PFI	-9,942	8,415	-1,527	3
Kings Hill development smoothing reserve	4,404	-5,500	-1,096	1
Elections reserve	-422	-410	-832	1
Emergency Conditions reserve	-1,309	500	-809	6
School Maintenance Indemnity schemes	-936	141	-795	6
Public Inquiries reserve	-635	-64	-699	6
KPSN Re-procurement reserve	-373	-155	-528	6
KPSN Development reserve	-1,042	1,042	0	6
Other	-4,375	608	-3,767	6
Total	-109,539	-22,859	-132,398	
LATS Reserve				
Landfill Allowance Taxation Scheme	-1,208	1,208	0	
	-113,846	**-21,651**	**-132,398**	
Commercial Services Earmarked Reserves	-2,332	-1,604	-3,936	n/a
EKO	-4,985	5	-4,980	n/a
Total Earmarked Reserves	**-121,163**	**-23,250**	**-141,314**	
Correction to late entry put through on Insurance Fund in 10-11	-27	27	0	
	-121,190	**-23,223**	**-141,314**	

Appendix F
Annex 3

Extract from:

Local Government's role in promoting economic growth
Removing unnecessary barriers to success

Professor Tony Travers
London School of Economics and Political Science

An independent report commissioned by the LGA

5. Could reserves be used to reduce the impact of central grant reductions?

Councils are legally required to balance their revenue expenditure with their income each year. Unlike the Government, a council cannot plan for a deficit on its annual current budget. This constraint is particularly challenging during a period of declining income. As the result of government policy, councils' main sources of income, notably council tax and business rates, cannot be increased faster than inflation. Indeed, council tax is now, in effect, capped below the rate of inflation. Government grants are being sharply cut back to bring down the total of local authority spending.

Local authorities maintain reserves to help them manage changes in income or spending from one year to the next. At 31 March 2012, according to DCLG's provisional outturn statistics, local authorities in England had just under £4.0 billion in unallocated reserves which were not already ring-fenced to cover particular items of future spending. Earmarked and unallocated non-schools reserves at the end of 2010/11 were equivalent to 50 days' expenditure. Of course, the total of reserves and investments is significantly greater in size, though generally these are set aside to fund particular items of expenditure.

When setting the budget a council's finance director must, by law, consider the reasonableness of its budget and propose levels of reserves sufficient to cover unexpected events. Councils are now entering into a period of significantly higher risk, with the start of business rate retention and the localisation of council tax benefit in April 2013. These reforms will transfer risks that hitherto have been borne by the Exchequer to councils. The impact of such risk and pressures are hard to estimate precisely. Total expenditure on council tax benefit in 2012/13 is about £4 billion, having risen by 45 per cent since 2005/06. Business rates being retained locally will total some £10 billion. If councils believed it was prudent, over time, to plan on the basis of a potential unpredictable variance of 10 to 20 per cent of this total sum – this would amount to a sum in the range £1.4 billion to £2.8 billion. For any individual council the impact might be greater.

The formula grant paid to local government has been reduced by 28 per cent during the period covered by the 2010 spending review. This reduction in grant is permanent, and there will be further reductions annually for at least the next four to five years.

Earmarked reserves, which constitute over 70 per cent of resources held in this way, are set aside for particular purposes. Local Government Association (LGA) analysis has shown that almost half earmarked reserves are being held to support future capital investment, a government priority at a time when economic growth is slow. Other reserves are held to help with restructuring, paying for Private Finance Initiatives or to provide short- term cover for grants which are paid at the end of the financial year.

Auditors have long acknowledged councils have good reasons to hold reserves which constitute a sensible part of strategic financial and risk management. Reserves can be used to smooth variations between income and spending and to cope with uneven cash flows. If councils used their reserves as an alternative to making cuts, such resources would be used up rapidly. Reserves can be used to smooth cuts, but they cannot prevent them. Reserves can only be used once.

Appendix G – Glossary of Abbreviations

A to Z of Services	Presentation of KCC's annual budget according to services provided
ASC&PH	Adult Social Care and Public Health Portfolio
Autumn Budget Statement	Chancellor's Annual midyear update to national budget
BoE	Bank of England
Bold Steps	Bold Steps for Kent - The Council's strategic vision document
BSF	Building Schools for the Future
BSP&HR	Business Strategy Performance and Health Reform
BSS	Business Strategy and Support Directorate
Budget	Annual spending plan for 2013/14
Business Rates (NNDR)	Local property tax levied on businesses and redistributed by the Government.
Capital Budget	Investment programme on infrastructure improvements
C&C	Customer and Communities Directorate/ Portfolio
CFR	Capital Financing Requirement
CIPFA	Chartered Institute of Public Finance & Accountancy
CLG	Government Department for Communities & Local Government
CPI	Consumer Price Index - Government measure of inflation
CRB	Criminal Records Bureau
DEFRA	Government Department for Environment, Food & Rural Affairs
D&P	Democracy and Partnership Portfolio
DfE	Government Department for Education
DfT	Government Department for Transport
DH	Government Department for Health
DMO	Debt Management Office
DSG	Dedicated Schools Grant - government grant 100% funded from national taxation to fund schools
DWP	Government Department for Work and Pensions

E&E	Enterprise and Environment Directorate
EFA	Education Funding Agency
ELS	Education, Learning and Skills Directorate/ Portfolio
EHW	Environment, Highways and Waste Portfolio
EIG	Early Intervention Grant - DfE grant
EU	European Union
ERP	Enterprise Resource Planning; computer systems
ESG	Education Services Grant – new grant provided to local authorities on a national per pupil basis to provide central services for maintained schools
F&BS	Finance and Business Support Portfolio
Formula Grant	Until 2013/14 this was the main grant to local government comprising RSG and redistributed business rates
FSC	Families and Social Care Directorate
FTE	Full Time Equivalent - standard used to assess equivalent number of full time and part time employees
FYE	Impact in a full financial year of an initiative that has been implemented part way through the year
GAC	Governance & Audit Committee
Gateway	Customer contact points for all local councils' services
GDP	Gross Domestic Product - Government measure for the overall health of the economy
GP	General Practitioner
GUF	Guaranteed Unit of Funding - mechanism used to determine DSG for each local authority
HO	Home Office
HWRC	Household Waste Recycling Centre
ICT	Information Communication Technology
KCC	Kent County Council
KCS	Kent Commercial Services
KDAAT	Kent Drug & Alcohol Action Team

LAC	Looked After Children - children placed into care by the local authority
LACSEG	Local Authority Central Equivalent Grant (LACSEG)
LAMS	Local Authority Mortgage Scheme
LD	Learning Disability
LDF	Local Development Framework
LEP	Local Enterprise Partnership - regional grouping of local authorities to promote economic prosperity
LGA	Local Government Association
LOBO	Lender Option Borrower Option – lender has the option to call in loan at pre-determined future date
LSSG	Local Service Support Grant – grant introduced in 2011 to summarise a number of small grants
MFG	Minimum Funding Guarantee - guaranteed level of funding for individual schools
MRP	Minimum Revenue Provision - prudent amount needed to cover the revenue consequences of capital investment
MTFP	Medium Term Financial Plan
NHS	National Health Service
NNDR	National Non Domestic Rates
NQT	Newly Qualified Teacher
OBR	Office for Budget Responsibility - independent body advising the chancellor on economic forecasts
OfSTED	Office for Standards in Education, Children's Services and Skills
ONS	Office for National Statistics
PCT	Primary Care Trust
PEF(2)	Property Enterprise Fund - scheme established by the council to maximise benefit from property holding at a time property values are depressed
PER	Prudential Equalisation Reserve
PFI	Private Finance Initiative
PROW	Public Right of Way
PWLB	Public Works Loan Board

R&E	Regeneration and Enterprise Portfolio
Revenue Budget	Annual recurring expenditure on staff, buildings, contracts, supplies, etc.
RPI	Retail Price Index - alternative measure of inflation
RSG	Revenue Support Grant - grant to local government funded from national taxation and share of business rates
Schools’ Funding Forum	Statutory body representing views of schools in relation to a number of financial matters
SEN	Special Educational Needs
SCS	Specialist Children’s Services Portfolio
SIP	Supporting Independence Programme
SORP	Statement of Required Practice - new KCC risk management tool
SR2010	Spending Review 2010
TAG	Treasury Advisory Group
TCP	Total Contribution Pay - performance reward payments to staff
TM	Treasury Management
WCA	Waste Collection Authority
WDA	Waste Disposal Authority
VAT	Value Added Tax

Appendix 3

Appendix 3

To request this publication in an alternative format, please contact Emily Reynolds on
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For more information visit www.kent.gov.uk/ budget

draft for Cabinet

medium term
financial plan
2013/15