

From: Paul Carter, Leader of the Council
John Simmonds, Cabinet Member for Finance &
Procurement and Deputy Leader

To: County Council –20th October 2016

Subject: Autumn Budget Statement

Classification: Unrestricted

Summary: KCC's 2016-19 Medium Term Financial Plan (MTFP) showed unidentified savings of £52m for 2017-18 and £32m for 2018-19. Unidentified savings of this magnitude for the future years of the plan are unprecedented. These unidentified savings partly arise from the one-off solutions taken to balance the 2016-17 Budget. These one-off solutions were necessary in response to the larger than anticipated reduction in the Council's Revenue Support Grant (RSG). This larger than anticipated reduction stemmed from changes to the grant distribution methodology announced in the provisional settlement on 17th December 2015 which had not been subject to any prior consultation or notification. The scale of savings, on top of six years of significant real terms reductions, makes 2017-18 by far the most challenging budget we have ever had to set.

This report provides an update on progress on resolving these unidentified savings. This also provides an opportunity to update other forecasts in the MTFP affecting 2017-18 and 2018-19 e.g. spending demands. At County Council on 19th May the Leader announced that this progress would be reported to County Council as part of the full build-up to the budget being finalised and agreed in February 2017.

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 MTFP sets out the overall national and local fiscal context, KCC's revenue and capital budget strategies, and KCC's treasury management and risk strategies. It also includes a number of appendices which set out the high level 3 year revenue budget plan, a more detailed one year plan by directorate, prudential and fiscal indicators, and an assessment of KCC's reserves. These budget plans in the MTFP set out all the significant changes from the current year including additional spending demands, changes to funding, and the consequential savings needed to

balance the impact of these. This incremental approach to budgeting and financial planning is adopted by the vast majority of local authorities.

- 1.2 The draft budget for 2017-18 has not been produced in all the detail included in the annual budget book (A to Z analysis). This can only be produced for the final budget for February County Council. The purpose of this Autumn Budget Statement is to give Members an early indication of the likely budget equation i.e. rising demand/cost and reduction in government grants vs council tax and savings. This will enable Members to consider the extent to which rising demand/costs are unavoidable and the savings proposals necessary to balance the budget, as well as amply demonstrate why next year's budget is so challenging (especially against the backdrop of the £0.5bn of savings we have delivered since 2010/11). It also enables directorates to start the preparatory work so that savings can be delivered from the start of the year so as not to exacerbate the challenge. The autumn statement does not seek approval of the detailed budget or delegations to officers. We are also not seeking approval of council tax rate at this stage as this can only be sought once we have the tax base notification from district councils in January.
- 1.3 The statutory duty to set a balanced budget under section 32A of the Local Government Finance Act 1992 does not apply to this autumn budget report. This duty only applies to the forthcoming year's revenue budget at the time the County Council sets the council tax. The duty also does not apply to future year's plans in the MTFP. The duty requires authorities to set out their planned expenditure and income for the year in order to determine the "budget requirement" (including transfers to/from reserves). The budget requirement is funded from a combination of central government un-ring-fenced non-specific grants e.g. Revenue Support Grant, the local share of business rates and ultimately the council tax requirement. The council tax requirement comprises the estimated band D equivalent tax base multiplied by the band D rate approved by the council. This band D rate is subject to the referendum regulations.
- 1.4 KCC has an exemplary record of financial management. Not only have we been able to set a balanced budget each year as required by the legislation but in each of the last 16 years we have ended the year delivering the budget and returning a small underspend. Achieving this is not without its' own challenges, and inevitably spending demands arise during the year which we could not have foreseen and some savings plans may be over or under delivered. A rigorous in-year budget monitoring regime ensures that variances are identified early and corrective action implemented. An assessment is then made as to the implications for the medium term financial plan. This robust medium term financial planning and rigorous monitoring regime are the principal factors which contribute to this exemplary record.
- 1.5 There are no changes proposed to the published capital programme at this stage. We are considering a number of new bids and any that are considered suitable to put forward will be included in the final budget presented to County Council in February together with any associated revenue implications.

2. MTFP Updates

- 2.1 This report includes a number of updates to sections and appendices in the published MTFP. The report also includes a very high level summary of the current situation relating to the draft revenue budget for 2017-18. These sections have been produced as appendices to the report rather than as separate documents (as produced for the final draft documents and approval at County Council in February).
- 2.2 Appendix 1 sets out the high level whole authority financial plan originally shown as appendix A (i) in the published MTFP document. This summarises the revised spending, funding and savings proposals and shows the remaining unidentified savings for 2017-18 and 2018-19 compared to the original plan. The £5.2m unidentified for 2017-18 is a reasonable gap at this juncture bearing in mind the number of estimates that will need to be updated when the final balanced budget is presented to County Council in February.
- 2.3 Appendix 2 is the more detailed version of appendix 1 showing the individual directorate components (originally shown as appendix A (ii) in the published MTFP document which set out the detailed 2016-17 spending and savings proposals). This appendix includes the same updates to 2017-18 and 2018-19 figures as appendix 1.
- 2.4 Appendix 3 sets out the County Council's current approach to the investment of cash balances under the Treasury Strategy (originally approved under section 5 of the published MTFP document). The budget proposals include some changes to this approach in order to generate a higher return, the options and implications of which are also set out in Appendix 3. This revised investment target has received informal cross-party support through the Treasury Management Appraisal Group.
- 2.5 Appendix 4 sets out the current Minimum Revenue Provision (MRP) policy statement (as shown in appendix C of the published MTFP document). The savings proposals include a revised calculation of the amounts we set aside to cover future loan repayments and capital borrowing requirements as part of the solution to the 2017-18 and future year's budgets. The revised calculation is outlined in this report but does not require any change to the MRP policy statement.
- 2.6 Appendix 5 sets out a very high level summary of implications on the A to Z budget for the whole council. This includes a notional share of unallocated pressures and savings shown in the updated MTFP (appendix 2) e.g. Total Contribution Pay rewards, although final allocations based on actual data may end up with a different distribution. For the first time we have identified indicative amounts for individual service lines funded from council tax and therefore notional amount within the band D charge for these services. Although this can ever only be a notional council tax contribution we feel it is an inevitable development following the introduction of the social care levy.

2.7 The overall position for 2017-18 is summarised in table 1. This shows the substantial progress made in reducing the unidentified savings.

| Financial Challenge | | | Financial Solution | | |
|---------------------------------|---------------------|--------------------|----------------------------|---------------------|--------------------|
| Table 1 | Original MTFP £m | Updated MTFP £m | | Original MTFP £m | Updated MTFP £m |
| Spending Demands | 58.8 | 57.2 | Council Tax/Business Rates | 21.2 | 27.9 |
| Net Government Grant Reductions | 43.7 | 51.1 | Identified Savings Options | 29.4 | 75.2 |
| | | | Unidentified Savings | 51.9 | 5.2 |
| | 102.5 | 108.3 | | 102.5 | 108.3 |

We have been able to slightly reduce forecast spending demands but that the settlement from Government is now likely to be worse than we anticipated when the MTFP was published (as a result of the surprise announcement on Education Services Grant). As part of the solution we are forecasting additional council tax receipts (from a combination of increasing number of households in the tax base, reduction in council tax support discounts, and in-year collection fund balances). We have also made substantial progress in identifying possible savings options but still have a little way to go. Some of the savings options are one-offs which will mean we need to find alternative sustainable solutions in future years.

2.8 The main savings options identified to date in order to balance the budget in the updated MTFP are shown in table 2 below. Full details of these options are included in appendix 2.

| Table 2 | Updated MTFP £m | | Updated MTFP £m |
|-------------------------------|--------------------|--|--------------------|
| <u>Transformation Savings</u> | | <u>Increased Income</u> | |
| Adult Social Care | 13.3 | Client Income | 3.2 |
| Digital Communications | 0.6 | Trading Income | 1.9 |
| Tactical Procurement | 2.0 | Other Agencies | 2.0 |
| Other | 3.3 | Investment Strategy | 2.3 |
| | | Other | 0.5 |
| <u>Efficiencies Savings</u> | | | |
| Staffing | 8.9 | <u>Policy Changes</u> | |
| Contracts | 11.7 | Social Care | 3.0 |
| Other | 4.1 | ESG Support to Schools | 1.0 |
| | | Other | 0.7 |
| <u>Grant Income</u> | | | |
| New DSG block for ESG | 3.4 | Total | 75.2 |
| <u>Financing Savings</u> | | Items in Bold agreed by cross party advisory groups | |
| Drawdown Reserves | 6.8 | | |
| Capital Receipts | 2.5 | | |
| Capital Financing | 4.1 | | |

3. Funding Assumptions

- 3.1 The funding assumptions are set out at the bottom of appendices 1 and 2. This order reflects the section 32A requirements outlined in paragraph 1.3. The funding assumptions can be broken down into 3 main elements; Central Government grants, council tax, and business rates. The underlying assumptions within each element are outlined below.

Central Government Grants

- 3.2 The majority of the grants estimates are based on the indicative amounts announced in the final local government finance settlement on 8th February. This includes revenue support grant (RSG), business rates top-up, new homes bonus grant (NHB), transitional grant and improved Better Care Fund (iBCF). We have confirmed that we are taking up the offer of a four year settlement which confirms these allocations unless any changes are needed in exceptional circumstances. In taking up the offer we have made it clear that we expect the indicative allocations for future years should be the absolute minimum that we end up receiving.
- 3.3 Consultation on the 2017-18 provisional settlement was launched on 15th September. This consultation seeks views on the iBCF allocations, council tax referendum principles and adjustments to tariffs and top-ups following the 2017 business rate revaluation. The consultation closes on 28th October. We expect the outcome to be announced as part of the 2017-18 provisional local government finance settlement, sometime after the Chancellor's Autumn Statement on 23rd November. The NHB allocations in the 2016-17 settlement were also subject to a consultation which closed on the 10th of March. The outcomes from this consultation have not yet been announced. These consultations give no indication that we should change our assumptions until we have the provisional settlement announcement.
- 3.4 The 2017-18 schools revenue funding arrangements were announced on 21st July. This announcement confirmed that the changes to introduce a national formula for Dedicated Schools Grant (DSG) have been deferred for a year. The announcement confirmed that no authority will face a reduction in the funding per pupil in schools block or any overall reduction in cash terms in the high needs block.
- 3.5 The schools announcement also included a change to Education Services Grant (ESG). It was announced in the 2015 Spending Review that ESG would be reduced by £600m over the spending review period. We had assumed this meant the grant would be phased out over a number of years pending further consultation. The 21st July announcement came with no prior consultation and transfers the core element of ESG (£15 per pupil in all schools and academies) into a new DSG block (£3.4m in total), and removes the general element (maintained schools only) entirely from September 2017. We have assumed we can top-slice from the new DSG block in order to maintain the core services although constraining spend to this amount without topping-up DSG will be a challenge. This will have to be discussed and agreed at the Schools Forum.

- 3.6 The total loss of general element of ESG announcement came as a complete surprise and is a significant and detrimental change from the phased reduction we had assumed in the published MTFP. It means KCC will receive £4.1m less than we had assumed for 2017-18, with a further £3.5m full year effect in 2018-19. We cannot make savings of this magnitude from the services we provide to schools, and some services will need to continue to be maintained in spite of the unexpected grant loss (and therefore at the expense of other council services). There are some other services that schools will have to pay for, or we will have to cease to provide. In light of the announcement just before the summer break we have not been able to discuss with schools which services will be affected or set out all the details in the autumn budget proposals.

Council Tax

- 3.7 The 2016-17 tax base notification from districts showed an increase of 2.1% over 2015-16. This was higher than the 1% we had assumed in the budget plan. This was the second year of higher than anticipated growth since council tax support for those on low incomes transferred to local authorities in 2013. As a consequence we undertook to conduct a more detailed examination of the underlying reasons contributing to the change.
- 3.8 This examination showed that around half of the change in the tax base is due to new properties on the valuation list (consistent with the 1% previous assumption). Around 40% of the increase is due changes in council tax support claims and the remaining 10% is due to changes in other discounts, estimates for new developments, change in collection rates, etc. From this evaluation we concluded we need to include an element for changes in council tax support claims in the tax base estimate. Consequently we have increased the tax base estimate for 2017-18 from 1% to 1.25%. This is less than the detailed examination would indicate but includes a degree of prudence to allow for the uncertain economic impact of the BREXIT vote. This revised assumption increases the assumed tax base by around £1.5m.
- 3.9 The council tax estimates also assume the County Council will agree to increase the council tax rates each year. This is consistent with the Government's assumptions in the Core Spending Power and is necessary to achieve the "flat cash" assumed in the Spending Review. We have assumed KCC agrees an increase up to the referendum level each year (estimated to be 2%) and the additional 2% social care levy. In 2016-17 KCC was one of the 94.7% of councils with social care responsibilities which took up the additional social care council tax precept (only 8 authorities did not take up any of the precept).
- 3.10 As referred to in paragraph 3.3, the council tax referendum principles are subject to consultation and annual parliamentary approval (usually as part of the local government finance settlement). The council tax estimates should be treated as planning assumptions and not definitive, but if agreed at County Council in February would see the KCC element of the Band C charge increase from £1,007.60 this year to £1,047.84 next year.

- 3.11 All Kent districts have conducted a review of their local Council Tax Reduction Schemes during 2016 with a view to updating council tax support discounts from 2017-18. These reviews have looked into options to change the maximum discount for working age households (with knock on consequences to the tapered discount for other working age households), the calculation of household income, and a number of other aspects of schemes inherited from the previous council tax benefit arrangements. The published MTFP included no estimates on the tax base from these reviews. Districts have not yet agreed any changes but based on their consultation papers we think it reasonable to assume a 0.5% increase in the tax base (approx. £3m) from these reviews.
- 3.12 Since the localisation of council tax support we have seen the estimated council tax collection fund surplus increase each year. The estimated surplus on 2015-16 collection included in the 2016-17 budget was £11.2m. The estimated council tax and business rate collection fund balances have to be taken into account in setting the balanced budget under the section 32A requirements. Districts must notify precepting authorities of their estimated share by 31st January. Previously we have included no assumption of collection fund balances prior to this notification. This often means that collection fund balances are the last piece of the jigsaw.
- 3.13 We now believe it reasonable to include a prudent assumption for council tax and business rate collection fund balances in estimated funding at an earlier stage. Therefore, we have adjusted the 2017-18 MTFP to include an assumed net £2m surplus. This is derived from an assumed surplus on council tax collection and deficit on business rate collection (see 3.14 below).

Business Rates

- 3.14 The contribution from business rates towards the council's overall funding continues to be relatively small (5.6% of overall funding in 2016-17). Consequently we have not made any changes to the assumption in the published MTFP with KCC's local share increasing by 2% through the annual uplift in the multiplier and retained business rate growth. We have also assumed the pooling arrangements with Kent districts will continue.
- 3.15 Business rate income is volatile. This volatility is caused by changes in local economic conditions (business moving, ceasing trading and new businesses starting up) and from the impact of appeals. These can have a significant impact on the business rates collected in local districts with a knock-on impact on KCC's share. In 2016-17 KCC's share of the estimated business rate collection fund balance across the 12 districts was a deficit of £2.1m. Bearing in mind KCC's relatively small share of the business rate yield (9%) this demonstrates the much greater volatility in income from business rates. We have assumed a similar figure for business rates in the overall net surplus on collection funds referred to in paragraph 3.12 above.
- 3.16 Business rate income is likely to be even more volatile in 2017-18 due to the impact of the business rate revaluation deferred from 2015-16. This is the first revaluation to have taken place since the current 50% retention

was introduced. As outlined in paragraph 3.3 the government has launched consultation on the provisional 2017-18 settlement which includes incorporating the impact of the revaluation. Initial analysis of the revaluation shows much greater increases in rateable values in London compared to the rest of the country (average 22.8%) with the south east next highest (8.6% average).

- 3.17 The overall impact of all the changes in the funding assumptions is a net reduction of £0.7m compared to the published MTFP. The main elements being the £3.4m transfer of core ESG into DSG, £4.1m loss of general ESG, £1.5m increase in council tax base, £3m from revised local council tax reduction schemes, and £2m assumed net collection fund balances (plus other minor changes).

4. Spending Demand Assumptions

- 4.1 Details of all the spending demand assumptions can be found in appendix 2. These are ordered so that known changes are detailed first (budget realignment and replace the one-off use of reserves) followed by forecast future pressures (pay rewards, price increase, increase client numbers/complexity, etc.). The overall assumed pressures for 2017-18 are now £1.6m less than the £58.8m included in the published MTFP.

Realignment

- 4.2 In order to comply with the section 32A requirements and the S151 officer opinion (see section 7 below) we must take account of known changes since the current year's budget was approved. The approved budget in February is based on the most up to date budget monitoring, usually the position at quarter 3. Since the requirements do not apply to this autumn budget we have focussed any changes in the realignment assumptions to those arising out of Q4 2015-16. The final budget in February will need to take into account the impact of budget realignments arising out of the 2016-17 budget monitoring (which no doubt will change during the course of the year). Consequently the latest budget re-alignment only amounts to an additional £1.2m compared to the published plan.

Replacement for Use of Reserves

- 4.3 The 2016-17 budget included £10.852m of one-off use of reserves (£6.252m from earmarked reserves, £4.1m from uncommitted 2014-15 under-spend and £0.5m from Kings Hill reserve). The published MTFP included a matching pressure in 2017-18 to replace the use of these reserves. Members should note this pressure is to replace the use of reserves as a funding mechanism, not to replenish the reserves. This matching pressure is unchanged in the updated 2017-18 MTFP. However, the updated MTFP also includes a further £7.8m use of reserves and other one-offs proposed for 2017-18 (£4.4m draw down from earmarked reserves, £2.4m from uncommitted 2015-16 underspend and £1m review of bad debt provision). This requires the matching replacement pressure in 2018-19.

Pay and Reward

- 4.4 The current assumption for pay progression for Kent scheme staff is that the overall “pot” would amount to around 2.2% for 2017-18. This is derived from a combination of the additional funding identified in the MTFP and assumed pay regression from staff turnover where new members of staff are generally appointed at the bottom of the pay range. The MTFP element is £1.1m less than included in the published plan. The final reward package cannot be agreed (and funding allocated to directorates) until Total Contribution Pay (TCP) assessments have been completed later in the year. Consequently the MTFP element is held “unallocated” at this stage. The MTFP provision for 2018-19 would equate to an estimated 2.8% pot.
- 4.5 The pay provision also includes for an estimated £2m increase in employer’s pension contributions arising from the actuarial review of the pension fund assets and liabilities. This was not included in the original published plan. The actual requirement will be known in November, upon receipt of the Actuary’s report.

Price Inflation

- 4.6 Price inflation is linked to Retail Price Index (RPI), Consumer Price Index (CPI) and the myriad of detailed indices which underpin these headline measures. Some contracts include specific indexation clauses. Some prices are not index linked but are subject to negotiation which includes reference to published indices, National Living Wage, etc. We have updated the provision for prices in the updated plan based on current indices (which continue to be lower than the 2% target on which we based our assumptions in the published plan), this has reduced price provision by £8.2m. However, we will need to pay close attention to inflation movements during the autumn as most independent analysts are suggesting inflation could rise towards the 2% target by 2017.

Demography

- 4.7 Demographic demands arise from increases and shifts in the population (including the ageing population), increases in the number of households, and in many cases increasing complexity of client needs. These demographic factors place additional demands on council services. In total we have increased the impact of demographic pressures for 2017-18 by £1.5m compared to the £15.6m in the published MTFP. This is mainly due to forecast trend of an increasing proportion of looked after children being placed into more expensive care.

Other Spending Demands

- 4.8 We have increased a range of other spending demands (legislation and service strategies) in 2017-18 by £3.1m compared to the £5.8m included in the published MTFP. The increase arises from a combination of new national legislative factors e.g. Deprivation of Liberty Safeguards (DoLS); local decisions stemming from new powers e.g. additional borrowing to support capital schemes to enable receipts to be diverted to fund transformation costs; and other local factors which have arisen since the plan was published e.g. the Select Committee recommendation on home

to school transport. Full details of these other demands are set out in appendix 2.

5. Savings Proposals

- 5.1 The overall savings requirement for 2017-18 has reduced from £81.3m in the published plan to £80.4m as a result of the revised funding and spending assumptions outlined in sections 3 and 4 above. We have identified revised proposals of £75.2m of deliverable savings, leaving a small unresolved gap of £5.2m. As identified in paragraph 2.2 this is an acceptable margin for error at this stage in the year. As already identified in paragraph 4.3 some of the proposed solutions in 2017-18 are one-offs which increase the savings target for 2018-19.

Transformation Savings

- 5.2 We have embarked on a number of transformation programmes. We have previously identified that transformation savings are more risky than other approaches as they require behaviour and other changes, some of which are outside of our direct control. This means we tend to be prudent when estimating the longer term savings from transformation programmes. Overall we have increased the proposed transformation savings in 2017-18 by £12.2m (now proposing £19.2m of savings in the updated plan). This includes an additional £8.3m from adults' transformation programmes, £2m from bringing together other procurement activity and contract management, further multi agency working in GET and further savings from the transformation of contact centres & web platform.

Income Generation

- 5.3 We are proposing updated options to generate an additional £9.9m of income, an increase of £6.9m from the published plan. New proposals include a more aggressive investment strategy delivering a higher rate of return and £1.7m additional income towards the original budget gap in the published plan. This revised strategy comes with additional but acceptable risks as set out in appendix 3. We are also planning to raise an additional £1.9m from trading with schools, academies, and other local authorities and public bodies. This is an increase of £1.5m compared to the published plan. The updated plans also include updated assumptions on income from client charges but do not introduce any new charges.

Efficiency Savings

- 5.4 Proposed efficiency savings in 2017-18 have increased from £10.9m in the published plan to £24.7m in the updated plan. This is close to the 3% target that we have previously set and includes the following:
- Staff savings increased from £2.3m to £8.9m. This includes an estimated £7.9m from individual team options and a further £1m from crossing cutting review of management structures and stricter enforcement of corporate standards
 - Premises savings increased from £1.1m to £1.5m as a result of further application of new ways of working
 - Contractual and other savings increased from £7.6m to £14.3m. This includes a wide range of proposals to deliver both front line and

support services more efficiently without any detrimental impact on outcomes. Full details are included in appendix 2.

Policy Changes

5.5 The savings from local policy choices i.e. changes to KCC's local discretionary choices, have been reduced from £6.6m originally scheduled in the published MTFP to £4.7m in the latest updated plan. This includes the £1m of additional savings in response to the recently announced change in ESG and means we will no longer be able to provide some central services to schools free of charge, schools will either have to pay for these services or we will have to cease to provide them. The ESG announcement gives us time to work up these proposals as the funding change takes effect from September 2017 and we do not have a detailed plans at this stage (hence the £1m target savings is "unallocated" at this stage).

Financing Savings

5.6 We have undertaken a further fundamental review of the £124m "financing items" budget. The vast majority of this budget is used to finance outstanding debt and the current capital programme. Overall proposed financing savings have increased from £1.7m in the published plan to £13.4m. This includes the £6.8m use of reserves and underspends referred to in paragraph 4.3 and £2.5m under the new power enabling the use of capital receipts to fund transformation activity referred to in paragraph 4.8.

5.7 The remaining £4.1m of savings come from a further revision to the way we apply the council's Minimum Revenue Provision (MRP) policy. The policy has been reproduced in appendix 4. MRP requires the Council to set aside a "prudent" provision each year to cover the repayment of historic capital debt as it matures and new debt needed to fund the capital programme. The policy allows some latitude in the amounts set aside each year providing that the total meets our capital financing requirement and that the annual provision is considered "prudent" by the Council in its obligation to repay debt and replace its assets.

5.8 The additional proposed MRP savings is still based on a prudent approach. Under the current approach we would be making circa £500m in the provision over the 10 years between 2017-18 to 2026-27. This covers approx. £220m of debt which will mature in those years and leaves a healthy reserve to cover longer term debts maturing up to 2068-69. The current provision, calculated according to guidance, sets aside larger amounts in early years (£60m) with the annual provision diminishing to £35m by 2026-27. This allows scope to take out new debt within the existing revenue budget, but this would likely exceed our fiscal indicator. The new approach would re-phase the provision to set aside £56m in year 1, reducing by a £1m each year, resulting in us still setting aside the overall £500m over the 10 years. This delivers an immediate revenue saving (and while it diminishes the scope to take out new debt it doesn't entirely eliminate it which a less prudent approach e.g. the simple straight line equal amount per annum, would do).

DSG

- 5.9 The updated plan assumes that we will be able to top-slice additional income from DSG to cover the £3.4m core element of ESG which will transfer in 2017-18. We anticipate that we will need the approval of the Schools Forum to make this top-slice.
- 5.10 The overall changes to the savings proposals between the published MTFP and the latest update are summarised in table 3.

| | 2017-18 | | 2018-19 | |
|--------------------|-------------------|-----------------|-------------------|-----------------|
| | Published MTFP £m | Updated MTFP £m | Published MTFP £m | Updated MTFP £m |
| Transformation | 7.1 | 19.2 | 3.3 | 12.8 |
| Income | 3.0 | 9.9 | 1.3 | 3.6 |
| Efficiencies | 10.9 | 24.7 | 0.1 | 4.2 |
| Policy | 6.6 | 4.7 | 3.0 | 1.2 |
| Financing | 1.7 | 13.4 | 0.0 | 2.5 |
| DSG to replace ESG | | 3.4 | | 0.0 |
| Unidentified | 51.9 | 5.2 | 31.1 | 17.7 |
| Total | 81.3 | 80.4 | 38.7 | 42.0 |

6. Directorate Headlines

Education & Young People's Services

- 6.1 The EYPS Directorate is looking at innovative ways of generating additional income of £1.9m in 2017-18 through the creation of strategic packages for schools and academies within Kent and other local authority areas. These strategic packages are being developed to align with the government's current education policy. In addition the Directorate will continue to provide cost effective services to support improving attainment and standards and a support network which allows our schools to focus on standards. Finally we are looking at maximising the opportunities to grow the income which is returned to the Council from schools traded services by obtaining greater market penetration within Kent and in other areas, as well as the development of an Education Services Company .
- 6.2 The directorate is looking to save around £2m from the SEN Home to School transport budget in 2017-18 through a combination of transformational activity. Firstly through smarter route optimisation and changes to our procurement practices we plan to make savings on the current costs. We have already had success in some special schools and we will continue to take advantage of opportunities afforded by new technologies and different approaches to procurement, to drive additional savings from travel into the remaining special schools. Secondly through the continuation of providing personalised transport budgets to parents to enable them to arrange their child's travel to school arrangements. Finally we will continue to roll out the successful independent travel training

programme which aims to give dependent children the skills and the confidence to get to school using public transport.

Social Care, Health & Wellbeing

- 6.3 The major savings within the MTP are based upon the Adults Transformation programmes. The Council expects to see further savings coming through from Phase 2 in areas such as enablement and improved outcomes from hospital discharge. There will be further projected savings in 2017-18 from Phase 3 of the Programme and further savings from the full implementation of Phase 3 in 2018-19. The full assessment process is currently in progress from which will flow the specific savings plans for the Programme. A key part of the Phase 3 programme will be to increasingly position Adult social care to be ready to take the full integration opportunities with the NHS signalled in the 5 Years Forward document. The Council is already engaged in a number of integrated service arrangements but this does need to be taken further. In addition to this, other key savings are based upon more targeted and efficient commissioning in areas such as Housing Related Support and the Better Care Fund or achieving still further efficiency savings in the back office and across Adults and Children's services.
- 6.4 Given the pressures on Specialist Children's Services budget in the current year further savings in 2017-18 are more based upon increasing efficiencies and more targeted commissioning in areas of leaving care, improved levels of in house fostering, Family Group Conferencing etc. The action plan for addressing the current pressures will need to run well beyond the end of the current financial year. This plan is comprehensive in covering areas such as residential care, alternatives to care and staffing. The service continues to fully implement the practice and management changes contained within the Transformation Programme in terms of case progression and the interface with Early Help. A further £1m of savings are expected to flow from this work in 2017-18. Specialist Services also hope to feel benefit in terms of impact upon demand of the work of the Early Help Service with which we need to continue to work extremely closely.

Public Health

- 6.5 During 2017-18 public health will see the implementation of a number of programmes focusing on the delivery of improved outcomes from the reducing Public Health Grant. In children's services we will continue to embed a programme with Kent Community Health Foundation Trust to redesign the health visiting service, improving performance in mandated developmental checks, and reshaping a more localised service better connected with General Practice, children's centres and wider early years provision. This programme has successfully delivered efficiencies during 2016-17 and we look forward to embedding the new model in partnership. In other children's services we will also see the mobilisation of the new school nursing contract, with a much greater focus on children's emotional wellbeing, in particular with a clear focus on resilience. This will see better intervention at an earlier stage reducing demand on expensive specialist mental health services. The new service is also structured to bring a much sharper focus on adolescence, and how we can support young people to

develop healthier patterns of behaviour at a young age, and support families at the earliest point before problems exacerbate.

- 6.6 For adults the new contract for adult health improvement will commence in April 2017. This will see the mobilisation and implementation of a new model across Kent transforming our approach with better use of technology and digital support, and better use of community resources to motivate and encourage people to live healthier lifestyles. The services will be more intelligently targeted locally, ensuring that we target in areas of high health inequalities across Kent. We will also be looking at how we better connect a range of health related issues for example substance misuse, and mental health services, and align this all closely with the adult social care transformation focusing on promoting wellbeing across our residents.
- 6.7 Throughout this, we will continue our programme of work to deliver better contracts and more effective contract monitoring from which we have seen significant efficiencies alongside better performance. We will also continue to work closely with our partners across health and wellbeing boards promoting prevention at every opportunity setting out the return on investment for prevention clearly and the case for reducing demand for more expensive services. This will include our focus on physical health such as in our adult health improvement services on smoking and obesity, two of the core public health issues as well as our work with partners embedding the new community wellbeing model for early intervention in mental health.

Growth, Environment & Transport

- 6.8 A £40m capital project to convert all 118,000 of KCC owned streetlights to LED technology will deliver in excess of £5.2m annual savings once the programme is complete. The project, which is primarily funded (£27m) by an interest free loan from Salix, will also reduce our carbon footprint significantly. The programme future proofs KCC by virtue of a 15 year warranty, it reduces future unfunded inflationary energy prices and it saves both energy and cost.
- 6.9 Whilst waste tonnages and contract prices are forecast to increase (due to population growth and inflation), the cost of recycling and final disposal of waste in Kent is now lower than it was four years ago through effective commissioning and transferring risk to the operators of our HWRC's. This has been delivered at the same time as KCC has reduced waste to landfill from 19% in 2013 to below 2% now, well ahead of the national target of 5% by 2020.
- 6.10 The directorate is already supported by significant levels of income generated by services. The 2017-18 MTFP shows in excess of £1m of further income to be generated. A concerted effort has been made by the directorate to review its fees and charges, identify new areas of income and also to ensure where gross expenditure is pared back, that this is not focussed in income generating areas as there will be no net saving.

- 6.11 An example of a service adopting a more commercial approach is that of Country Parks and Countryside Access, which has gross expenditure of £2.4m but generates income to part fund 75% of this budget through café, car parking and room/function hire income. Similarly Libraries, Registration and Archives generate nearly £6m of income through fees and charges and are transforming into an internally commissioned service to ensure the authority's outcomes are met in the most value for money way.
- 6.12 The directorate is looking to achieve a further £2m of savings, without impacting on front line delivery, by reviewing the way it procures and manages its contracts, as well as working with partners and pooling resources to maximise outcomes but still delivering a net budget reduction. In 2016-17, 77% of the gross budget is non-staffing spend.
- 6.13 An example of where the already strong contract management within the directorate is being continuously being reviewed is the work being undertaken on the Highways Term Maintenance contract, which expires in August 2018. This contract, and other similar agreements, are being reviewed to ascertain whether they meet the outcomes of delivering the right services, at the right price and on time to the customer. The directorate is working with key stakeholders in the business, is seeking advice from other local Authorities on their different delivery models, as well as taking professional advice from the Local Government Association.

Strategic & Corporate Services

- 6.14 The SCS Directorate has been through a transformation programme undertaking market engagement and service review activities to ensure delivery of focussed, effective and efficient services to our customers. This has led to the development of new models for service delivery for property through a wholly owned Local Authority trading company (GEN2) and legal services through a second wholly-owned company which will operate as an Alternative Business Structure (ABS) for the delivery of legal services to the Council and the wider market. GEN2 is targeted to return an annual dividend of up to £1m by 2019. The ABS is projected to deliver increasingly profitable income streams through a mixture of efficiencies and external growth and the financial model assumes benefits to KCC of circa £7.6m over the next 10 years.
- 6.15 The establishment of the Business Services Centre has allowed for a cheaper and more effective delivery of our back office transactional services. Opportunities to further build on the success of the traded services to Schools such as HR and payroll, IT services and DBS provision, to wider markets, are currently being scoped.
- 6.16 Many of the MTFP savings across the Council will be deliverable due to the continued technological advances being driven by ICT. Enabling a more mobile workforce will bring efficiencies to all front line services and present the opportunity for further rationalisation of the office estate. By leveraging our strategic partnership with Microsoft, ICT can move many of our services to the Cloud, effecting savings in the costs of running expensive on premise datacentres.

6.17 The majority of the S&CS Directorate savings come from applying less money more intelligently. S&CS have been undertaking many business process 'LEAN' reviews allowing staff to work more efficiently and effectively, leading to staffing reductions whilst maintaining support to front line services.

7. Robustness of Estimates and Adequacy of Reserves

7.1 Under the Local Government Act 2003, the Section 151 officer (for Kent this is the Corporate Director of Finance and Procurement) must formally give opinion as to the robustness of the budget estimates and the level of reserves held by the Council. As with the statutory duty to set a balanced budget this requirement does not apply to the autumn budget. However, we have set out below the tests which the Corporate Director applies when endorsing the budget estimates.

7.2 The estimates are produced from a challenging process with Cabinet Members, Corporate Directors and Directors resulting in agreement on the level of service delivery within the identified financial resources. In addition, the Medium Term Plan sets out the main budget risks, alongside the proposed management action for dealing with these.

7.3 The Medium Term Plan also clearly sets out the recommended strategy for ensuring adequate reserves. This is set in consideration of a number of key factors, such as our continued excellent record on budgetary control, the internal financial control framework, our strong approach to risk management and the expected level of General Reserves at 31st March 2017. The level of general reserves is in line with best practice as recommended by CIPFA and the Audit Commission.

7.4 A number of the spending demands, funding assumptions and savings proposals are very early estimates at this stage and are likely to change by the time the final draft budget is published and approved by County Council in February. These uncertainties include the impact of inflation of the price we pay for goods and services, impact of demographics on the demand for services, delivery of a balanced budget in 2016-17 and the need to realign budgets in light of current year performance, economic factors, legislative requirements, phasing and timing of proposed savings, etc.

7.5 One of the most significant risks to the financial plans outlined in this report is from the Asylum Service. We remain concerned about the financial uncertainty we find ourselves in the current financial year and even more critically going forward into next year and beyond. We are grateful to the Minister for the fact that we have been offered the same weekly grant rates for 2016-17 that we received for 2015-16. However we are currently projecting an overall £2.8m shortfall in grant income compared to our predicted costs for this year.

8. Conclusion

- 8.1 The updated MTFP plan has made tremendous progress towards being able to set a balanced budget in February. A high number of uncertainties remain, although this is not unusual or unexpected at this stage in the budget cycle. As already identified the 2017-18 budget is by far the most challenging the county council has faced in recent years. This autumn budget statement provides members with an update on the latest position and enables preparatory work and consultation to begin to ensure full year effect can be achieved in 2017-18.

9. Recommendations

The County Council is asked to:

- a) AUTHORISE Corporate Directors to make the necessary arrangements to be able to deliver savings once the final budget has been approved in February, and to develop further proposals to resolve the unidentified gap and resolve the uncertainties should these arise.
- b) AGREE the savings from a revised approach to the Minimum Revenue Provision policy (as detailed in paragraph 5.8)
- c) AGREE the additional income target for returns on our cash balances, as detailed in Appendix 3
- d) RECOGNISE the excellent progress on eliminating the £52m gap that was included in the published MTFP for 2017-18, down to its current level of £5.2m

10. Background Documents

- 10.1 KCC approved 2016-17 Budget and 2016-19 Medium Term Financial Plan
<https://www.kent.gov.uk/about-the-council/finance-and-budget/2016-17-budget>

- 10.2 Budget consultation materials published on KCC website can be found at
www.kent.gov.uk/budget

11. Contact details

Report Author

- Dave Shipton
- 03000 419418
- dave.shipton@kent.gov.uk

Relevant Corporate Director:

- Andy Wood
- 03000 416854
- Andy.wood@kent.gov.uk

| | 2017-18 | | 2018-19 | | 2019-20 | |
|--|---------|----------------|---------|----------------|---------|----------------|
| | £000s | £000s | £000s | £000s | £000s | £000s |
| Revised 2016-17 Base Budget | | 911,050 | | 887,882 | | 898,704 |
| Additional Spending Pressures | | | | | | |
| Net budget realignments from previous year | 1,192 | | 60 | | -40 | |
| Replacement of one-off use of reserves to fund base budget | 10,852 | | 7,800 | | 5,000 | |
| Pay & Prices | 19,129 | | 25,102 | | 26,839 | |
| Demand & Demographic | 17,146 | | 18,020 | | 23,854 | |
| Government & Legislative | 2,147 | | 400 | | | |
| Service Strategies and Improvements | 6,733 | | 1,360 | | 25 | |
| Total Pressures | | 57,199 | | 52,742 | | 55,678 |
| Savings & Income | | | | | | |
| <u>Transformation Savings</u> | | | | | | |
| Adults Transformation Programmes | -12,028 | | -8,598 | | -447 | |
| Children's Transformation Programmes | -312 | | -285 | | -120 | |
| Other Transformation Programmes | -6,816 | | -3,872 | | -426 | |
| Income Generation | -9,868 | | -3,592 | | -2,222 | |
| <u>Efficiency Savings</u> | | | | | | |
| Staffing | -8,872 | | -1,717 | | -16 | |
| Premises | -1,496 | | -350 | | | |
| Contracts & Procurement | -11,723 | | -2,051 | | | |
| Other | -2,616 | | -104 | | | |
| Financing Savings | -10,850 | | | | | |
| Use of Capital Receipts | -2,500 | | -2,500 | | | |
| Policy Savings | -4,723 | | -1,192 | | | |
| Total Savings & Income | | -71,804 | | -24,261 | | -3,231 |
| Public Health & Other Grants | | | | | | |
| Estimated reduction in Public Health Grant | 1,753 | | | | | |
| Public Health Service Reductions | -1,753 | | | | | |
| Education Services Grant tipped into DSG | -3,360 | | | | | |
| | | -3,360 | | | | |
| Unidentified | | -5,203 | | -17,659 | | -27,421 |
| Net Budget Requirement | | 887,882 | | 898,704 | | 923,730 |
| <u>Funded by</u> | | | | | | |
| <u>Un-ringfenced Grants</u> | | | | | | |
| Revenue Support Grant | 66,476 | | 37,640 | | 9,487 | |
| Transition Grant | 5,685 | | | | | |
| Business Rate Top-Up Grant | 126,402 | | 130,131 | | 134,290 | |
| Education Services Grant | 3,500 | | | | | |
| Other un-ringfenced grants (estimate) | 13,947 | | 10,330 | | 9,953 | |
| Improved Better Care Fund | 301 | | 17,525 | | 33,683 | |
| Local Share of Retained Business Rates | 52,358 | | 53,801 | | 55,412 | |
| Business Rate Collection Fund | | | | | | |
| Council Tax Yield | 593,933 | | 612,295 | | 631,493 | |
| Proposed Social Care Precept | 23,281 | | 35,982 | | 49,413 | |
| Council Tax Collection Fund | 2,000 | | 1,000 | | | |
| Total Funding | | 887,882 | | 898,704 | | 923,730 |

(Figures subject to rounding)

| Heading | Description | E&YP | | SCH&W (Including PH) | | GET | | S&CS | | FI | | U | | Total | | Total | |
|--|---|-----------------|-----------------|----------------------|------------------|------------------|------------------|-----------------|-----------------|------------------|------------------|----------------|----------------|------------------|------------------|------------------|------------------|
| | | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 |
| | | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| 2016-17 Base | Approved budget by County Council on 11th February 2016 | 64,784.8 | 60,172.3 | 491,077.5 | 487,623.4 | 163,596.0 | 161,330.8 | 66,929.1 | 60,722.0 | 115,759.8 | 113,948.6 | 8,902.5 | 4,084.9 | 911,049.7 | 887,882.0 | | |
| Base Adjustments (internal) | Approved changes to budgets which have nil overall affect on net budget requirement | | | | | | | | | | | | | | | | |
| Base Adjustments (external) | Approved changes to budgets from external factors e.g. grant changes and may affect net budget requirement | | | | | | | | | | | | | | | | |
| Revised 2016-17 Base | | 64,784.8 | 60,172.3 | 491,077.5 | 487,623.4 | 163,596.0 | 161,330.8 | 66,929.1 | 60,722.0 | 115,759.8 | 113,948.6 | 8,902.5 | 4,084.9 | 911,049.7 | 887,882.0 | 911,049.7 | 887,882.0 |
| Additional Spending Pressures | | | | | | | | | | | | | | | | | |
| Net Budget Realignment | <i>Necessary adjustments to reflect current and forecast activity levels from in-year monitoring reports</i> | | | | | | | | | | | | | | | | |
| Waste | Dry recyclables pressure, resulting from fall in commodity prices | | | | | 662.0 | | | | | | | | 662.0 | | 1,192.0 | 60.0 |
| Commercial Services | Reversal of one-off draw-down from Commercial Services reserves | | | | | | | | | 700.0 | | | | 700.0 | | | |
| Young Persons Travel Pass- Activity | Realignment of budget following changes in activity at the time of budget build. | | | | | 400.0 | | | | | | | | 400.0 | | | |
| Young Persons Travel Pass- School days | Realign the budget in lieu of the number of school days in the financial year compared to the prior year. | | | | | -360.0 | 160.0 | | | | | | | -360.0 | 160.0 | | |
| Concessionary Fares | Realignment of budget due to falling journey numbers | | | | | -200.0 | | | | | | | | -200.0 | | | |
| Other | Other minor budget realignments | | | | | -10.0 | -100.0 | | | | | | | -10.0 | -100.0 | | |
| Replace use of one-offs | Impact of not being able to repeat one-off use of reserves and underspends in approved base budget for 2015-16 | | | 2,263.0 | 1,000.0 | | | | | 8,588.8 | 6,800.0 | | | 10,851.8 | 7,800.0 | 10,851.8 | 7,800.0 |
| Pay and Prices | | | | | | | | | | | | | | | | | |
| Pay and Reward | Additional contribution to performance reward pot and impact on base budget of uplifting pay grades in accordance with single pay reward scheme | | | | | | | | | | | 3,900.0 | 5,000.0 | 3,900.0 | 5,000.0 | 19,129.2 | 25,101.6 |
| Employers Pension | Potential Employer Pension Contribution rate increase based on actuarial valuation | | | | | | | | | | | 2,000.0 | | 2,000.0 | | | |
| Inflation | | | | | | | | | | | | | | | | | |
| Energy | Price increases on energy contracts as estimated by Commercial Services | | | | | 160.6 | 160.4 | 107.3 | 83.7 | | | | | 267.9 | 244.1 | | |
| Highway Contracts | Index linked increases on maintenance, technical services and traffic management | | | | | 375.0 | 382.5 | | | | | | | 375.0 | 382.5 | | |
| Waste Contracts | Index linked increases to composting, haulage & transfer stations, household waste recycling centres, landfill, landfill tax, recycling and waste to energy contracts | | | | | 1,464.7 | 1,414.1 | | | | | | | 1,464.7 | 1,414.1 | | |
| Children's Social Care | Estimate for the increase in cost of placements | | | 936.2 | 1,197.2 | | | | | | | | | 936.2 | 1,197.2 | | |
| Home to school transport | Provision for inflation on contracted services and season tickets for mainstream & SEN home to school transport and the 16+ travel card | 488.0 | 774.6 | | | | | | | | | | | 488.0 | 774.6 | | |
| Public Transport | Provision for inflation on subsidised bus service contracts and the reimbursement of fares for the young person's travel pass and concessionary fares | | | | | 597.4 | 1,289.1 | | | | | | | 597.4 | 1,289.1 | | |
| Non specific price provision | Non specific general provision for non index linked price increases, including an estimate for the ongoing impact of the National Living Wage | | | | | | | | | | | 9,100.0 | 14,800.0 | 9,100.0 | 14,800.0 | | |

| Heading | Description | E&YP | | SCH&W (Including PH) | | GET | | S&CS | | FI | | U | | Total | | Total | |
|--|--|----------------|----------------|----------------------|-----------------|----------------|----------------|--------------|-------------|-----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 |
| | | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| Demography | <i>Additional spending associated with increasing population and demographic make-up of the population</i> | | | | | | | | | | | | | | | | |
| Older People | Growth in numbers accessing social care as a result of an ageing population and delayed entry into care under transformation programme | | | 4,910.0 | 5,610.0 | | | | | | | | | 4,910.0 | 5,610.0 | 17,145.5 | 18,020.0 |
| Adults with Learning Disabilities | Growth in client numbers and additional costs resulting from existing clients whose needs are becoming more complex | | | 6,069.0 | 6,069.0 | | | | | | | | | 6,069.0 | 6,069.0 | | |
| Mental Health | Growth in client numbers and additional costs resulting from existing clients whose needs are becoming more complex | | | 1,100.0 | 1,100.0 | | | | | | | | | 1,100.0 | 1,100.0 | | |
| Children's Services | Estimated impact of growth in special guardianship orders, complexity of residential cases, and general increase in assessments | | | 3,404.0 | 3,404.0 | | | | | | | | | 3,404.0 | 3,404.0 | | |
| Waste Tonnage | Impact of additional waste anticipated due to increased number of households | | | | | 530.0 | 570.0 | | | | | | | 530.0 | 570.0 | | |
| SEN Transport | Estimated impact of rising pupil population on SEN home to school and college transport | 922.5 | 890.0 | | | | | | | | | | | 922.5 | 890.0 | | |
| Young Persons Travel Pass | Estimated impact of rising population on young persons travel pass | | | | | 110.0 | 180.0 | | | | | | | 110.0 | 180.0 | | |
| Coroners | Increase in caseload and activity | | | | | 100.0 | | | | | | | | 100.0 | | | |
| Home to School Transport | Mainstream home to school transport - rising secondary population | | 197.0 | | | | | | | | | | | | 197.0 | | |
| Government & Legislative | | | | | | | | | | | | | | | | | |
| Coroners | Introduction of Medical Examiner service | | | | | 350.0 | 400.0 | | | | | | | 350.0 | 400.0 | 2,147.2 | 400.0 |
| Flooding | Additional responsibilities in relation to sustainable drainage systems (SuDS) | | | | | 60.0 | | | | | | | | 60.0 | | | |
| Public Rights of Way | Additional duties in relation to local planning searches (Con24) | | | | | 50.0 | | | | | | | | 50.0 | | | |
| Apprenticeship Levy | Estimated net cost resulting from introduction of Apprenticeship Levy in 2017 | | | | | | | | | | | 1,125.0 | | 1,125.0 | | | |
| Deprivation of Liberty Safeguards | Additional DOLS assessments following the Cheshire Judgement 2014 | | | 562.2 | | | | | | | | | | 562.2 | | | |
| Service Strategies & Improvements | | | | | | | | | | | | | | | | | |
| School Transport | Impact of Grammar School Select Committee transport recommendations | 60.0 | 100.0 | | | | | | | | | | | 60.0 | 100.0 | 6,733.0 | 1,360.3 |
| Coroners | Review of service requirements | | | | | 110.0 | | | | | | | | 110.0 | | | |
| Economic Development- Broadband project | Broadband Phase 2: funding for administration and management of scheme | | | | | 160.0 | | | | | | | | 160.0 | | | |
| Capital Programme | Additional debt costs to fund the 2016-19 capital programme | | | | | | | | | 4,700.0 | 1,500.0 | | | 4,700.0 | 1,500.0 | | |
| Commissioning | Improve commissioning, procurement and contract management, resulting in a savings | | | | | | | | | | | 400.0 | | 400.0 | | | |
| Borrowing Costs | Net borrowing costs to enable use of £5m capital receipts in 2017/18 | | | | | | | | | 350.0 | | | | 350.0 | | | |
| Sustainable Transformation Plan | KCC's contribution towards the project management costs of the Health Sustainable Transformation Plan | | | 300.0 | | | | | | | | | | 300.0 | | | |
| ICT single system | Commissioning of EYPS Single System ICT through a hosted solution | 420.0 | -333.0 | | | | | | | | | | | 420.0 | -333.0 | | |
| Other | Other minor service improvements | | | | | 233.0 | 93.3 | | | | | | | 233.0 | 93.3 | | |
| | Total Additional Spending Demands | 1,890.5 | 1,628.6 | 19,544.4 | 18,380.2 | 4,792.7 | 4,549.4 | 107.3 | 83.7 | 14,338.8 | 8,300.0 | 16,525.0 | 19,800.0 | 57,198.7 | 52,741.9 | 57,198.7 | 52,741.9 |

| Heading | Description | E&YP | | SCH&W (Including PH) | | GET | | S&CS | | FI | | U | | Total | | Total | | |
|--|---|----------|---------|----------------------|----------|----------|---------|---------|---------|---------|---------|----------|----------|---------|----------|----------|-----------|-----------|
| | | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | |
| | | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | |
| Savings and Income | | | | | | | | | | | | | | | | | | |
| Transformation Savings | | | | | | | | | | | | | | | | | | |
| SEN Transport independent travel initiatives | Continued savings from initiatives aimed at increasing independent travel to school by SEND pupils including developing independent travel training and direct payments to parents | -695.0 | | | | | | | | | | | | | -695.0 | | -19,155.7 | -12,755.0 |
| Adults Older People/ Physical Disability | Continued roll out of transformation including initiatives aimed at promoting independent living, better integration with health services, and a better range of support services for clients leaving hospital back to home | | | -7,836.2 | -7,855.7 | | | | | | | | | | -7,836.2 | -7,855.7 | | |
| Adults with a Learning Disability | Continued rollout of transformation including initiatives aimed at promoting independent living and reducing dependence on care services, to achieve better outcomes for vulnerable adults | | | -4,191.4 | -742.0 | | | | | | | | | | -4,191.4 | -742.0 | | |
| Childrens 0-25 transformation | Continued rollout of 0-25 transformation programme including working with adolescents to reduce numbers coming into care | | | -312.0 | -285.1 | | | | | | | | | | -312.0 | -285.1 | | |
| Waste | New contract whereby waste collected from mechanical street sweeping is recycled | | | | | -200.0 | | | | | | | | | -200.0 | | | |
| Public Transport | Full year effect of bus operators taking subsidised bus routes into commercial operation, with minor refinements, resulting in a reduction in subsidies paid | | | | | -105.0 | | | | | | | | | -105.0 | | | |
| Street Lighting | Continuation of programme to convert streetlight network to more efficient LED technology and implementation of a central monitoring system | | | | | -1,585.0 | -994.0 | | | | | | | | -1,585.0 | -994.0 | | |
| Growth, Environment and Transportation | Savings through multi-agency working | | | | | -300.0 | | | | | | | | | -300.0 | | | |
| Property LATCo | Dividend from and implementation of Property Local Authority Trading Company model | | | | | | | | -78.4 | -363.4 | | | | | -78.4 | -363.4 | | |
| Contact Centre and Digital Web Platform | Reduction following one off investment in 2016/17 for new contact centre and digital web platform. | | | | | | | | -552.7 | -514.8 | | | | | -552.7 | -514.8 | | |
| Tactical Procurement | Bringing together all of the small procurement activity into the central procurement team, and tightening up on contract management | | | | | | | | | | | -2,000.0 | -2,000.0 | | -2,000.0 | -2,000.0 | | |
| Learning Disability | Review of the current cost model used to allocate funding for support packages | | | -1,300.0 | | | | | | | | | | | -1,300.0 | | | |
| Income | | | | | | | | | | | | | | | | | | |
| Trading | Increased income from traded services with schools, academies, other local authorities and public bodies | -1,883.0 | -494.1 | | | | | | | | | | | | -1,883.0 | -494.1 | -9,868.1 | -3,591.6 |
| Client Charges | Uplift in social care client contributions in line with benefit uplifts for 2017/18 and inflationary increases for other activity led services including young person's travel pass, libraries, and registration | | | -2,218.6 | -1,274.7 | -1,011.5 | -622.8 | | | | | | | | -3,230.1 | -1,897.5 | | |
| Adult Social Care | Improved targeting of the commissioning of services from Better Care Fund money | | | -2,000.0 | | | | | | | | | | | -2,000.0 | | | |
| Adult Social Care | Review of S117 continuing health care income | | | -200.0 | | | | | | | | | | | -200.0 | | | |
| Corporate Support Services | Reduction in Engagement, Organisation Design & Development commissioned budget to Business Services Centre to be delivered through Increased profitability | | | | | | | | -145.0 | | | | | | -145.0 | | | |
| Market Expertise | Sell Finance and Infrastructure expertise to external bodies | | | | | | | | -110.0 | | | | | | -110.0 | | | |
| Investment income | Full year effect of 2016/17 investment strategy | | | | | | | | | | | -600.0 | | | -600.0 | | | |
| Capital investment fund | Revised Treasury Management strategy | | | | | | | | | | | -1,700.0 | -1,200.0 | | -1,700.0 | -1,200.0 | | |

| Heading | Description | E&YP | | SCH&W (Including PH) | | GET | | S&CS | | FI | | U | | Total | | Total | |
|--------------------------------------|--|----------|---------|----------------------|---------|----------|---------|----------|---------|---------|---------|----------|----------|----------|----------|-----------|----------|
| | | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 |
| | | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| Efficiency Savings | | | | | | | | | | | | | | | | | |
| Staffing | | | | | | | | | | | | | | | | | |
| Staffing Restructures | Service re-design, integration of services and more efficient ways of working resulting in a reduction of staff costs. The delivery of these savings will be with appropriate stakeholder engagement and detailed consultations | -1,636.0 | -650.0 | -1,720.3 | | -1,557.1 | -93.0 | -2,958.3 | -878.4 | | | | | -7,871.7 | -1,621.4 | -8,871.7 | -1,717.4 |
| Management structures | Stricter enforcement of organisational design principles around the number of tiers of management and spans of control. The delivery of these savings will be with appropriate stakeholder engagement and detailed consultations | | | | | | | | | | | | -1,000.0 | -1,000.0 | | | |
| Corporate subscriptions | Review of specialist health advice and corporate subscriptions | | | | | | | | -96.0 | | | | | | -96.0 | | |
| Infrastructure | | | | | | | | | | | | | | | | | |
| Established Programmes | Existing savings plans arising from asset rationalisation, facilities management and utility contracts | | | | | | | -1,056.0 | | | | | | -1,056.0 | | -1,496.0 | -350.0 |
| Cloud based solution | Move Medway DR data centre to 'Cloud-based' solution | | | | | | | -90.0 | | | | | | -90.0 | | | |
| Office Estate | New Ways of Working Phase 2 | | | | | | | -350.0 | -350.0 | | | | | -350.0 | -350.0 | | |
| Contracts & Procurement | | | | | | | | | | | | | | | | | |
| SEN transport route optimisation | Savings through improved route optimisation and procurement practices | -1,494.0 | | | | | | | | | | | | -1,494.0 | | -11,723.4 | -2,051.3 |
| Learning Disability Supported Living | Review of supported living contracts | | | -600.0 | | | | | | | | | | -600.0 | | | |
| Domiciliary Care | Ensuring that contracted providers can deliver volume | | | -500.0 | | | | | | | | | | -500.0 | | | |
| Fostering | Reduction in Independent House Fostering Agency (IFA) costs | | | -134.0 | | | | | | | | | | -134.0 | | | |
| Older People | Review the use of step down beds | | | -570.0 | | | | | | | | | | -570.0 | | | |
| Commissioning | Strategic Commissioning efficiencies | | | -366.0 | | | | | | | | | | -366.0 | | | |
| Economic Development | Review of grants and income | | | | | -194.9 | | | | | | | | -194.9 | | | |
| Visit Kent | Contract and marketing review | | | | | -44.7 | | | | | | | | -44.7 | | | |
| Waste | Review of waste sites and contracts | | | | | -750.0 | | | | | | | | -750.0 | | | |
| Highways | Contract efficiencies | | | | | -600.0 | | | | | | | | -600.0 | | | |
| Infrastructure | Reduction in ICT spend on third party contracts and equipment and centralise remaining ICT contract spend | | | | | | | -428.0 | -227.0 | | | | | -428.0 | -227.0 | | |
| E-Learning | Further development of e-learning and reducing external training costs | | | | | | | -215.3 | | | | | | -215.3 | | | |
| Procurement | Improving: category management, commercial support, and contract reviews | | | | | | | | | | | -1,000.0 | -1,500.0 | -1,000.0 | -1,500.0 | | |
| Home To School Transport (HTST) | Reduction in SEN home to school transport costs due to growth in local SEN provision attached to mainstream schools and academies | -75.0 | | | | | | | | | | | | -75.0 | | | |
| Learning Disability | Full year effect of savings achieved in 2016/17 | | | -380.0 | | | | | | | | | | -380.0 | | | |
| Public Health Grant | Internal commissioning of services to deliver public health outcomes | -500.0 | | -2,149.3 | | | | | | | | | | -2,649.3 | | | |
| Environment, Planning & Enforcement | Review of non staffing budgets | | | | | -158.0 | -22.0 | | | | | | | -158.0 | -22.0 | | |
| Young Persons Travel Pass | Reduction in additional capacity payments to bus operators | | | | | -200.0 | | | | | | | | -200.0 | | | |
| Other | Other minor contracts and procurement savings | | | | | -23.7 | -52.3 | | | | | | | -23.7 | -52.3 | | |
| Kent Support and Assistance Service | Efficiency gains and changes in targeted activity | | | -590.5 | | | | | | | | | | -590.5 | | | |
| Adults Mental Health | Improved commissioning of Mental Health services | | | -250.0 | -250.0 | | | | | | | | | -250.0 | -250.0 | | |
| Substance Misuse | Improved commissioning of substance misuse service alongside | | | -200.0 | | | | | | | | | | -200.0 | | | |
| Homelessness | Joint working with partner organisations to introduce a new homelessness strategy to ensure that support is provided to the most vulnerable homeless people in Kent | | | -300.0 | | | | | | | | | | -300.0 | | | |

| Heading | Description | E&YP | | SCH&W (Including PH) | | GET | | S&CS | | FI | | U | | Total | | Total | | |
|---|--|-----------------|-----------------|----------------------|------------------|------------------|------------------|-----------------|-----------------|------------------|------------------|-----------------|-----------------|------------------|------------------|------------------|------------------|----------|
| | | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | |
| | | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | |
| Other | | | | | | | | | | | | | | | | | | |
| Operational Support Unit | Efficiencies across operational support unit | | | -125.0 | | | | | | | | | | | -125.0 | | -2,616.0 | -104.0 |
| Client Income | Review calculation of bad debt provision for social care debt and improved practice to avoid debt accruing at early stage | | | -1,500.0 | | | | | | | | | | | -1,500.0 | | | |
| Infrastructure innovation | 2.5% Infrastructure innovation efficiency programme | | | | | | | -160.0 | | | | | | | -160.0 | | | |
| Youth Participation Workers | Partnership working with Headstart | -120.0 | | | | | | | | | | | | | -120.0 | | | |
| Insurance | Reduce contribution to insurance fund based on recent years' performance | | | | | | | | | | -500.0 | | | | -500.0 | | | |
| Other | Other minor efficiency savings | | | | | | | -211.0 | -104.0 | | | | | | -211.0 | -104.0 | | |
| Financing Savings | | | | | | | | | | | | | | | | | | |
| Draw-down reserve | Draw-down central reserves and directorate reserves to support future years' budgets | | | | | | | | | | -4,400.0 | | | | -4,400.0 | | -10,850.0 | |
| Debt repayment | Review amounts set aside for repayment | | | | | | | | | | -4,050.0 | | | | -4,050.0 | | | |
| Use of underspend | Use of uncommitted 2015/16 underspend | | | | | | | | | | -2,400.0 | | | | -2,400.0 | | | |
| Use of capital receipts | Use of Capital Receipts to fund transformation (subject to headroom) (see linked net debt cost pressure above) | | | | | | | | | | -2,500.0 | -2,500.0 | | | -2,500.0 | -2,500.0 | -2,500.0 | -2,500.0 |
| Policy Savings | | | | | | | | | | | | | | | | | | |
| Home to school transport | Final instalment of 2012 decision to remove discretion on Home to School Transport Policy | -100.0 | | | | | | | | | | | | | -100.0 | | -4,722.9 | -1,192.0 |
| Soft Landscaping | Review of contracts | | | | | -250.0 | -130.0 | | | | | | | | -250.0 | -130.0 | | |
| Specialist Children's Services | Review means testing for financial support to new Adopters and Special Guardians | | | -100.0 | | | | | | | | | | | -100.0 | | | |
| Care Leavers | Implementation of the 16+ Accommodation Strategy, leading to more efficient commissioning of supported accommodation for care leavers | | | -300.0 | | | | | | | | | | | -300.0 | | | |
| Learning Disability | Implementations of accommodation model for the short breaks service | | | -145.0 | -300.0 | | | | | | | | | | -145.0 | -300.0 | | |
| Older People/ Physical Disability | Review In-House services | | | -380.0 | -380.0 | | | | | | | | | | -380.0 | -380.0 | | |
| Your Life Your Home-Mental Health | Review of people in Mental Health residential placements with a view to provide a service in an alternative setting | | | -700.0 | | | | | | | | | | | -700.0 | | | |
| Older People/ Physical Disability Charging | Review of charging policies | | | -302.0 | | | | | | | | | | | -302.0 | | | |
| Accommodation for offenders | Removing non statutory KCC commissioned specialist accommodation with an expectation that suitable alternative accommodation will be commissioned by the Probation Service | | | -350.0 | -350.0 | | | | | | | | | | -350.0 | -350.0 | | |
| Partnership arrangements with Districts | Rationalise current support payments | | | | | | | -167.0 | -32.0 | | | | | | -167.0 | -32.0 | | |
| Older People/ Physical Disability Residential Homes | Full year effect of closure of in-house residential homes | | | -608.9 | | | | | | | | | | | -608.9 | | | |
| Support to schools | Savings as a consequence of reductions to Education Services Grant | | | | | | | | | | | | -1,000.0 | | -1,000.0 | | | |
| Turner | Full year effect of review of funding agreement for 2016-18 | | | | | -50.0 | | | | | | | | | -50.0 | | | |
| Other | Other minor policy savings | | | -120.0 | | -150.0 | | | | | | | | | -270.0 | | | |
| Total savings and Income | | -6,503.0 | -1,144.1 | -30,449.2 | -11,437.5 | -7,179.9 | -1,914.1 | -6,521.7 | -2,565.6 | -16,150.0 | -3,700.0 | -5,000.0 | -3,500.0 | -71,803.8 | -24,261.3 | -71,803.8 | -24,261.3 | |
| Unidentified | | | | | | | | | | | | -5,202.6 | -17,658.8 | -5,202.6 | -17,658.8 | -5,202.6 | -17,658.8 | |
| Public Health & other grants | | | | | | | | | | | | | | | | | | |
| Public Health | Estimated reduction in Public Health Grant | | | 1,753.0 | | | | | | | | | | | 1,753.0 | | -3,360.0 | |
| Public Health | Public Health Service Reductions | | | -1,753.0 | | | | | | | | | | | -1,753.0 | | | |
| ESG | Education Services Grant | | | | | | | | | | | | -3,360.0 | | -3,360.0 | | | |
| Proposed Budget | | 60,172.3 | 60,656.8 | 480,172.7 | 494,566.1 | 161,208.8 | 163,966.1 | 60,514.7 | 58,240.1 | 113,948.6 | 118,548.6 | 11,864.9 | 2,726.1 | 887,882.0 | 898,703.8 | 887,882.0 | 898,703.8 | |

| Heading | Description | E&YP | | SCH&W (Including PH) | | GET | | S&CS | | FI | | U | | Total | | Total | |
|--|---|---------|---------|----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------------|------------------|------------------|------------------|
| | | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 |
| | | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| Funding | | | | | | | | | | | | | | | | | |
| Estimated Settlement <i>Notification of funding from central government</i> | | | | | | | | | | | | | | | | | |
| Revenue Support Grant | Comprises share of previous Formula Grant, Early Intervention Grant, Learning Disability Grant, Council Tax Freeze Grant, Care Act Grant etc. allocated as revenue support grant, including impact of overall reductions in the provisional local government finance settlement | | | | | | | | | | | | | 66,475.8 | 37,640.1 | 66,475.8 | 37,640.1 |
| Transition Grant | Additional allocation for 2016-17 and 2017-18 announced in the final local government finance settlement on 8th February to help ease the implementation of Revenue Support Grant changes for those councils with the sharpest reductions | | | | | | | | | | | | | 5,684.7 | | 5,684.7 | |
| Business Rate Top-up | Top-up derived by comparing local share of business rates according to historical average and business rate baseline share of previous grants including annual uplift in line with business rate multiplier, as per the provisional local government finance settlement | | | | | | | | | | | | | 126,401.7 | 130,130.7 | 126,401.7 | 130,130.7 |
| Business Rate Compensation | Compensation for additional reliefs on business rates for small businesses, retail premises and reduction in multiplier paid as un-ring-fenced grant by DCLG (estimate) | | | | | | | | | | | | | 3,341.7 | 3,341.7 | 17,748.1 | 27,855.2 |
| Education Services Grant | One-off transitional protection | | | | | | | | | | | | | 3,500.0 | | | |
| New Homes Bonus Grant | DCLG un-ring-fenced grant allocated according to increase in tax base, as per the provisional local government finance settlement | | | | | | | | | | | | | 9,356.0 | 5,878.1 | | |
| Improved Better Care Fund | DCLG un-ring-fenced grant allocated towards improved integration between social care and health | | | | | | | | | | | | | 301.2 | 17,525.1 | | |
| Un-ring-fenced grants | Un-ring-fenced grants from other Government Departments (estimate) | | | | | | | | | | | | | 1,249.1 | 1,110.3 | | |
| Business Rates | | | | | | | | | | | | | | | | | |
| Business Rate Baseline | Local share of business rates baseline based on historical average with annual uplift in line with business rate multiplier, as per the provisional local government finance settlement | | | | | | | | | | | | | 48,941.6 | 50,385.4 | 52,357.6 | 53,801.4 |
| Business Rate Local Share | KCC 9% share of local tax base as notified by district councils less baseline share identified above, including proceeds from local business rate pool | | | | | | | | | | | | | 3,416.0 | 3,416.0 | | |
| Local Taxation | | | | | | | | | | | | | | | | | |
| Council Tax Base | KCC band D equivalent tax base as notified by district councils based on 2015-16 Council Tax | | | | | | | | | | | | | 582,166.1 | 599,872.6 | 593,933.3 | 612,294.6 |
| Council Tax Increase | Impact of proposed increase in Council Tax up to the 2% referendum level | | | | | | | | | | | | | 11,767.2 | 12,422.0 | | |
| Social Care Precept | Impact of proposed further 2% increase in Council Tax for Social Care Precept | | | | | | | | | | | | | 23,280.8 | 35,981.8 | 23,280.8 | 35,981.8 |
| Council Tax Collection Fund | KCC share of surpluses and deficits on Council Tax collection in 2015-16 | | | | | | | | | | | | | 2,000.0 | 1,000.0 | 2,000.0 | 1,000.0 |
| Total Funding | | | | | | | | | | | | | | 887,882.0 | 898,703.8 | 887,882.0 | 898,703.8 |
| Key: | | | | | | | | | | | | | | | | | |
| E&YP | Education & Young People's Services | | | | | | | | | | | | | | | | |
| SCH&W | Social Care, Health & Wellbeing | | | | | | | | | | | | | | | | |
| GET | Growth, Environment & Transport | | | | | | | | | | | | | | | | |
| S&CS | Strategic & Corporate Services | | | | | | | | | | | | | | | | |
| FI | Financing Items | | | | | | | | | | | | | | | | |
| U | Unallocated | | | | | | | | | | | | | | | | |

Treasury Investments

1. Current Position

1.1 The latest Treasury Strategy allows the Council to invest in a wide range of asset classes and represents a major step forward from the post 2008 financial crisis position where the Council only used the Debt Management Office. The full range of asset types, duration and limits is extracted from the Treasury Strategy and is included below.

(1) The recommended counterparty limits for unsecured investments are:

- | | |
|--|-------------------------------|
| • Central UK Government | unlimited |
| • Money Market Funds | £10m each |
| • Major UK banks and building societies, minimum rating A- | £40m then £20m each |
| • Major UK banks and building societies, minimum rating BBB+ | £20m |
| • Leeds Building Society | £10m |
| • Close Brothers | £10m |
| • Svenska Handelsbanken (reflecting its UK branch presence) | £40m then £20m |
| • Australian and Canadian banks (£40m country limit) | £20m each |
| • Other international banks (£40m country limit) | £20m each |
| • Small UK building societies meeting Arlingclose criteria | £1m each to a maximum of £15m |

(2) The recommended limits for secured and bail-in exempt investments are:

- | | |
|-----------------------|----------------------------------|
| • Supranational bonds | £40m total |
| • Covered bonds | £150m total with £20m per issuer |
| • Corporate bonds | £20m total with £2m per |

IMPACT OF A % LOSS OF RISK-WEIGHTED ASSETS ON UNSECURED UNINSURED CREDITORS

| Resolution | Barclays | Close Bros | Coventry BS | Clydesdale | Co-op Bank | HSBC Bank | Leeds BS | Lloyds Group | Nationwide BS | RBS Group | Santander UK | Stan Chart | TSB | Virgin Money | Yorkshire BS |
|------------|----------|------------|-------------|------------|------------|-----------|----------|--------------|---------------|-----------|--------------|------------|-----|--------------|--------------|
| 1% | E | E | E | E | E | E | E | E | E | E | E | E | E | E | E |
| 2% | E | E | E | E | E | E | E | E | E | E | E | E | E | E | E |
| 3% | E | E | E | E | E | E | E | E | E | E | E | E | E | E | E |
| 4% | E | E | E | E | E | E | E | E | E | E | E | E | E | E | E |
| 5% | E | E | E | E | E | J | E | E | E | E | E | E | E | E | E |
| 6% | E | E | E | E | E | J | E | E | E | E | E | E | E | E | E |
| 7% | J | E | E | E | E | H | E | E | E | J | E | E | E | E | E |
| 8% | J | E | E | E | J | H | E | J | E | E | J | J | E | E | E |
| 9% | J | H | E | 5% | J | H | E | J | E | E | 0% | J | E | E | 5% |
| 10% | H | 1% | E | 9% | 2% | H | 11% | J | E | E | 2% | J | E | 13% | 9% |
| 11% | H | 3% | E | 13% | 6% | 2% | 16% | J | E | J | 4% | J | E | 15% | 13% |
| 12% | 1% | 6% | E | 16% | 10% | 4% | 21% | J | E | J | 7% | J | 1% | 17% | 17% |
| 13% | 3% | 9% | E | 20% | 14% | 6% | 25% | J | E | J | 9% | H | 5% | 20% | 21% |
| 14% | 5% | 11% | E | 24% | 18% | 7% | 30% | J | J | J | 11% | H | 9% | 22% | 25% |
| 15% | 6% | 14% | E | 28% | 22% | 9% | 34% | J | J | J | 13% | H | 13% | 25% | 29% |
| 16% | 8% | 16% | E | 32% | 26% | 11% | 39% | 1% | 1% | H | 15% | H | 17% | 27% | 33% |
| 17% | 10% | 19% | E | 36% | 30% | 13% | 44% | 3% | 2% | H | 17% | H | 21% | 30% | 37% |
| 18% | 11% | 22% | E | 40% | 34% | 15% | 48% | 5% | 4% | 1% | 20% | H | 25% | 32% | 41% |
| 19% | 13% | 24% | 2% | 44% | 38% | 17% | 53% | 7% | 5% | 3% | 22% | 1% | 29% | 34% | 45% |
| 20% | 14% | 27% | 3% | 48% | 42% | 19% | 57% | 9% | 6% | 5% | 24% | 3% | 33% | 37% | 49% |

RBS 2008

Co-Op 2013

Allied Irish 2008/9

E - Loss is covered by equity

J - Loss is covered by a bail-in of junior debt

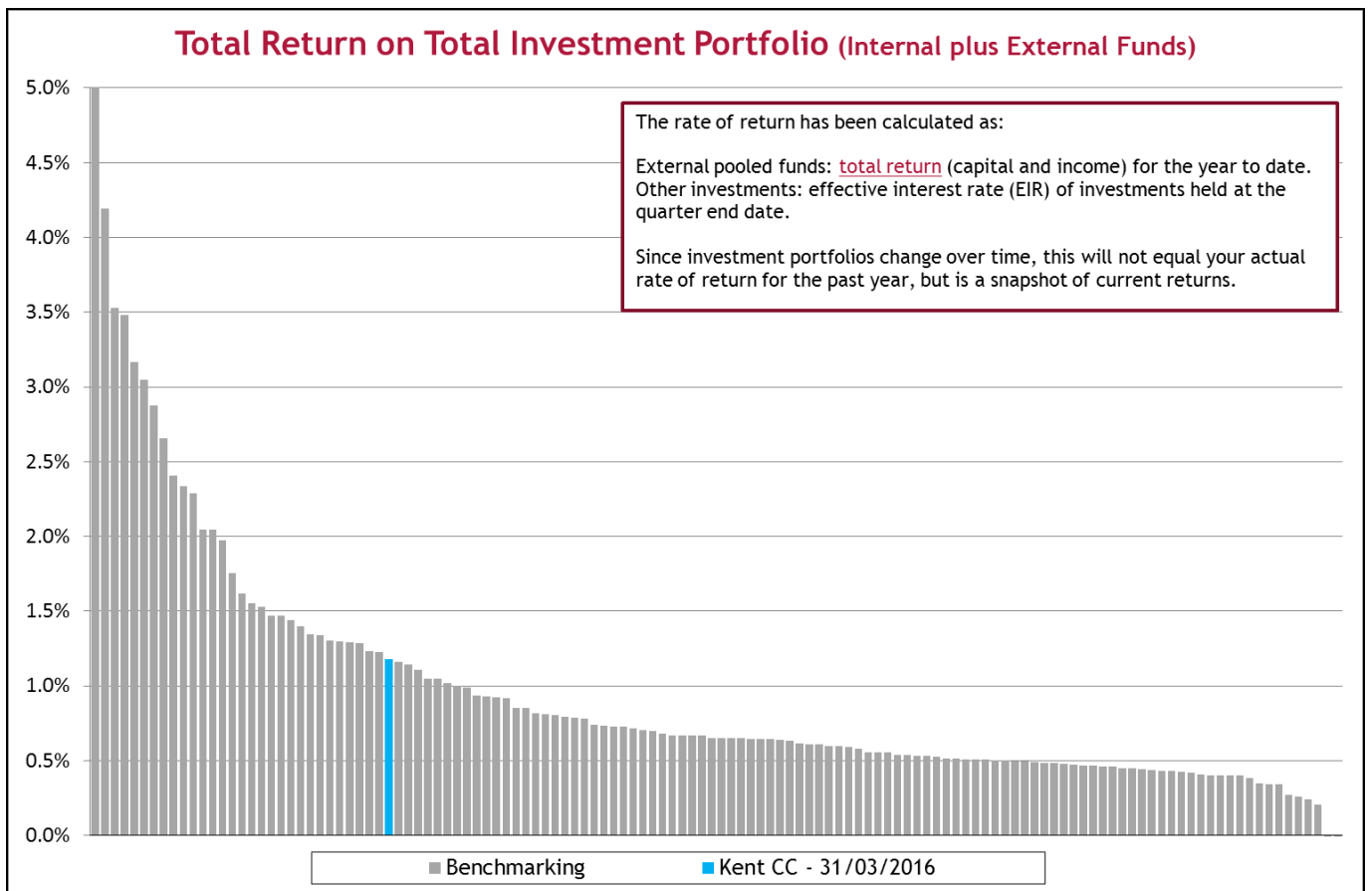
H - Loss is covered by a bail-in of holding company senior debt (HSBC: conversion of loan from holding company)

% - Loss to be covered by a bail-in of senior unsecured debt and uninsured deposits

Balance sheet data as at Dec 2015 except Close Bros (Jan 16), Clydesdale (Mar 16) and Nationwide (Apr 16)

- 1.4 Bail-in results in two main responses: very careful use of banks for unsecured deposits and diversification into bail-in exempt investments such as Covered Bonds, which will be considered below.
- 1.5 On a daily basis the Council's Treasury and Investments Team manages the deposits to ensure we have liquidity to make payments and that we fully utilize the best payers e.g. making the most use of Lloyds fixed term deposits. Since base rate was reduced to 0.25% we have seen further reductions in our deposit rates.
- 1.6 The Deputy Leader and Corporate Director of Finance & Procurement can suspend the use of counterparties at any time, currently Standard Chartered is suspended.

- 1.7 In terms of our diversification away from unsecured bank deposits there are two main initiatives to add yield and avoid bail-in risk:
- (1) Use of Covered Bonds – these are collateralised by pools of mortgages and issued by financial institutions and regulated by the Financial Conduct Authority. Kent has one of the largest portfolios of any local authority currently at £96.5m. Arlingclose, the Council's treasury advisers, have worked closely with the Treasury Management Advisory Group and officers to get a good understanding of these investments. They have added significant value as well as reducing the bail-in exposure.
 - (2) CCLA LAMIT Property Fund – local authorities can invest in this Fund without it being classified as capital expenditure. The Fund now has 160 local authority investors and is valued at £643m. The Council recently increased its investment to £25m – this has been a highly successful investment returning 4.77% in 2015/16. Moving forward we would expect returns in the 3-4% range as the growth in value of commercial property abates and returns are driven by income-post the Brexit decision there has been a 4% write down in the value of assets in the CCLA fund and we have seen this as a buying opportunity and will add a further £5m.
- 1.8 Treasury performance and investment risk is monitored using comparative data from Arlingclose for all of their 147 clients. Broadly the Council has achieved above average returns (shown below) with the return increasing in the last year, while the level of counterparty risk to achieve it has reduced – largely due to the Covered Bonds and Pooled Funds and other bail-in exempt investments.



- 1.9 The best performing authorities are those long standing i.e. pre 2008 Arlingclose clients who invested early in the CCLA fund and placed long term deposits with supra national institutions such as the European Investment Bank.
- 1.10 The portfolio earned £4.32m in 2015-16, a return of 1.15% compared with the benchmark of 0.36%. So the diversified but still low risk strategy did add significant value. The budget for 2016-17 is £3.2m and we are currently forecasting £3.7m although this will be reviewed in light of the reduction in deposit rates. The question is could it add more return at an acceptable level of risk.
- 2. Alternative Options**
- 2.1 The Council's overall budget position and the further reduction in deposit rates means that a further evolution of the Council's treasury strategy is required. It is proposed that this is achieved through further diversification by asset class and for investment portfolio asset classes allowing more flexibility in the maximum investment level permitted. Adding new asset classes and limits does not necessarily mean that they will be utilized but they add to the tools available. This approach has been discussed with the all party Treasury Management Advisory Group which supported the direction of travel.

2.2 Lending to other Local Authorities

- (1) Whilst local authorities can borrow from the Public Works Loan Board some choose to borrow from other local authorities – for rate and repayment reasons. This might be short term borrowing, currently below base rate, or longer term – locally Medway Council and Shepway District Council both do this. The risk here is the ability of the local authority to repay. Returns are low but there is no bail in risk.
- (2) Up to now the Council has not undertaken lending to other local authorities largely due to the reputational risk. Arlingclose support local authority to local authority lending. Potentially this is a way of increasing return at very limited risk – we would have to derive the duration we were prepared to lend for and sign off arrangements.
- (3) This is not covered by the current Treasury Strategy and Council agreement is requested.

2.3 Sub sovereign/Government regulated entities

- (1) These are bodies such as Transport for London or Housing Associations. There is scope for lending to these bodies long term at rates which will be below what they could borrow from the Public Works Loans Board. Each body would have to be carefully considered and given the long term nature of the funding security taken over assets of the body in the case of Housing Associations.
- (2) This is not covered by the current Treasury Strategy and Council agreement is requested.

2.4 Cash Plus / Short Bond Funds

- (1) These funds are another step on from Money Market Funds using a wider range of financial instruments (such as Certificates of Deposit, Floating Rate Notes and short dated bonds) to achieve marginal additional returns.
- (2) Returns on these funds are comparable to those achievable on short term bank deposits but cash can be withdrawn at 3 days' notice.
- (3) The Treasury Management Advisory Group received a presentation on cash plus and short bond funds on 14 June and endorsed the use of the Aberdeen Sterling Investment Cash Fund, Federated Sterling Cash Plus Fund, Payden & Rygel Sterling Reserve Fund and Royal London Cash Plus Fund, for up to £10m each.

- (4) This would be possible within the current Treasury Strategy but will now be added as a specified asset class.

2.5 Multi Asset Income Funds

- (1) The requirement of investors for a yield in excess of that now provided by bank deposits and Money market Funds has led to the development of these Multi Asset Income Funds operated by mainstream investment management companies. They are pooled funds which invest in a wide range of asset classes including equities, fixed income and alternative investments to produce an income yield typically or around 4-6%. There is a risk to the principal sum in investing in them.
- (2) Under current accounting rules there is no mark to market valuation and any variation in capital value is accounted for at year end.
- (3) This is not covered by the current Treasury Strategy and Council agreement is requested.

2.6 Equity Income Funds / Fixed Income Funds

- (1) These are all included within the Treasury Strategy to a maximum of £5m each fund. To date the only investment made is in the Pyrford Absolute Return Fund (also used by the Pension Fund) which targets a return of RPI +5%. The Pyrford Fund is primarily invested in short dated bonds and has returned +2.96% for 2015/16.
- (2) The only equity exposure that we currently have is a very limited exposure within the Pyrford Absolute Return Fund. There are a range of well established UK Equity Income funds available but we have not used them due to concerns about possible falls in the value of UK equities – UK equities as an asset class returned -3.9% in 2015/16 but the FTSE100 is up 10% since the Brexit decision and is approaching record absolute levels. This would primarily be for dividend income and the FTSE100 currently yields around 3.5%.
- (3) Returns on Fixed Income Funds are highly uncertain with traditional approaches linked to the economic cycle no longer being appropriate in an environment of Quantitative Easing and negative interest rates. Whilst investment in Pooled Fixed Income funds is permitted by the Treasury Strategy it does not allow for purchasing individual securities and it is proposed that the treasury strategy be amended by Council to allow that.
- (4) Whilst these asset classes remain an option within the treasury strategy they are unlikely to be used in current market conditions.

2.7 Opportunistic loans

- (1) The Council proposes to lend to newly established entities set up on an arms-length basis from the Council and other suitable entities for up to 10 years and will take advice from Arlingclose on the appropriate structure of the loans and applicable rate of interest.
- (2) These arrangements are not covered by the current Treasury Strategy and would need Council agreement.
- (3) This is covered by the current treasury strategy.

2.8 Property Funds

- (1) The CCLA LAMIT Fund has produced good returns and Property is an attractive asset class because of the income return.
 - a. Any investment in other property funds counts as capital expenditure. If the investment is made using capital receipts held on the Balance Sheet this is not a problem. But if the investment was made from cash flow or revenue reserves the funds would become a capital receipt when the funds were returned to the Council. The Council can already invest in other property funds but the accounting issue needs to be overcome before any non CCLA investments can be made.

3. Implementation

3.1 The changes to the treasury strategy will be implemented on a phased and opportunistic basis. The key elements will be:

- (1) Increasing the investment portfolio from a target of £75m (Currently around £35m of this is invested) to around the level of the Council's core reserves, currently £130m.
- (2) Increasing the maximum investment in an pooled multi asset income/equity income or fixed income fund to £25m.
- (3) Permitting investment in the CCLA Property fund to a maximum of 5% of the fund which is currently around £600m.
- (4) Permitting loans to other local authorities and sub sovereign and Government regulated bodies to a maximum of £25m.
- (5) Permitting loans at quasi commercial rates to KCC owned arms length companies and other suitable entities to a maximum of £25m.
- (6) The investment should be targeted over the period October 2016 to March 2018 so that we are not forced buyers at disadvantageous market levels. This should allow a part year effect in 2017/18 of an additional £1.5m building up to a full year effect in 2018/19 of £3m.

This return cannot be guaranteed and will depend upon broader economic and market developments.

- (7) Short term borrowing for liquidity purposes will be permitted.

4. Risks

4.1 Moving in to some of these options does involve a risk to the capital sums invested but offer potential enhanced returns. We have to be clear that market conditions will be the determinant of the returns achieved in particular returns on equity markets. These risks can be mitigated by:

- (1) Taking a diversified approach- this is particularly by asset class. When investing in pooled funds it may well be better to invest in one than spread across a number of funds.
- (2) Timing investments- as far as practical we need to take time to build the investment portfolio.
- (3) Transparent decision making- assisted by TMAG and with advice from Arlingclose.

Annual Minimum Revenue Provision (MRP) Statement

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

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

- 4% of our capital finance requirement before the change in regulations.
- The asset life method in subsequent years. This method provides authorities with the option of applying MRP over the life of the asset once it is in operation, so for assets that are not yet operational and still under construction we effectively have an “MRP holiday”.

The total of these two methods provided the annual MRP figure from since the regulations changed up until 1 April 2014. However, what this did not do was align the MRP with the repayment of debt and other long term liabilities. Since 1 April 2014 we have continued with the existing calculations but then made an adjustment to reflect the timing of internal and external debt repayment and other long term liabilities. We will continue with that approach which is more prudent, given the challenges that the authority is facing over the next few years. This adjustment will reflect either a deferment of MRP against the calculation or an additional contribution, on an annual basis.

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

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

Each year an updated MRP statement will be presented.

| | 2016/17 | | | 2017/18 | | | | | | |
|---------------------------------------|----------------------------|-------------------------|---------------------------|-------------------------|----------------------------|----------------------|-------------------------|---------------------------|-------------------------|----------------------------|
| | Gross Expenditure £m | Net Expenditure £m | Net % | Gross Expenditure £m | Net Expenditure £m | Net % | | | | |
| Adults & Older People's Services | 473.8 | 352.7 | 38.7% | | 348.0 | 39.2% | | | | |
| Children's Services | 316.3 | 149.5 | 16.4% | | 151.9 | 17.1% | | | | |
| Community Services | 42.3 | 17.6 | 1.9% | | 17.3 | 1.9% | | | | |
| Highways | 38.5 | 29.9 | 3.3% | | 28.3 | 3.2% | | | | |
| Public Health | 76.3 | 0.2 | 0.0% | | 0.2 | 0.0% | | | | |
| School & High Needs Education Budgets | 732.6 | - | 0.0% | | - | 0.0% | | | | |
| Schools' Services | 25.7 | 7.8 | 0.9% | | 2.3 | 0.3% | | | | |
| Transport Services | 75.7 | 63.6 | 7.0% | | 62.6 | 7.1% | | | | |
| Waste Management | 68.0 | 66.6 | 7.3% | | 68.2 | 7.7% | | | | |
| Other Direct Services to the Public | 28.9 | 20.4 | 2.2% | | 19.9 | 2.2% | | | | |
| Financing Items | 141.9 | 124.7 | 13.7% | | 122.9 | 13.8% | | | | |
| Management Support & Overheads | 153.0 | 78.1 | 8.6% | | 71.5 | 8.1% | | | | |
| Unallocated Savings | - | - | 0.0% | | 5.2 | -0.6% | | | | |
| Total | 2,173.0 | 911.0 | 100.0% | | 887.9 | 100.0% | | | | |
| | Net Expenditure Funded by: | | | | Net Expenditure Funded by: | | | | | |
| | Council Tax £m | Business Rates £m | Collection Funds £m | Central Grants £m | Band D Equiv. Amount | Council Tax £m | Business Rates £m | Collection Funds £m | Central Grants £m | Band D Equiv. Amount |
| Adults & Older People's Services | 231.6 | 19.8 | 3.5 | 97.8 | £450.22 | 247.5 | 19.8 | 0.8 | 80.0 | £472.65 |
| Children's Services | 93.5 | 8.4 | 1.5 | 46.1 | £181.81 | 104.1 | 9.2 | 0.4 | 38.3 | £198.89 |
| Community Services | 11.3 | 1.0 | 0.2 | 5.0 | £22.05 | 11.9 | 1.1 | 0.0 | 4.2 | £22.82 |
| Highways | 19.3 | 1.7 | 0.3 | 8.6 | £37.53 | 19.5 | 1.7 | 0.1 | 7.0 | £37.32 |
| Public Health | 0.1 | 0.0 | 0.0 | 0.1 | £0.26 | 0.1 | 0.0 | 0.0 | 0.1 | £0.27 |
| School & High Needs Education Budgets | - | - | - | - | £0.00 | - | - | - | - | £0.00 |
| Schools' Services | - | - | - | 7.8 | £0.00 | - | - | - | 2.3 | £0.00 |
| Transport Services | 40.3 | 3.6 | 0.6 | 19.1 | £78.38 | 42.5 | 3.7 | 0.1 | 16.2 | £81.14 |
| Waste Management | 43.0 | 3.9 | 0.7 | 19.1 | £83.56 | 47.2 | 4.2 | 0.2 | 16.8 | £90.06 |
| Other Direct Services to the Public | 13.1 | 1.2 | 0.2 | 5.8 | £25.54 | 13.7 | 1.2 | 0.0 | 4.9 | £26.22 |
| Financing Items | 80.4 | 7.2 | 1.3 | 35.8 | £156.24 | 84.8 | 7.5 | 0.3 | 30.3 | £161.96 |
| Management Support & Overheads | 50.4 | 4.5 | 0.8 | 22.4 | £97.96 | 49.4 | 4.4 | 0.2 | 17.6 | £94.38 |
| Unallocated Savings | - | - | - | - | £0.00 | 3.6 | 0.3 | 0.0 | 1.3 | -£6.89 |
| Total | 583.2 | 51.4 | 9.1 | 267.4 | £1,133.55 | 617.2 | 52.4 | 2.0 | 216.3 | £1,178.82 |

