

From: Paul Carter, Leader of the Council
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To: County Council – 12th February 2015

Subject: Budget 2015-16 and Medium Term Financial Plan 2015-18 (including Council Tax setting 2015-16)

Classification: Unrestricted

Summary: This report is a summary of the proposed budget for 2015-16 and Medium Term Financial Plan 2015-18 and a guide to the draft budget documents. The County Council has a statutory duty to set an annual budget and the amount to be levied by Council Tax. In approving the budget the County Council is not only agreeing the total amount to be spent but is also delegating authority to manage the budget in compliance with the authority's financial regulations.

Members are asked to bring to this meeting the revised draft 2015-16 Budget Book and 2015-18 Medium Term Financial Plan documents (blue cover, white combed) which were published on 3rd February 2015.

Members are reminded that Section 106 of the Local Government Finance Act 1992 applies to any meeting where consideration is given to matters relating to, or which might affect, the calculation of Council Tax. Any Member of a local authority who is liable to pay Council Tax and who has any unpaid Council Tax amount overdue for at least two months, even if there is an arrangement to pay off the arrears, must declare the fact that they are in arrears and must not cast their vote on anything related to KCC's Budget or Council Tax.

1. Introduction

- 1.1 The Local Government Finance Act 1992 requires the Council to formally consult on and ultimately set a budget and Council Tax for the next financial year, 2015-16. The accompanying draft Budget Book and Medium Term Financial Plan (MTFP) set out the detailed calculations. The proposed Budget 2015-16 and MTFP enable the Corporate Director of Finance & Procurement to satisfy Section 25 of the Local Government Act 2003, which requires him to give an opinion on the robustness of the budget estimates and the level of reserves held by the Council.
- 1.2 A draft revenue budget was published for consultation on 9th October 2014. This consultation closed on 28th November and elicited 1,979 responses to the 3 questions posed and 853 responses via the budget modelling tool (excluding responses from specific market research). This is fewer responses to the questions than last year but more responses via the on-line tool. We have recognised that we need to improve communication about KCC's budget and the financial challenge in order to improve engagement. Nonetheless evidence from market research gives reassurance that the outcomes are statistically valid and representative of views generally.
- 1.3 A draft of the revised budget and MTFP proposals following the consultation, the announcement of the provisional local government finance settlement and notification of

provisional Council Tax base was published on 12th January 2015. This allowed time for the drafts to be considered by Cabinet Committees in the January round of meetings, endorsed by Cabinet (and subject to scrutiny), as well as allowing a short period for final comment prior to the County Council meeting. We recognised that publishing the draft budget early to facilitate this process (and so soon after the provisional funding announcements) carried the risk that further changes would be necessary.

- 1.4 It has transpired that there have been some material changes (including confirmation of the Council Tax collection fund balances for the current year, which is always a late changes). These changes warrant republishing the drafts. The revised drafts were published on 3rd February with blue covers and white binders to distinguish them from earlier drafts. We had not received final notification of Business Rate tax base/collection funds or the final Local Government Finance settlement in time for the print deadlines for the republished draft. The material changes in the republished draft are covered in section 5 of this report, the republished draft also provides the opportunity to make other marginal changes to ensure the budget reflects the very latest forecast activity for the coming year.
- 1.5 The draft budget published on 12th January showed a net revenue budget of £905.6m for 2015-16. This was more than the £896m we anticipated at the time of the consultation, largely due to a higher than expected Council Tax base. This additional income was fully allocated in the original published draft and shown in revised spending and savings plans compared to those included in the consultation. The provisional settlement was much as we had anticipated, although it did include some technical changes switching funds between individual grants.
- 1.6 The original draft budget comprised of a reduction in un-ring-fenced Government grants (including funding Revenue Support Grant (RSG) from the provisional settlement) of £55.7m (15.3%) and £50.7m of additional spending demands (excluding impact of spending from ring-fenced grants). These were offset by an additional £18.9m raised through Council Tax and the local share of Business Rates and £87.5m of proposed savings and other income generation (excluding ring-fenced grant income). The budget and MTFP has to incorporate changes in spending and income from ring-fenced grants (these grants must be spent in the prescribed manner and it is County Council policy not to-top-up ring-fenced grants), but it is essential that the impact of ring-fenced grants changes does not blur impact of other funding, spending and savings decisions which are needed.
- 1.7 The republished draft on 3rd February shows a net revenue budget of £912.9m including an extra £7.3m income for final Council Tax base collection fund balances notified by district councils. The republished draft has an increased reduction in total un-ring-fenced grants to £56.9m as we have had no announcement of Adoption Reform Grant from DfE which we were anticipating would continue, and a revised £55.8m of additional spending demands (excluding the £23.2m arising from spending additional ring fenced grants and removal of £3.4m DWP grant for Social Fund and £1.3m DfE grant for Adoption Reform which are included in the grant reductions). The additional Council Tax/Business Rates is £24.9m (including £7.1m one-off collection fund balance) and savings have been reduced to £87.8m (excluding ring-fenced grant income). The main changes in spending and savings plans between the original draft and republished draft are set out in section 5 of this report.
- 1.8 The proposed capital programme for 2015-18 is £728.3m. This includes a Schools' Basic Need programme (£154.5m over the 3 years 2015-18). Just under half of the funding for

this schools programme is anticipated to be raised through developer contributions, capital receipts and borrowing rather than the Government's basic need grant.

- 1.9 The capital programme has not been the subject of formal consultation and is subject to separate governance arrangements granting approval to plan and approval to spend. The capital strategy is set out in section 4 of the MTFP and focuses on achieving maximum effect from capital investment, with a sharper focus on the Council's strategic priorities and to obtain maximum value from our assets. This strategy reinforces the commitment to a fiscal indicator, which limits the cost of borrowing to 15% of net revenue budget. The proposed capital programme includes £106m of borrowing, which will count against this indicator (even though we are more than likely to cover this from short-term cash deposits rather than new loans).
- 1.10 Any unavoidable late changes to the proposed budget after this report has been published will be reported separately to the County Council meeting.

2. Financial Implications

- 2.1 Setting the annual budget is one of the most significant decisions the County Council takes each year. It sets the County Council's share of Council Tax and the overall resource framework in which the Council operates. It also gives delegated authority to manage the budget to Corporate Directors and Directors within the parameters set out in the Council's Constitution and Financial Regulations. Corporate Directors and Directors will be held to account for spending decisions within delegated powers via the budget monitoring arrangements throughout the year.
- 2.2 The budget proposes a Council Tax increase up to the limit which would not require a referendum (currently 1.99%). Consultation has indicated that around 75% of residents would accept a small increase if this goes towards protecting front line services, which it does. The funding arrangements for local government (which include substantial amounts allocated via un-ring-fenced grants) make it impossible to identify precisely which services have been protected. The 1.99% Council Tax increase yields £10.7m which would otherwise have to be found from additional savings/income or reduced spending (although some compensation would also be available via the Government's Council Tax Freeze grant). The impact of 1.99% increase in each Council Tax band is set out in table 1 (equating to an additional 36p per week for a band C tax payer).

Table 1	2014-15	2015-16
Band A	£712.44	£726.66
Band B	£831.18	£847.77
Band C	£949.92	£968.88
Band D	£1,068.66	£1,089.99
Band E	£1,306.14	£1,332.21
Band F	£1,543.62	£1,574.43
Band G	£1,781.10	£1,816.65
Band H	£2,137.32	£2,179.98

- 2.3 The full financial implications for the overall resource framework and delegations to Corporate Directors and Directors are set out in the Budget Book and MTFP (as republished on 3rd February 2015). We have not detailed all the changes since

consultation in either the original draft Budget Book and MTFP published on 12th January or the republished drafts on 3rd February in order to keep presentation simple, although a full reconciliation is available on request. A number of these changes reflect feedback from the consultation e.g. the saving on Community Wardens has been reduced, other changes reflect the latest forecast activity for 2015-16 taking into account of the latest budget monitoring and the impact of funding announcements since the consultation was launched.

3. The Budget Proposals

- 3.1 The baseline for the draft budget has been set based on the November budget monitoring reported to Cabinet on 28th January 2015. The draft budget includes “right-sizing” for a number of services, particularly increases in children’s social care, special needs transport and waste disposal/recycling in response to latest forecast activity and delivery of savings planned in the 2014-15 budget. The draft budget also includes savings where in-year activity has been lower than anticipated when this year’s budget was set, e.g. mainstream home to school transport.
- 3.2 The draft budget includes an additional contribution towards the pay and reward package for Kent Scheme staff. The pay and reward package is managed within an overall pot equivalent to 2.5% of pay. This pot is derived from the additional funding identified in the budget and headroom within staffing budgets as a result of new appointments being made at the bottom of pay grades and one-off payments for staff on the top of the grade. This arrangement was introduced in 2014-15 and means staff receive a single reward assessment for those judged to be achieving, achieving above, or outstanding. The value of reward payments for these different levels of performance is determined within the overall cash limited pot according to the number and current salaries of staff assessed at each level. The reward payment either increases an individual’s salary via progression through the pay grade, or is a non-consolidated lump sum payment for staff on the top of the grade.
- 3.3 There is no separate “cost-of living” award. The top and bottom of pay grades are recalibrated each year to ensure they remain competitive (although this recalibration only applies to new appointments as pay progression for existing staff is subject to the performance assessments described in paragraph 3.2). This recalibration is generally at least 50% of the “achieving” reward %, subject to this being affordable within the overall budget. In 2014-15 the “achieving” reward provided a 2% increase in pay with a minimum full time equivalent amount of £350 for staff on the lowest grades. The bottom of KR2 was also increased by £350 (the top and bottom of all other grades by 1%).
- 3.4 It is proposed that a similar arrangement is made in 2015-16 within the overall 2.5% pot for pay and reward, with a minimum full time reward of £400 and the bottom of KR2 range increased by the same amount. This minimum payment recognises the Council’s pledge to make further progress towards paying the Living Wage and would mean the bottom of KR2 would increase to £7.23 an hour (currently the Living Wage outside London is £7.85). This minimum payment will have an impact on the value of reward payments for staff on higher pay grades as it would be funded within the overall 2.5% pot. By agreeing the proposed budget County Council would be approving the 2.5% overall pot and the minimum £400 reward, the distribution of reward payments for staff not qualifying for the minimum reward and recalibration of grades other than the bottom of KR2 would be managed within this overall pot. This adjustment to grades will be published in an updated Pay Policy Statement for 2015/16 and will be the only change to the statement for this year.

- 3.5 The draft budget includes provision for specific contractual price increases. In the main, these are index-linked and summarised on page 85 of the MTFP document. We have also included provision for non-specific increases in negotiated contracts. We have not made any provision for general inflation on goods and services procured by the council and managers will be expected to cover the impact of any inflation within their overall budget.
- 3.6 The draft budget includes the impact of additional spending imposed by legislation and government. Principally, this relates to additional spending from grants in relation to public health and preparation for/implementation of provisions in The Social Care Act. The budget also includes estimated additional demand arising during the year, particularly in relation to adults with learning disabilities, and spending on local choices, e.g. financing the capital programme. A summary of all the additional spending proposals is set out on pages 85 to 87 of the MTFP. We have included additional narrative to provide more explanation
- 3.7 The 2014-15 budget was balanced by £12.557m one-off use of underspends and reserves. These need to be replaced in 2014-15 and are shown within the £55.8m of additional spending demands.
- 3.8 The draft budget proposals include £10.7m of savings from the draw down from reserves in 2015-16 (mainly the Economic Downturn Reserve) with further £4.4m draw down in future years. The Economic Downturn Reserve will be closed down through these draw downs and the transfer of £3m in general reserves and £11m into a new reserve to support new transformation activity. This means we would start 2015-16 with £34.7m in general reserves plus a further £3.7m from Council Tax collection funds. This would increase this general contingency to just over 4% of net revenue budget, reflecting the additional risk inherent in the budget and uncertainty over funding and spending plans beyond 2015-16.
- 3.9 The draft budget proposals also include reduced contributions to a number of reserves and further savings on the cost of financing debt by re-phasing the provision for debt repayment in line with the policy for annual Minimum Revenue Provision (MRP). The MRP guidance requires the Authority to make prudent provision within the revenue budget for repayment of debt accrued on capital projects and to present a statement setting out the MRP policy to the full council. KCC's MRP statement is set out in appendix C to the MTFP.
- 3.10 The budget consultation included £7.4m of unidentified savings in order to balance the budget. The draft budget has now identified how this gap can be closed through the work we have been doing with districts to increase the Council Tax base, reduced additional spending demands (particularly prices) and further savings (including £2m of procurement savings which have yet to be finally allocated pending contract negotiation). The draft budget also includes the revised proposal on the warden service agreed by Cabinet on 28th January and changes to the funding for Kent Support and Assistance Service outlined in the budget report to Cabinet.
- 3.11 All of the savings and income proposals in the draft budget are summarised on pages 88 to 91 of the MTFP document. Most are as proposed in the consultation although some have been modified. Savings are divided between transformation savings, income generation, ring-fenced grant increases, efficiency savings and policy savings as well as the financing savings outlined in paragraph 3.7. Inevitably these categories can never be

precise but have been developed to help identify where we plan to do things differently as compared to doing less.

- 3.12 Detailed consultation and equality impact assessments of specific proposals within each directorate will be undertaken once the budget has been approved and prior to implementation. Approval of the budget includes granting delegated power to Cabinet Members to make changes to the proposals in light of detailed consultation and equality impact assessments. Any changes will be reflected in the monthly monitoring reports to Cabinet.
- 3.13 The MTFP includes indicative plans for 2016-17 and 2017-18, although inevitably these are less well developed than 2015-16 and are liable to change. In particular, not all of the savings necessary to balance 2016-17 and 2017-18 have been identified and will be developed during the year as the Facing the Challenge and other transformation programmes evolve.

4. Navigating the Budget Book and Medium Term Financial Plan Documents

- 4.1 Last year the report to County Council included a section aimed at helping members to navigate the Budget Book and MTFP publications. We have repeated this section this year as some members may still be unfamiliar with these documents. As in 2014-15, the capital and revenue budgets have been presented to align with directorate structures rather than Cabinet Member portfolio responsibilities. This presentation better reflects budget management and reporting arrangements.
- 4.2 Section 3 of the Budget Book sets out the proposed capital investment plan for the following 3 years. Capital spending is for the purchase and enhancement of assets. For each directorate capital spending is split between rolling programmes (usually related to the on-going enhancement of assets) and individual projects. There are two templates for each directorate, the first sets out a brief description of each programme/project and the planned spending for each year of the MTFP, with a summary of how the overall directorate plan is funded. A number of projects will only proceed when specific funding has been secured. The second template combines the three years of the capital programme and sets out in more detail the funding sources for each programme/project.
- 4.3 Sections 4 to 8 of the Budget Book set out the proposed revenue budget for 2015-16. Revenue spending is that spent on the day-to-day provision of council services. Section 4 provides a high level summary for each directorate. Gross expenditure is split between staffing (salaries and employer's costs for national insurance and pension contributions) and other costs. Service income from charges and contributions is deducted to derive net cost (this net cost is often the quoted figure in government returns and used for comparative purposes). For 2015-16 service income has been split between internal and external income (this was principally following the establishment business service centre which has to recharge activity to services, although internal income also includes trading activity with KCC maintained schools in a number of other services). Income from specific government grants is shown separately to derive the net expenditure attributable to KCC. The net expenditure is used in the MTFP and a comparison with the revised net expenditure for 2014-15 is included in the revenue budget book sections. Section 4 shows how the net expenditure is funded either from Council Tax, the local share of business rates, or un-ring-fenced government grants.

4.4 Section 5 provides more detail of planned spending on individual services. This section is designed in an A to Z format and shows services according to how they are delivered and received by residents, rather than how the Council is organised. This is a conscious effort to provide a more outward facing presentation of the Council's spending. The A to Z is organised according to principal areas of front-line activity:

- Adults and Older People
- Children's Services
- Community Services
- Environment
- Highways
- Housing Related Support for Vulnerable People
- Local Democracy
- Planning and Transport Strategy
- Public Health
- Public Protection
- Regeneration and Economic Development
- Regulatory Services
- Schools
- Services for Schools
- Transport Services
- Waste Management

These principal activity areas are consistent with central Government returns. Non frontline services; financing items, assessment services and management, support and overheads are identified separately.

4.5 Within each of the broad categories above, spending has been subdivided into individual areas of activity (based on the principle that any distinct area of activity with spending in excess of £1m should be separately identified). The table also includes a brief description of activities which can be afforded within the budget. Inevitably, this section is a compromise between providing an appropriate level of detail to describe how the Council spends public money and keeping the analysis to a manageable size. The individual entries are kept under review both to reflect changes in the way services are delivered and to ensure we adhere to the principle of transparency without undue complexity.

4.6 Section 6 provides a detailed variation statement for each line in the A to Z service analysis showing how the budget has changed between 2014-15 and 2015-16. This provides a direct reconciliation between the Budget Book and MTFP. Inevitably, this is a large document and is the last piece of the budget jigsaw and can only be published in later versions of the Budget Book.

4.7 Section 7 provides a graphical representation of the Council's funding and spending. It also includes a high level subjective analysis which presents information on the type of spending, rather than how the services are provided. The subjective analysis for 2015-16 can only be produced once budgets have been allocated by individual managers, thus for the versions of the Budget Book published on 12th January and 3rd February we could only show the subjective analysis for the revised 2014-15 base budget derived from in-year monitoring.

- 4.8 Section 8 sets out the total budget under the control of each directorate. This is generally presented at the third tier, i.e. the amounts delegated to the managers reporting to each director (often referred to as service units). Only in exceptional circumstances would budgets be identified below third tier, even though delegation and budget management takes place at lower levels in the organisation. Financing items are notionally shown under Strategic and Corporate Services although these are non-directorate specific costs often arising out of previous decisions or decisions outside of the county council's direct control. As such these costs cannot be attributed to any individual manager and are all under the control of the Corporate Director of Finance & Procurement.
- 4.9 Appendix A is a re-presentation of the A to Z entries in section 5 grouped for each directorate. Appendix B is drawn from the second quarter's budget monitoring report showing the forecasts for 2014-15. These appendices are produced as background information and are not part of the approved budget.
- 4.10 The MTFP provides a description of the Council's overall financial vision and key strategies. It is designed as a reference document, providing background information to set the budget in a wider and longer term context. The main document includes a short executive summary, together with an appraisal of the national financial and economic context as it affects local government and the Council's capital, revenue, treasury management and risk strategies. These strategies will continue to evolve to reflect progress on the key themes arising from Facing the Challenge and the council's overall strategic objectives. The Treasury Strategy in section 5 of the MTFP has been updated to include revisions to the borrowing and investment strategies, as well as updating approved counterparties and deposit limits as part of the council's limited risk approach to treasury management. The revised strategy is presented for full council approval.
- 4.11 The appendices to the MTFP set out the key financial information. Appendix A includes a high level 3 year plan and detailed plans for each directorate summarising the additional proposed spending, income and savings in 2015-16 compared to the 2014-15 approved budget. The entries in appendix A(ii) use the same headings as the A to Z variation statements described in paragraph 4.6. This enables a direct comparison of the overall strategic plan with the more detailed individual budget plans. Appendices B (Prudential Indicators) and C (MRP Statement) are presented to full Council for approval.

5. Changes in the re-published Draft Budget and MTFP

- 5.1 Rather than including a comprehensive description of all the changes since the original draft Budget Book and MTFP were published on 12th January we have decided to re-publish these documents for County Council approval. Many of the entries are unchanged and most of the changes are not material as they simply relate to updated activity based on the latest monitoring returns (and therefore would otherwise have been reflected in the first quarter's budget monitoring report during the year). This section provides a brief description of the material changes.
- 5.2 We always have an issue with the balances on Council Tax collection funds. These need to be included in the budget as they represent the over/under collection on the budgeted tax base for the current year. District councils are required to notify us of these balances by 31st January, and often notification is close to the wire. The balances for 2014-15 show a net surplus of £7.1m. District councils must also notify the final tax base calculation for the coming year by 31st January, which shows a small increase of £0.2m on the provisional figure included in the original draft published on 12th January. Overall the final

notification of collection fund balances and tax base has increased net funding from £905.648m to £912.920m. .

- 5.3 The collection fund balances are in effect one-off since the on-going impact is already built into the revised tax base assumption for 2015-16. As a consequence in previous years we have added these balances to reserves rather than factor them in to spending plans for the forthcoming year. However, for 2015/16 we have had three emerging issues since the original draft budget was published which impact on spending demands/savings and would change the net budget requirement. Rather than pay all the collection fund balances into reserves and make other changes to spending and savings plans to compensate for these late issues we are proposing they are funded from the collection fund balances. This increases the unidentified savings gap in 2016-17 until such time as compensating action or alternative funding can be identified. The balance of the collection fund surpluses after addressing these issues £3.662m and is proposed to be added to general reserve, increasing it from the £34.7m originally proposed to £38.4m i.e. 4.2% of net revenue budget.
- 5.4 The first of these issues relates to Government decisions on the Social Fund following a consultation late last year. We had identified that the separate grant provided by Department for Work and Pensions (DWP) was removed from the indicative settlement for 2015-16 published as part of the 2014-15 settlement. Consequently we had planned that we could only sustain the service from any underspend on the 2013-14 and 2014-15 DWP grants that could be rolled forward into 2015-16 at the end of the year (although this could not be confirmed until the outturn is approved).
- 5.5 In the provisional settlement for 2015-16 (announced on 18th December) the government has identified an amount for welfare provision within the un-ring-fenced RSG to replace the Social Fund (although this has been created by reducing other elements of RSG rather than transferring any money into the grant). In light of this we now propose to leave KSAS with a net budget of £1.25m (by reducing proposed saving from £3.418m to £2.168m). We still need to show the pressure from losing the £3.418m DWP grant (which we managed as if ring-fenced) in the same way we show loss of other ring-fenced grants.
- 5.6 £1.25m is a realistic assessment of likely demand taking account of the options outlined in the paper to the Adult Social Care and Health Cabinet Committee on 4th December i.e. before we knew the outcome of the Government's decision on funding. Decisions on rollover of unspent grant from previous years (which would provide a reserve to help manage fluctuations in demand) will still need to await the final outturn position for 2014-15.
- 5.7 The second issue relates to the dividend from Commercial Services. The shareholder board has been aware since early in the year that Commercial Services would not be able to achieve the £7.8m dividend in the 2014-15 budget. That budgeted dividend was based on an earlier iteration of 5 year plan for Commercial Services. What was less clear is how that would impact on future year's dividends. However, for the re-published budget we propose it is prudent to include a right sizing of the 2014-15 base from £7.7m to £6.3m (reflecting the current forecast dividend for the year) and to reduce the growth assumption from £1m to £0.4m. This would leave KCC planning to receive £6.7m income through the dividend in 2015-16. This revised income projection has been reflected in the re-published draft, although negotiations through the shareholder board are still continuing and therefore should not be taken as a final figure.

- 5.8 The third issue relates to Adoption Reform Grant. In 2014-15 we received £1.258m from DfE via an un-ring-fenced grant. As grant was un-ring-fenced it was used to support the base budget for children's services rather than any specific activity. Since the funding for this grant was top-sliced from the Early Intervention Grant previously paid to local authorities, and a commitment was made that DfE would return this money to local authorities, we had been assuming the grant would continue. There has been no announcement from DfE and therefore it is prudent to support the children's base budget *pro tempore* pending any announcements from DfE. Should the grant continue we would reverse this contribution, should it be removed we will consider how we respond as part of 2016-17 budget.
- 5.9 Other than the collection fund balances/tax base and these three issues the re-published draft is as reported to Cabinet on 28th January. As also reported to Cabinet it may be necessary to make some technical changes to the published draft Budget Book presented to County Council in the final Budget Book published in March. In particular at the time we published these documents we hadn't received the final Local Government finance settlement (and there is always the slight risk that this could change from provisional settlement) and we may receive some other late grant announcements. At the time of publication we had also not received notification of the County Council's share of the business rate tax base/collection fund balances from all district councils.

6. Restructure

- 6.1 The Strategic and Corporate Services Directorate was established as part of the new operational framework agreed by the County Council in December 2013 which was implemented from 1 April 2014.
- 6.2 The December 2013 paper recognised that the level of service review and market engagement underway in the new Directorate made any senior level restructure inappropriate and impractical at that time.
- 6.3 In order to achieve the significant budget reductions in services across this Directorate it is now appropriate to implement a new senior management structure with effect from 1 April 2015.

6.4. Objectives

- 6.4.1 As well as ensuring the required budget saving are achieved, the objectives for the new structure include the following:
- Rationalise and reduce management posts and costs
 - Group together services to provide a coherent offer for support to internal and, as appropriate, external customers
 - Provide a flexible structure which can adapt to the changing (and shrinking) organisation
 - Put the emphasis on and right level of resources into the functions and strategies which align to the Facing the Challenge agenda
 - Take and learn from best practice in commissioning models of other local authorities
 - Strengthen the role of the Head of Paid Service, taking account of the significant level of change across the Authority.
 - Ensure the responsibilities of the senior roles in the Directorate are appropriate for KCC's operating model.

6.4.2 The Corporate Director of Strategic and Corporate Services is designated as the statutory Head of Paid Service and as such is the most senior postholder in the Authority. The Council has a statutory obligation to ensure the postholder has the necessary resources to discharge the increasing responsibilities of this role which is becoming more critical and demanding as the organisation continues to transform. This is an important factor in the restructure of this Directorate and also provides an opportunity to ensure the current wider governance arrangements in place for the Head of Paid Service are appropriate and robust.

6.5. Proposal

6.5.1 The full details of the proposal are contained in Appendix B, which includes outline job descriptions.

6.5.2 Section 4 of Appendix B shows the posts that would be deleted and the new posts that would replace them.

6.5.3 The role of Director of Governance and Law will only be deleted from the structure if an alternative service delivery model is agreed for Legal Services. If this happens, the Director post will be replaced by a General Counsel role, details of which have been included in the consultation document attached at Appendix B.

6.6 Consultation Outcomes

6.6.1 The operational framework outlined has been the subject of consultation and was reported to the Personnel Committee last month.

6.6.2 The minimum requirement for a formal consultation with the Directors and Corporate Directors directly impacted by the proposals was supplemented by a much wider consultation process. Given the impact on all Directorate staff and the critical role they play in all the functions, they were also consulted informally.

6.7 Responses from the consultation.

6.7.1 The overall response to the proposals from both impacted and other staff was positive and supportive of the general direction. All those directly impacted made comments and 18 individual members of staff or teams responded to the informal consultation.

6.7.2 Some of the comments that related to very specific items of clarification and which did not impact on the overall structure proposals have not been included in this feedback, although individual responses are being sent to all respondents covering all the points raised.

6.7.3 The following amendments to the original proposal shown in Appendix B have been made as a result of the feedback received:

- The Risk management function will sit alongside the corporate assurance function reporting to the Director of Strategy, Policy, Relationships and Corporate Assurance.

- The job description for the General Counsel role has been amended to include reference to the responsibilities of County Returning Officer and Senior Information Risk Officer.
- Line management of the Contact Point to be retained by the current line manager reporting to the Corporate Director of Engagement, Organisation Design and Development until the outcome of the current competitive dialogue process is known.
- Responsibility for the council's equality and diversity service strategy and practice will rest with the Director of Strategy, Policy, Relationships and Corporate Assurance.

6.7.4 Other changes to terminology have been incorporated in the functional descriptions below as a result of requests for clarification received in consultation feedback.

6.8 The Proposed Directorate structure

6.8.1 As a result of the consultation process, relatively minor changes have been made to the original proposal and some functions have moved within the new operating framework. However, the main outcome of the process has been to validate and endorse the changes to the Directorate structure.

6.8.2 The overall structure proposal is shown at Appendix C.

6.8.3 An outline job description for each role is included at Appendix D. In addition each of these senior managers will be expected to meet the corporate responsibilities already defined. Some changes have been made to the job descriptions both as a result of the consultation responses. The titles for the roles will be kept under review and may be changed at a later date.

6.8.4 The proposed functional responsibilities for each post are summarised in the table below.

**Corporate Director Strategic & Corporate Services
(Head of Paid Service)**

Corporate Director Finance and Procurement	Corporate Director Engagement, Organisational Design and Development	Director Infrastructure	General Counsel	Director Strategy Policy Relationships and Corporate Assurance	Director Strategic Business Development and Intelligence
Audit Financial Strategy and intelligent client Financial Policy Finance Business Partners Financial Management Treasury and Investment Procurement (Business Service centre: commissioned service)	Organisation Design HR Strategy and Operation Health and Safety HR Business Partners (Commissioners) Engagement and Customer Strategy Organisation Development Divisional Performance monitoring (Client) (Business Service centre: commissioned service)	Property Strategy, Commissioning and Client ICT Strategy, Commissioning and Client Business Service centre (Property LATCo (commissioned Service))	Monitoring Officer SIRO County Returning Officer Deputy lord Lieutenant Democratic services Information Resilience and Transparency Legal Commissioning Intelligent Client Legal Services (Commissioned service)	Strategic Policy Corporate assurance and outcomes assessment Strategic relationships Strategic Business Advisors	Business Analysis Contract management Strategic Commissioning Framework and Evaluation

6.9 Timeline and next steps

- 6.9.1 Once the Directorate structure has been agreed by the County Council, formal confirmation will be given to the senior managers impacted on whether they are at risk of redundancy or “slotted” to a post. At this stage, any applications for voluntary redundancy which are agreed will be confirmed
- 6.9.2 Decisions about whether individual senior managers are “slotted” (i.e. automatically placed) to the proposed posts in the structure will be done following the Kent scheme terms and conditions of employment. An individual may be slotted if all the following criteria are met:
- The job must be the same grade as before the re-organisation
 - There must be the same number of jobs (or more) as job holders
 - The job is deemed to be around 75% the same type of work in terms of job accountabilities, activities and broad objectives.
- 6.9.3 Following the slotting process, any remaining vacant posts will be filled by Member appointment panels in the normal way. It will be critical to the stability of the organisation and its ability to deliver transformation that any senior posts left vacant are filled as soon as possible and it is intended to hold the initial selection process during March 2015.

7. Changes since the Re-published Draft Budget Book and MTFP

- 7.1 We took the decision to republish the budget book to ensure it was available a day before the release of County Council papers, allowing members as much time as possible to consider the implications, particularly of collection fund balances. At the time, and as outlined in this report, we had not received the final Local Government finance settlement or the Business Rate notification from all district councils. We had no indication when the settlement would be announced or when we could expect the final business rate notification. Usually there is no change in the settlement between provisional and final, and the differences on Business rates are usually marginal.
- 7.2 The final settlement was announced very late on 3rd February (long after we had printed the republished budget books). Unusually, it included a change to the RSG. The change was in response to concerns about the outcome on the Social Fund in the provisional settlement and subsequent consultation responses, and the Government announced an additional £74m in RSG for upper tier councils. KCC’s share is just under £1.5m. This announcement impacts on our earlier proposal to make £1.25m available out of the Council Tax collection fund balance to re-establish a working budget for KSAS (as outlined in paragraph 5.5). Therefore we need to make a change to the republished budget book to increase the 2015-16 RSG (BB page 41 line 13) to £161,005.1k and revise the proposed budget for KSAS (BB page 49 line 40) to £1,481.5k. This will release an additional £1,250k from the Council Tax collection fund balance to contribute to reserves (see paragraph 7.5 below).
- 7.3 The final Business Rate tax base returns have now been received and confirmed from all districts. These show that KCC’s share of the overall tax base for 2015-16 is £49,227k. This is £1,626.1k more than baseline included in the published draft Budget Book. We have previously explained the difference between the baseline in the Local Government finance settlement and the local share based on district council returns. We had anticipated these would be broadly similar and thus the additional tax base is a welcome

bonus. At this stage we need to do more work to identify how much is due to genuine growth and how much relates to the outcome of outstanding appeals against the business rate revaluation from April 2010. The tax base returns also confirm the County's share of collection fund balances on 2014-15 as £450.6k, although as with Council Tax collections funds this is effectively one-off money as it is already factored into the £49.2m base for 2015-16.

- 7.4 These amounts from Business Rates need to be included in the approved budget, Business Rate Base (BB page 41 line 11) increase from £47,660.9k to £49,227k and Business Rate Collection Fund (BB page 41 line 12) from £0k to £450.6k. Overall the net budget will increase from £912,920.3k in the republished draft to £916,478.5k as a result of the additional RSG and business rates.
- 7.5 The impact of the last minute issues means there is an additional £1,700.6k one-off funding (the £1.250k from Council Tax collection fund not now needed for KSAS and £450.6k from Business Rate collection funds), and £1,626.1k of additional base budget. There has been very little time to consider how best this additional funding should be used. The 2015-16 budget and MTFP has been the most challenging we have ever faced, and whilst these late developments are a welcome move in the right direction, it would be inappropriate to make hasty changes to plans which have been evolved over several months.
- 7.6 As part of meeting this challenge we had planned to draw down £10.7m from earmarked reserves (MTFP page 91). This was a very difficult decision which we were forced to make earlier in the budget process than ever before. In light of the additional flexibility we now propose to reduce this drawdown by £4.5m. This extra balance in reserves will enable us to consider appropriate business cases for invest to save proposals in areas such as strengthening management capacity within children's services, find and fix pot hole repairs, responding to the financial challenges of the Social Care Act, and investing in additional capacity in Commercial Services to increase the dividend for KCC.
- 7.7 This revised proposal for earmarked reserves means we will have less than the £3.662m identified in the republished Budget Book and MTFP (as outlined in paragraph 5.3) above, and we can now only add an additional £2,488.3k into general reserve. This provides us with the best compromise to deal with some of the most pressing issues for 2015-16 (through having funds in earmarked reserve) as well as increasing our resilience to unknown risks in future years through general reserves. It also means the only change to the republished budget book (other than the funding changes to section 4 of the Budget Book outlined in this report, and KSAS budget line referred to in 6.2 above) is to Contributions to/from Reserves (BB page 65 line 147) which will change from -£1,139.3k to +£2,187.4k.
- 7.8 These late changes are unfortunate and have thwarted our intention to keep the budget proposals clear and provide members with full information as early as possible. Nonetheless we have endeavoured to keep the impact as simple as possible and rather than reprinting all the Budget Book and MTFP again we have reproduced section 4 of the Budget Book and appendices A(i) and A(ii) of the MTFP as part of this report. There will also need to be consequential changes to the two lines in section 5 of the Budget Book referred to above (page 49 line 40 and page 65 line 147). There will also need to be consequential changes to the tables in section 2 and section 3 of the MTFP document which will be reflected in the final version published in March.

8. Conclusions

- 8.1 The Corporate Director of Finance & Procurement (S151 officer) is satisfied with the robustness of the budget estimates included in the 2015-16 draft budget proposals and that the Authority has adequate reserves, as required by the Local Government Act 2003. The proposed budget has been formulated following a robust process of internal challenge with Cabinet Members and Corporate Directors, public consultation and scrutiny by Members of all political groups.

9. Recommendations

Recommendations:

The County Council is asked to agree the following:

- (a) Revised Revenue budget requirement of £916.479m for 2015-16
- (b) The revised revenue budget for KSAS (BB page 49 line 40) to £1,481.5k
- (c) The revised revenue budget for Contributions to/from Reserves (BB page 65 line 147) to £2,187.4k
- (d) Capital investment proposals of £727.262m over three years from 2015-16 to 2017-18 together with the necessary funding and subject to approval to spend arrangements
- (e) The Treasury Management Strategy as per section 5 of the Medium Term Financial Plan
- (f) Prudential Indicators as set out in Appendix B to the Medium Term Financial Plan
- (g) The Revised Minimum Revenue Provision (MRP) Statement as set out in Appendix C to the Medium Term Financial Plan including the revised policy regarding debt repayment
- (h) The directorate revenue and capital budget proposals as set out in draft Budget Book (amended as per (a) to (c) above) and delegate responsibility to Cabinet Members and Corporate Directors to manage the budget within the parameters set out in the Constitution and Financial Regulations
- (i) The 2.5% pot to fund pay and reward package outlined in paragraphs 3.2 to 3.4, including £400 minimum full time equivalent reward payment
- (j) Delegate authority to the Cabinet Member for Corporate and Democratic Services to agree the reward thresholds for staff assessed as achieving, achieving above, and outstanding and to set the recalibration of the pay ranges (other than £400 increase to the bottom of KR2), within the 2.5% funding approved in the budget
- (k) Approve the proposed operating framework and new Strategic and Corporate Services Directorate structure
- (k) Delegate authority to the Corporate Director of Finance & Procurement (in consultation with the Deputy Leader/Cabinet Member for Finance & Procurement and other group leaders) to resolve any minor technical issues for the final budget publication which do not materially alter the approved budget or change the net budget requirement
- (l) The total Council Tax requirement of £539,034,002 to be raised through precepts on districts and the Council Tax rates set out in paragraph 2.2 (band D £1,089.99)

In addition:

- (m) The County Council is asked to note the financial outlook for 2016-17 and 2017-18 with further anticipated funding reductions and spending demands necessitating additional savings under the Facing the Challenge and other transformation programmes

9. Background Documents

9.1 Budget Consultation launched 9th October 2014:

9.2 Outcome from Budget Consultation as reported to Cabinet Committees in January

9.3 Final report on Budget Consultation from Lake Market Research

9.4 Final notes from other KCC consultation activity including business sector, voluntary sector and staff workshops

9.5 Draft Budget Book and MTFP published 12th January 2014 (white cover, blank binding) and as re-published on 3rd February 2015 (blue cover white binding):

9.6 Response to Provisional Local Government Finance Settlement dated 15th January 2015

9.7 Minutes of Cabinet Scrutiny Committee 21st January 2015:

9.8 Cabinet Report 28th January 2015:

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