From:	Roger Gough, Leader of the Council Peter Oakford, Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services Amanda Beer, Interim Chief Executive Zena Cooke, Corporate Director of Finance
To:	Cabinet – 5 October 2023
Subject:	Securing Kent's Future – Budget Recovery Strategy
Classification:	Unrestricted

Summary: This paper sets out the Budget Recovery Strategy – *Securing Kent's Future* - required to address the in-year and future years financial pressures the council is facing. The paper sets out the position of the Cabinet and the Corporate Management Team regarding the overall financial position of the authority, the specific drivers causing this financial pressure and the specific and broader action that can be taken through Securing Kent's Future to return the council to financial sustainability.

Recommendations: Cabinet is asked to:

1. Note the Financial Recovery Plan set out at Appendix 1.
2. Note the Urgent Actions with Immediate Impacts set out in the Financial Recovery Plan at Appendix 1 to bring the council back into balance for 2023/24, albeit with significant reliance on non-recurring savings.
3. Note the Urgent Actions with Medium to Long-Term impacts set out in the Financial Recovery Plan at Appendix 1 as necessary to support the development of a sustainable 2024/25 budget and MTFP.
4. Agree to the further development and inclusion of the actions in the Financial Recovery Plan at Appendix 1 into the draft Budget 2024/25, to be published late October / early November 2023.
5. Agree to the prioritisation of the 'New Models of Care' objective within the strategic statement, *Framing Kent's Future* as the council's primary objective to meet its Best Value duties.
6. Agree the position set out in paragraph 4.5 regarding delivering the Best Value statutory duty, and the requirement for Best Value considerations to be evidenced in all service, policy, and budgetary decisions at all levels of the council.
7. Agree the need for increased risk appetite set out at paragraph 7.2, and for any changes necessary to the council's Risk Management Policy to be made and considered by the Governance & Audit Committee as appropriate.
8. Agree the four objectives outlined for *Securing Kent's Future* and to develop *Securing Kent's Future* as the Strategic Business Plan 2024/25.

1. Introduction:

1.1 On 17 August Cabinet considered a report setting out the revenue budget position at the end of June for the financial year 2023/24. This showed a forecast overspend of £43.7m before management action, reducing to £26.7m after identified management action savings (£10m from adult social care and £7m capital programme financing). These budget pressures have arisen despite County Council setting a budget in February for 2023/24 that provided significant additional investment into front line services to 'right size' their budgets given forecast pressures driven by demand and inflation, predominantly in adults and children's social care.

1.2 Both the Corporate Management Team (CMT) and Cabinet have accepted that a continuing in-year overspend on the scale forecast represents a fundamental financial risk to the council's ability to set a balanced budget for 2024/25 and a sustainable Medium Term Financial Plan to 2026/27. The political and officer leadership of the council share the view that given the current financial climate across the local government sector, it is critically important that there is transparency in regard to our financial position, so as to provide assurance that our budget monitoring has identified the in-year structural overspends early, and set out in balanced and proportionate terms the challenge and opportunity that exists for the council to respond to it.

1.3 As a result, a budget recovery strategy is necessary to bring the council back into financial sustainability, to secure the provision of services for Kent residents whilst meeting our statutory Best Value duties. The budget recovery strategy (Securing Kent's Future) will require a multi-faceted, multi-year programme of activity to ensure the council is financially sustainable in the medium-term.

1.4 The aim of this paper is therefore to set out:

- The background regarding the financial pressures facing KCC
- Why the Council must prioritise the Best Value statutory duty
- An analysis of the cost drivers on the Council budget
- The four objectives that will underpin 'Securing Kent's Future'
- The consequential risks on the Council and how these will be managed
- Roles and responsibilities between Executive Members, Non-Executive Members and Chief Officers regarding the successful delivery of Securing Kent's Future

1.5 Given the scale of the financial and delivery challenge, Securing Kent's Future will necessarily be iterative. This paper focusses on setting out the broad strategic approach to be taken, with a specific focus on providing the reassurance on the necessary actions already agreed by CMT to bring the 2023/24 budget back into balance as quickly as possible. Furthermore, it will also set out the identified opportunity areas for further savings, accelerated transformation of the council alongside possible policy choices, all of which provide the scope to deliver significant savings over the next MTFP period.

1. Background:

2.1 The significant pressure on local government finances is well documented in the sector, regional and increasingly the national press. Several authorities over recent years have issued Section 114 (S114) notices under the 1988 Finance Act, often referred to as a council declaring effective bankruptcy, but more accurately should be described as a statutory stop on all non-essential spending. The most recent example of Birmingham City Council issuing a S114 Notice on 5th September 2023 (and a second S114 notice on 21 September). However, this has followed several other local authorities, including Northamptonshire (2018), Slough (2021), Thurrock (2022), Croydon (2020, 2021, 2022) and Woking (2023) all issuing Section 114 notices in recent years.

2.2 There has been some speculation in the national press that the financial position of the council may soon see us issue a S114 notice. The administration considers the risk of a S114 notice and its consequences to be wholly unacceptable and avoidable. Talk of an imminent S114 notice misreads the council's current pressures and financial position, and both Cabinet and the Corporate Management Team are clear that there are a range of measures open to the council, in the form of management action, policy decisions and service transformation that will allow the council to be brought back into financial sustainability.

2.3 Issuing a S114 notice would do severe damage to the council's reputation, leading to a loss of resident, user, partner, provider and staff confidence in the council and its services, and may lead to the imposition of Commissioners by the Secretary of State. This would create a democratic deficit whereby major decisions on the priorities, structure and funding of services are no longer driven by democratically elected Members, but by unelected and imposed Commissioners, undermining the fundamental principle in local government that major decisions are taken by elected representatives directly held to account through the ballot box.

2.4 Whilst the S114 would require a statutory stop on all non-essential expenditure, it is perfectly possible for any council to put in place similar control measures before a S114 notice is necessary. The Government have given a clear indication that they would not seek to 'reward' failing authorities that issue a S114 notice with additional monies. Therefore, there is no immediate or identifiable benefit from issuing a notice. The S114 regime, designed in the late 1980s, was not intended to deal with systemic issues with service demand and local government funding, but to provide a mechanism of control for those authorities where, often for political reasons, decisions were being taken outside the scope of agreed budgets, decision-making and good governance.

2.5 The issuing of a S114 notice invariably triggers the Secretary of State to commission a Best Value inspection of those authorities (although it is worth noting that the Secretary of States powers allow informal and formal intervention even without a S114 notice). These inspections, the reports of which are made public, allow common traits to be identified that have led to the need to issue a S114 notice. Often, this is because the councils have overleveraged their borrowing capacity to finance commercial investments, where systems of internal control have broken down and not been remedied over repeated years, or where a single event has become a trigger for consequential budget pressures (e.g. the equal pay claim on Birmingham City Council).

2.6 It must be reiterated that KCC is not facing any of these fundamental issues that have driven S114 notices to date. Our commercial investments, predominantly through our 100% ownership of Commercial Services Group (CSG) are well capitalised, securing continued growth, and critically, deliver a stable dividend return to the council. Our accounts are up to date and unqualified, we have a robust Treasury Management Strategy and MRP (Minimum Reserve Position) policy, a thorough and transparent Annual Governance Statement assurance process, an effective Governance & Audit Committee, an agile risk-based internal Audit Plan with independent oversight of management follow up, and well-developed Risk Management arrangements. Whilst the council does face significant additional pressures because of the impact of issues at the UK border, and particularly at the Short Straits crossing, (e.g. Unaccompanied Asylum-Seeking Children) the council is proactively engaged with Government on the support to be provided to Kent to fully mitigate that specific risk.

2.7 The wave of authorities that have either publicly, or privately, recently indicated that they are now under increasing financial stress are those where there are no bad commercial investments or reported weaknesses in internal control. Rather upper tier authorities are generally reporting significant additional pressure in one or more of Adult Social Care, Children’s Social Care or Home to School transport services (and in the case of unitary councils, also temporary accommodation costs) beyond their capacity within their existing financial envelope. As will be seen in Section 5 below, KCC is facing very similar pressures, largely but not exclusively driven by significant increase in the costs to deliver social care placements from providers. In that sense, our challenges as a council are similar to, but proportionately larger in scale given Kent’s size, to many upper-tier local authorities the length and breadth of the country.

2.8 However, there are some pressures unique to Kent that collectively compound the pressures that the Council is facing. For example, the border challenge and consequential pressure on the UK immigration and asylum system are more significant in Kent than any other part of the country, given Kent’s strategic location as the Gateway to Europe and the main entry point into the UK through the Short Straits channel crossings. This creates additional pressure on the county’s children’s services when the County Council must become the corporate parent for Unaccompanied Asylum-Seeking Children (UASC) under the Children Act. The well documented failings with the National Transfer Scheme for UASC therefore place additional pressure on Kent as it holds the corporate parenting responsibility when the policy intent of the Government is for local authorities to share the burden held by Kent. The nature of the children’s services provider market in Kent, particularly the foster care market, is impacted not just by UASC, but by the decision of other local authorities to place their own Looked After Children in Kent; this limits capacity for placing Kent Looked After Children in foster care, but also drives market pricing. The peninsular nature of the county creates additional pressure on wider public services, particular about securing the workforce necessary to support health and care services, and this creates additional pressure on NHS and care providers particularly in the east of the county, who must compete with London to secure professional and support staff.

2.9 These compounding effects, which often require significant management and member focus, make the task of addressing some of the challenges Kent is facing more difficult and more acute than in other parts of the country. However, it must be remembered that these have also given us a resilience as an organisation in recent years, as the county has coped with the contingency planning and impact of EU exit, subsequent border and transport disruption, a Kent based Covid-19 variant, alongside significant asylum challenges that are unparalleled in other local authorities. Our resilience and scale must now be brought to bear around a single common objective: to Secure Kent's Future.

2. Framing Kent's Future – Prioritising 'New Models of Care and Support'

3.1 In May 2022 the County Council approved 'Framing Kent's Future' the strategic statement for the council. This set out four priorities for KCC over the period 2022-26, including:

- Levelling Up Kent
- Infrastructure for Communities
- Environmental Step Change
- New Models of Care and Support

3.2 It is important to note that Framing Kent's Future recognised the financial challenges the Council was facing and the need for significant service reform to meet the challenges of the post the Covid-19 global economy**.** The foreword to Framing Kent's Future stated:

"The financial position of the council is unlikely to improve, as government funding is stretched ever further by competing priorities. The scale of the changes necessary to our services and how we work may be difficult for some residents, users, staff, and elected Members to initially accept. But change will be a pre-requisite if the council is going to deliver successfully for Kent and place itself on a sustainable footing for the medium and long-term."

3.3 What could not have been anticipated at the time of writing was that the inflation considered by the Bank of England to be a short-term consequence of national and international economies unlocking following the Covid pandemic (compounded by inflationary impacts to energy markets caused by the Ukraine war) and the subsequent workforce challenges, would become hard wired into the UK economy. This has meant that many of the economic and budgetary assumptions upon which council services, particularly for a council reliant on third party provision of services through the market, have not held. The financial and economic climate the council is now facing in delivering services is materially different from where the anticipated we would be when Framing Kent's Future was written.

3.4 These economic and workforce issues have impacted the social care market particularly hard in Kent, given the need for providers to now compete with other sectors of the economy for workers, whilst also competing with the demand pull for workers from London. With a significant number of care providers in Kent being independent, increases in costs for pay, goods and services for providers has, in some cases impacted viability, with some providers choosing to exit the market completely. This has had the overall effect of weaking the resilience of the market, even when demand for social care placements from both the NHS and KCC has increased.

3.5 Whilst all the objectives set out in Framing Kent's Future are important, given the dominance of adults and children's social care on the council budget, and the simple fact that the budget pressures facing the council overwhelming come from social care, Cabinet must now take a policy decision to prioritise the objective of delivering New Models of Care and Support within Framing Kent's Future. Our expectation is that all council services, within Adults and Children's Social Care, but also across the Chief Executive's and Deputy Chief Executive's Departments and the Growth, Environment and Transport (GET) Directorate, must collectively prioritise support delivering the New Models of Care and Support objective as a collective enterprise.

3.6 This is not to say that all work on delivering the first three priorities in Framing Kent's Future should stop. The council has dedicated staff working hard to deliver these ambitions and much of this 'core' work can continue. However, the scope of these three objectives will have to be scaled to the level of investment, funding and management time and capacity that can reasonably be given to them. Additional resources and focus on these priorities will unlikely be possible in the MTFP period, as they are not currently business critical to meeting the council's Best Value statutory responsibility.

3. Why the Council must prioritise its Best Value statutory responsibility:

4.1 One of the critical issues facing local government as whole is significant expansion of the legislative framework councils operate in. This has extended statutory duties on councils without the necessary financial resources being made available by way of increased government funding or income generating powers to cover the additional duties imposed by successive Governments.

4.2 Considering the widespread pressure on local government finances and recent increases in authorities either issuing or considering issuing S114 notices, the Department of Levelling Up. Housing & Communities (DLUHC) have recently issued revised statutory Best Value guidance (subject to consultation) which seeks to remind authorities of their duties under Part 1 of the Local Government Act 1999 to *"make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to the combination of economy, efficiency and effectiveness*". The guidance goes on to explicitly state, and thus interpret, the Best Value duty, as: *"In practice, this covers issues such as how authorities exercise their functions to deliver a balanced budget, provide statutory services, including adult social care and children's services, and secure value for money in all spending decisions".*

4.3 The implication is clear. Those councils that cannot balance competing statutory duties, set a balanced budget, deliver statutory services, and secure value for money are not meeting their legal obligations under the Local Government Act 1999. The Government's position, codified in the revised Best Value guidance, is nothing new. Best Value inspections authorised by the Secretary of State of those authorities that have issued a Section 114 notice have consistently identified council failure as being underpinned by an inability to meet the Best Value duties to set a balanced budget and deliver a sustainable medium term financial plan. Without financial sustainability there can be no sustainable services.

4.4 Whilst the council can lobby, both individually and collectively with partner organisations such as CCN and the LGA for reform to the legislative framework (particularly in adults and children's social care and SEND services) or lobby for additional funding to meet specific issues (e.g. funding to mitigate the impact of the Government's decision to remove Supported Borrowing), these issues are not directly controllable by the council, as they are matters for Government and Parliament. Therefore, they cannot be relied up on as the basis for any financial recovery strategy. Only by prioritising the delivery of our Best Value duties will the council be able to meet its fiduciary duty to Kent residents.

4.5 The statutory Best Value duty must frame all financial, service and policy decisions from this point forward, and services must pro-actively evidence the best value considerations in all decisions. Without ensuring best value, we will not be capable of meeting our wider statutory duties, and the services which flow from them, upon which our residents rely.

4.6 All officers, particularly Chief Officers, Directors, and Heads of Service, must prioritise the Best Value duty in their strategic and operational decisions as well as their advice to executive and non-executive Members. All Members, when discharging their respective roles within the council, whether executive or non-executive, should also prioritise Best Value considerations.

4. Analysis of budget pressures:

5.1 Throughout August the Kent Analytics team, working with Finance and colleagues in the service Management Information Units (MIU) have undertaken an analysis to assess which factors are most strongly driving increases in spend across the services areas where budget pressures/overspend are most significant. These are:

- ASCH care and support spend (in Older Persons, Learning Disability, Mental Health and Physical Disability)
- SEND home to school transport
- Children in Care (CIC) placements

5.2 This analysis identified the following key insights:

- In **older people's placements** the growth in spend between Q1 2022/23 and Q1 2023/24 was 17.5% (or +£10.6m) but of this increase only 9% (+149clients) was accounted for by an increase in the client numbers. 91% of the spend increase was accounted for by significant increases in weekly placements costs (+£92 per week)

- Breaking placements down by placement type indicates that Homecare, Long Term nursing and Short-Term nursing placements are driving additional costs.
- In **learning disability placements**, the growth in spend between Q1 2022/23 and Q1 2023/24 was 9.6% (+£5.1m) but again, the growth in the number of client numbers was a relatively modest 1.7% (+59) accounting for just 16% of the total increase in spend, with the average weekly cost of a placement being up +£91per week, and accounting for 84% of the total increase in spending.
- When looking at placement types for learning disability the spend increase is being driven by Long Term residential care placements (+£85 per week) accounting for 20% of the total increase in spending on learning disability, and the costs of the Supporting Independence Service (SIS) / Support Living (SL) with weekly placements costs at +£140 per week, accounting for 57% of the total increase in spending on learning disability.
- In **mental health placements** the growth in spend between Q1 2022/23 and Q1 2023/24 was 17.8% (or +£2.0m) with an increase in the number of clients of 12.4% (+157clients) accounting for a 63% of the total increase in spend. 37% of the spend increase was for increases in weekly placements costs (+£50per week). Importantly, the number of people starting a placement has been increasing at a higher rate than placements ending over the longer-term trend.
- In **physical disability placements** the growth in spend between Q1 2022/23 and Q1 2023/24 was 15% (or +£2.4m) with an increase in the number of clients of 2.3% (+158clients) accounted for 13% of the total increase in spend. 87% of the spend increase was for increases in weekly placements costs (+£62per week).
- In regard to **Children in Care (CIC) Placements** (non-UASC, non-disabled) the growth in spend between Q1 2022/23 and Q1 2023/24 was 18% (+£2.6m quarterly spend). Of the overall increase in cost, 31% is directly due to an increase in the number of CIC, 35% is due to an increase in the average weekly cost of different placement types, and 34% is due to a change in the distribution of types of placement (partly driven by overall increase in demand and availability of placement types).
- In **SEN Home to School Transport** (July 22 vs July 23) the growth in spend was 31% (+£15.2m). Of the overall increase in cost, 37% of the spend increase is directly due to an increase in the number of SEN pupils receiving home to school transport of 10.7% (+668 pupils), 63% of the spend increase driven by an increase in the average cost per day of SEN travel of (+£8). Given the limited number of school days per year, this means that the increase in the average cost per day drives 67% of the total spend increase compared to 33% from the increase in the number of clients.
- The average cost per client per day for hired transport for SEN pupils is now over 3.5 times more expensive than for a Personal Transport Budget (PTB) having increased by 20.5% compared to 0.3% for hired transport.

5.3 As a result of this analysis, it is possible to draw several conclusions that must shape the council's position in the medium term from both a financial and policy perspective:

- The driver of costs across overspending services is complex, but it is not simply a matter of the council meeting additional demand through an increased number of clients. Indeed, in many areas the absolute increase in client numbers requiring support has been relatively modest. Rather, the significant increase in spending is largely driven by unsustainable increases in costs the council is meeting to secure services from market providers. As a result of these increased placements costs, relatively modest increases in client numbers have a disproportionate and exponential increase in the costs of securing provision.

- Given the cost drivers are directly linked to service placements the ability to change these costs once the service provision has been procured and agreed are limited, with each ‘cohort’ of clients effectively locked in for a period that service has been agreed or the service user may be entitled – in many instances for multiple years. Consequently, even if the council changed policy, practice, or provision immediately for new service users, the ongoing cost of placements procured from market providers at prices beyond what the council can reasonably afford creates a structural deficit in the council’s budget that will require remedial action over the course of this and future MTFP periods.

- Adult social care is intractably linked with the pressures and complex demands faced by the NHS. The need to discharge patients from hospital drives placement decisions driven by short-term clinical rather than long-term social care need. In some cases, this drives placement decisions that are not appropriate from an adult social care point of view, but which then hard wire those higher placement costs into the council budget, given immediate health and social care needs must be prioritised. The need for the council to work with NHS Kent & Medway to support a sustainable hospital discharge pathway, and a fair and appropriate apportionment of costs between health and social care, is critical if both the health and care system in Kent are to remain viable.

- Our response to market changes and service pressures has not kept pace with the evolving situation. Whilst the changes in the care market post Covid have escalated rapidly, the disconnection between our commissioning practice and services who are making placement decisions on an individual basis, and have a stronger working relationship with providers, has meant that KCC has not managed the market as quickly as market changes and pressures have required. A focus on procurement and a contractual relationship is insufficient to engage and manage providers to redesign services to changing need. In part, this issue has already been recognised through the recently completed Strategic Commissioning restructure in KCC, which has seen commissioning staff transferred back to Directorates to provide capacity to design service solutions around service need, and working on the appropriate provider / delivery model, rather than default to procurement.

- The interplay between the council’s policy and its practice when assessing and providing services needs to be tighter. The cost driver work provides indications that in some instances, council policy is not being sufficiently applied in practice when assessments are undertaken, which both risks the possibility of overprovision, impacting on the council’s finances, and then limiting the ability of the council to change that provision as the assessment decisions was made by KCC. Strengthening both the operational policy framework, and its implementation through service practice, is critical.

5. Securing Kent's Future – Four strategic objectives:

Objective 1: Bringing the 2023/24 budget back into balance:

6.1 As early budget monitoring highlighted the emerging in-year overspend for 2023/24, the Corporate Management Team have been working to identify budget savings that would allow the council to bring its spending in-year back to the approved budget set by County Council in February. It is vital that the council does not overspend in the current year as this would create further need to use limited reserves to fund revenue overspends, weakening the financial resilience of the authority and limiting the scope for the use of reserves to invest in transformation necessary to address the structural deficit.

6.2 As noted in paragraph 1.1, following management action, the forecast overspend reported to Cabinet in August was £26.7m. Table 2 in the Financial Recovery Plan sets out the contribution identified by each Directorate of additional targeted savings for 2023/24, whether they are one-off savings or recurring, and the cumulative impact. As noted in the Plan, some of the detailed workings for specific savings are still in development and therefore firm numbers can only be provided in the draft Budget for 2024/25 to be published later in the autumn.

6.3 Paragraphs 2.1 – 2.6 of the Financial Recovery Plan at Appendix 1 set out the range of measures, identified as Urgent Actions with Immediate Impacts which can help address the in-year overspend.

- Further Management Action from Directorate Management Teams
- Review of spending from reserves
- Potential receipts from assets
- Consultant led review of spending growth and savings opportunities.
- Review of strict compliance with existing policy
- Reserves review
- Cross cutting review of non-committed spend

6.4 By far the most significant of these actions is the cross-cutting review of non-committed spend, which has a delivery target of £11.4m for the remainder of the year. Managers across the whole organisation will be expected to avoid non-essential spending in areas such as recruitment of staff to vacant roles, agency staff, use of external venues for meetings, professional fees, and supplies and services.

6.5 It should be noted however that where the recruitment to roles is considered essential to support the council to deliver services safely and effectively, this will continue to be permitted, and this should be the judgement of senior service managers with the responsibility and accountability for budgets, balancing the immediate need for savings with the immediate service pressures which may be present. KCC is not immune from the workforce challenges facing the wider economy and weaking the capacity and capability of services to deliver efficiently and effectively will ultimately prove counterproductive. However, as outlined in Paragraph 2.2 of the Plan, there will be a further tightening of spending approval limits for new staff hires, interim staff, agency staff and consultants, with spend for higher graded posts/costs held at Director and Corporate Director level to drive accountability.

6.6 CMT are confident that full implementation of these urgent actions, alongside delivery of already agreed budget savings or compensating alternatives, will ensure council spending is brought back into balance by the end of the financial year. However, a significant number of these additional savings are one-off and non-recurring, and as a result do not relieve the forecast pressure on the 2024/25 budget and MTFP. As a result, work to deliver Objective 2, the delivery of savings, cost reductions and increases in income to set a sustainable 2024/25 budget and MTFP must continue and be developed concurrently to the delivery of the additional in-year savings for 2023/24.

Objective 2: Delivering savings from identified opportunity areas to set a sustainable 2024/25 budget and MTFP:

6.7 Within the Budget Recovery Plan at Appendix 1, Section 3 outlines the actions necessary to identify the savings to allow the council to set a balanced budget for 2024/25 and a sustainable MTFP. Table 3 in the Plan sets out the full range of opportunity areas that CMT and Cabinet have identified to develop further. For the purposes of this report, it is worth noting three, given their significance:

- **Service transformation opportunities:** KCC exists to provide services that meet the needs of Kent residents whilst meeting our Best Value duty. Consequently, the council can only deliver budget sustainability through a significant focus on the services it provides and transforming them accordingly to continue to meet needs whilst bringing the budget back into sustainability. The cost driver analysis set out above has identified significant opportunities to further transform services and there are several service transformation opportunities that flow as a result. The list below is a non-exhaustive of some of the key service transformation opportunities that will be developed as part of Securing Kent's Future:

    - **ASCH provider market redesign/recommissioning:** Very significant recommissioning opportunities exist for the recommissioning of residential and domiciliary care contracts, to better meet client needs and mitigate significant forecast price increases. Partially avoiding these forecast increases in costs of homecare and residential care, and then ensuring that placement decisions take place within the framework contracts that are established through the recommissioning process to reduce off contract spend, will be vital. The scale of these contracts is such that significant resources across the council will be required to support the recommissioning process to ensure that these contracts fully support Securing Kent's Future, as this will be the single biggest action that can support a balanced budget for 2024/25.

    - **ASCH social care prevention**: Further work can be undertaken to identify risk in the population and design effective preventative interventions before needs develop and people present with multiple complex needs, which drives significant increase in cost of placements (e.g. falls prevention, older persons accommodation). Whilst this may reduce demand for social care, reducing forecast demand increases in the MTFP, it also has the potential to reduce demand to health services, including hospitals, which then will reduce the risk of inappropriate placement decisions through the hospital discharge pathway.

- **Hospital discharge pathway:** People presenting through hospital discharge for social care services invariably have complex needs, and pressures in the system can lead to inappropriate placement decisions. Through optimising the use of reablement, short-term beds and step-down beds, we can seek to avoid short-term support becoming longer-term dependency on social care. This work will need to be taken forward and developed jointly with NHS partners given it is a critical issue for both health and care services.

- **CYPE placement strategies**: Work to assess the opportunities that exist around sufficiency strategy, ensuring the right mix of placements and working towards bringing placement costs down. Although it is recognised that market and placement costs in Kent are impacted by UASC and other factors beyond the council's control.

- **Preparing for adulthood/transition:** Working across both ASCH and CYPE to optimise support for people between the ages of 14-25 as they transition from children to adult services, promoting independence in adult life. Working age people with learning disabilities are now living longer through better long-term management of medical needs, but this increases the need to promote independence earlier so long-term needs can continue to be met at reasonable cost to the council. Joint working with NHS partners will be critical given costs of support are incurred by both the NHS and social care.

- **Home to School Transport:** Primarily but not exclusively in SEN home to school transport (where the cost increase in both relative and absolute terms are most significant) there is a need to ensure that through the SEN assessment process the options for the Home to School transport are fully explained to parents and the policy position of the council regarding home to school transport is reflective in EHC plans. Also, there is a significant requirement to improve our commissioning and procurement practice for SEN transport, better scaling contracts so that they benefit from greater resilience and reduced costs.

It is anticipated that most of the impact from much of this service transformation work will reduce future cost increases during the medium-term financial plan period rather than deliver savings on current spend. This would result in reduced spending growth already included in the medium-term financial plan or to avoid adding further growth and reduce the risk of future overspends.

- **Contract review:** Nearly three quarters of the council's spend is with third party providers across the public, private, voluntary, and social enterprise sectors. With such a significant amount of council spend governed through contractual arrangements, the need to ensure that these arrangements fully provide Best Value to Kent residents and are fully reflective of the priority to deliver Securing Kent's Future is critical if budget sustainability is to be achieved. As set out in Section 5 above, stronger control of the contract pipeline as a result of the recent changes to the commissioning and procurement structures, will allow KCC to undertake a detailed review of all contracts coming up for renewal and make a Best Value judgement through the commissioning process about whether the need the contracted service is meeting must still continue to be met, whether a contracted service is the most appropriate way of meeting that need, and if it is, the right contractual mechanism is put in place.

- **Staffing review**: Whilst staffing costs in and of themselves are not a cost pressure on the agreed KCC budget, and in some service areas workforce challenges exist given the nature of the economy and the competitive market for specialist skills, the need to review our staff establishment to ensure it is fit for purpose at a council level is important. A cross cutting review will focus on three specific areas. Firstly, a rigorous application of the agreed Decision-Making Accountability (DMA) approach promoted by the LGA of the appropriate spans of control and layers of management within the council. Secondly, there is continued duplication in some areas between staff who are embedded in service Directorates and those working in similar or the same roles but in corporate teams. Inherently this isn't efficient and mitigates against the 'One Council' approach to specialist and business support which is best practice within public and private sector bodies. Thirdly, whilst accepting that in some services there are workforce issues, a review of the recruitment/deployment of agency staff will be undertaken to ensure agency costs (which are higher than directly employed staff) are only incurred when necessary. Whilst use of agency staff has a place within the workforce mix of KCC, given its flexibility, it is critically important that services do not become overly dependent on agency workers.

Objective 3: Policy choices and scope of Council's ambitions

6.8 Even through the significant period of austerity, KCC has remained ambitious for the residents of Kent and for the organisation. As the strategic authority for Kent, its role clearly goes beyond the provision of statutory services, and we are aware that many of the services that our residents most value can be those that the council operates voluntarily, which aren't required by law to be provided and are not funded by Government. As a result, over the course of successive administrations the council has worked hard to ensure that it keeps providing as many discretionary services as possible, and in many instances, providing discretionary services that have closed or been reduced in many other county areas. Whilst our overall policy position is still maintaining discretionary services that add value and support the outcomes the council is seeking to achieve, we must be more rigorous in assessing the value of those services, and where necessary rescope the council's ambition and interventions to something that is proportionate and affordable. This focus will require us to focus on three areas of activity:

- **Evaluation of statutory minimum requirements:** Whilst many of the council services have a statutory basis that either requires the council to provide them or gives residents the right to seek support from the council. In many cases statute does not define the service offer that must be provided. This becomes a matter for local choice influenced by legislation or wider determinants, such as case law or regulatory / inspection frameworks. This heightens the risk of over providing statutory services beyond what is needed and does not meet the Best Value duty on the council. We must review statutory services and the extent to which they are appropriately meeting need and supporting outcomes, and where necessary reshape that spend so it frees up resources for other services, including discretionary services.

- **Review of discretionary spending:** Discretionary spending must have a purpose and support meeting the outcomes for residents and communities the council is seeking to achieve. The council must review its discretionary spend and the extent to which there is objective or subjective evidence whether spend contributes to reducing demand on statutory services and/or meets the council's stated outcomes. In many instances, the key test for discretionary services is whether the need identified can only be met by the council, or whether other partners or providers, either public or private, are equally or better able to meet that need.

- **Full cost recovery on discretionary spend:** The council must review where it is possible and appropriate to seek full cost recovery on discretionary services to make them viable and sustainable. There is a need to ensure that there is full transparency about where budgets are effectively cross subsidising discretionary services and reducing the resources available for other/statutory services.

Objective 4: Further transforming the operating model of the Council:

6.9 Applying the service and policy changes the council set out in the first three objectives above will necessarily require a wider transformation of the council's operating model, both to support the delivery of Securing Kent's Future, but also to reflect the desire to reshape the council so delivery of Best Value is at the core of what it does and how it does it in the medium to long-term.

6.10 Almost certainly, KCC will need to be a leaner organisation, prioritising staff capability over capacity, with an ability to harness and leverage its scale in terms of service delivery, whether in-house or commissioned, drive new ICT and digital capabilities into its core service offer, with the corporate core enabling and supporting services on a 'One Council' basis, freeing services to focus on practice, service quality and resident/client outcomes. Whilst a revised operating model will require further development, it is possible to set out some core foundations that will be central to a changed operating model:

- **Embedding the Chief Executive model:** Putting the Chief Executive post back into KCC establishment after almost thirteen years of operating without one was the right thing to do for the organisation, bringing us in line not just with most councils, but nearly all organisations of scale across the public, private and voluntary sector. The necessary changes to systems and culture of the organisation are still embedding and require further support of all Chief Officers and all Members, in particular the need to strengthen the culture of professional accountability and responsibility for operational and strategic management actions in the council. Whilst Members are responsible for the overall strategic direction of the council through the budget, MTFP and policy framework, we are critically dependent on a strong management cohort driving delivery through services, with a Chief Executive with the capacity to make management interventions on Members' behalf when necessary.

- **Strengthening of the corporate core:** To support the Chief Executive deliver Securing Kent's Future, there will need to be a further strengthening of the corporate core of the organisation. In practice, this will mean aligning the Strategic Reset Programme (SRP) around the priorities of Securing Kent's Future and further strengthening the SRP team to take a stronger delivery and oversight role of the project and programmes necessary to deliver financial sustainability. This will give the CEO greater visibility and assurance around delivery of SKF actions. Whilst KCC has a strong performance culture within services, there is a clear need to strengthen corporate performance management capacity across the council, with a rebooted corporate performance framework providing a stronger means of control over core activity to support the CEO to assess and intervene earlier when performance issues become evident.

- **Digital, Automation and AI:** The council has already made significant inroads into leveraging the opportunities from digital transformation and automation. For example, the council has developed an in-house 'centre of excellence' within its ICT team focussing on digital transformation and automation within existing Microsoft 365 capabilities. This is already improving systems and processes at service level whilst also building out the capability and confidence of the wider workforce to use these tools to change the way that they work. The recently agreed Digital Strategy sets out how the council can accelerate digital change to drive further efficiencies whilst also improving service quality and responsiveness. There is also significant opportunity through the rapid development of AI and Large Language Models (LLM) to both assess data, and provide tools to support service delivery, freeing staff to undertake more high-value tasks. The council has already started to use AI and LLM capabilities within services, and a recently agreed AI policy provides a framework to explore and adopt the use of AI safely. Whilst AI is not without some increased risk, the use of AI will increasingly become the norm across both public and private sectors, and the opportunity of AI to transform services cannot be ignored.

- **Driving management culture across all services:** The focus on Best Value in Securing Kent's Future will ask staff, managers, and strategic leadership of the council to weigh the broader interests of the whole council against the narrow interests of a, or their own, specific service. This shift will require a focus on changing the culture of the organisation from some learned behaviours that have existed for many years. Developing and strengthening management culture requires careful consideration and planning, but there are two key areas where culture is impacting on the council's financial capacity and should be challenged. One reason for our existing pressures is an assumption on the part of some staff and managers that some other part of KCC will 'find' the money to meet their client or service needs. Instead, the council requires a culture of delivering within financial constraints to be an expected and required part of the management culture across all services in KCC. A second example is an overreliance on delivering change through separate project and programme management resources. As a result, relatively minor projects have dedicated change resource which is both expensive and creates a dislocation between projects and services which often slows delivery of change. Whilst dedicated project and programme teams have their place at a strategic level for major change activity, delivering change is, in the first instance, the responsibility of all managers across the organisation.

6. Consequential Risk and Risk Appetite:

7.1 The scale of the change required to deliver Securing Kent's Future will necessarily mean that the council must be cognisant of the wider risks that may materialise. In summary, these risks may include:

- **Delivery risk:** Securing Kent's Future will require the organisation to undertake multiple savings and transformation programmes concurrently, whilst also delivering business as usual activity. For example, delivering new savings in Objective 1 and designing savings in Objective 2 concurrently, whilst also delivering already agreed savings set out in the current MTFP creates clear delivery risks. The council also has several critical enabling projects, such as Enterprise Business Capability (EBC) system replacement which must successfully be delivered on time and on budget. As noted already, the council also has some significant capacity gaps in key services due to workforce pressures, and the increases in demand in some services will also require ongoing management action. The capacity of corporate services such as Finance, HR/OD, and Technology to support the level of activity inherent in the overall programme will also be severely stretched. Whilst delivery risk is inherent given the size of the financial challenge facing the council, this can be mitigated in part through the strengthening of the Strategic Reset Programme (SRP), realigning the SRP team and Board to support and oversee the significant delivery activity within Securing Kent's Future. Moreover, there must be a rigorous focus on the prioritisation and sequencing of decisions and service changes within Securing Kent's Future to optimise the staffing and financial resource available to support its successful delivery. It is also critical that managers and staff are properly and effectively engaged to set out clearly their contribution to Securing Kent's Future. Disengaged staff will be a significant risk to successful delivery.

- **Risk transfer to system and partners:** The council's services do not exist in isolation, but in many cases are part of an interdependent 'system' across a wider network of public, voluntary, social, and private sector partners. The scale of the change required to deliver Securing Kent's Future will invariably require the council to move at significant pace, and in some cases, will require the council to take decisions to meet its Best Value duty which are contrary to system efficacy and/or partner relationships. Whilst the council will do everything in its power to attempt to avoid cost shunting onto partners and is committed to being transparent with partners about the choices and actions it will need to take, almost inevitably, the impact on partners may be significant and, as such, should be acknowledged.

- **Regulatory risk:** Many of the council's services are subject to regulation and inspection by third party organisations established such as Ofsted and Care Quality Commission (CQC). The inspection frameworks used by such regulators are often focussed on professional practice, service quality, client relationships, and outcomes for clients/individuals. The financial position of the service, or indeed the council, is often assumed or ignored within these regulatory frameworks, and little to no account is taken about the financial resources or capacity of the council to meet demand to the standards expected. The reality of Securing Kent's Future, as noted above, is that the financial capacity of the council must be material to the level and quality of service it can provide, and as such, Securing Kent's Future may require decisions that materially impact on the council's ability to meet regulatory inspection framework or assessment. Whilst the council will do everything it can to meet the quality and practice thresholds expected through regulatory inspection and assessment within the resource available it cannot come at the expense of the financial stability of the council.

- **Risk of legal and other challenge**: As noted earlier, underpinning Securing Kent's Future is the need to balance the council's Best Value duty against the wider set of competing statutory duties placed upon it. There is significant risk that where the council makes decisions that secure Best Value, the possibility of legal or other challenge from interested third parties will increase. The council is highly unlikely to be able to fully mitigate the risk of legal challenge and successfully deliver Securing Kent's Future at the pace required. As such, the risk of legal or other challenge is not a measure of our overall success. Rather, the ability of the council to defend its actions as logical, necessary, proportionate, and complying with the necessary legislation and case law regarding good governance and decision-making, will be the measure of success in mitigating this risk.

7.2 Given the above, in delivering Securing Kent's Future, the council is necessarily required to increase its risk appetite to successfully mitigate the significant financial risk it currently faces. Holding an elevated level of risk appetite is necessary and proportionate to the consequential impact of council failure if remedial action is not taken to address the financial position. Accepting increased risk appetite will help both the staff, partners and providers understand the seriousness of the council's financial position and help promote more ambitious and radical solutions to the design and delivery of our service offer. The formal risk appetite statement is set out in the Risk Management Policy, and this policy will be updated as a matter of urgency to codify and reflect the risk appetite for Securing Kent's Future and will be subject to review and scrutiny by the Governance & Audit Committee.

7. Governance, Assurance & Audit:

8.1 Robust governance and scrutiny of the proposals and plans of individual proposals within scope of Securing Kent's Future will be critical to successful delivery and providing the necessary transparency for assurance of the council's overall financial position. However, whilst normal governance process and procedure will apply, the requirement to deliver at pace is clear. A significant proportion of the actions, particularly in Objective 1, will be deliverable through management action, and these should be taken as soon as possible at the appropriate management layer where delegations allow.

8.2 As we move into Objectives 2 and 3, the need for Key Decisions to be made is also clear, but where management action through delegations can be used as approval, then it should be used as the most expeditious route to delivery. Whilst the council will endeavour to ensure proposals are considered by Cabinet Committees in their pre-scrutiny role, Cabinet will not allow pre-scrutiny to inappropriately delay the Executive in taking the necessary Key Decisions to support delivering Securing Kent’s Future. Should further scrutiny of Key Decisions be required, this can be undertaken by the Scrutiny Committee fulfilling its statutory role.

8.3 The role of Internal Audit and the Governance & Audit Committee will be critical to providing that independent assurance on the overall position of Securing Kent’s Future, over and above the usual financial monitoring undertake by Corporate Finance. Given the internal audit plan is risk focussed, the Head of Internal Audit will review and make recommendations on whether any reprioritisation of planned audits should be proposed to take account of Securing Kent’s Future, and any changes proposed to be considered and agreed by the Governance & Audit Committee.

8. Further development of Securing Kent’s Future:

9.1 As noted at the beginning of this paper, Securing Kent’s Future as the overall budget recovery strategy for KCC will necessarily be iterative. Detailed savings proposals, particularly for 2024/25, will be further outlined in the draft 2024/25 budget, building on the details set out at Appendix 1.

9.2 The need to ensure delivery of Securing Kent’s Future cannot be solely undertaken through the budget process. There is a need to ensure the urgency and priority given to the service changes and financial commitments made within Securing Kent’s Future are clearly understood at all levels of the organisation, and further shapes management focus and resourcing decisions. It is expected that service activity which does not support Securing Kent’s Future objectives is reprioritised or deprioritised accordingly.

9.3 Therefore, it is proposed that delivery of Securing Kent’s Future activity is taken forward through the council Strategic Business Plan 2024/25, alongside enhanced financial monitoring and reporting, building on the detailed delivery plans that are currently being agreed by services and the Corporate Management Team. It is also proposed to develop and agree the Strategic Business Plan earlier in the business planning cycle, aligning it to the budget timetable, and before divisional and service business plan are developed, so that alongside the budget, it shapes and drives prioritisation and resourcing decisions across all council services.

9. **Recommendations**:

Cabinet is asked to:

1. Note the Financial Recovery Plan set out at Appendix 1.
2. Note the Urgent Actions with Immediate Impacts set out in the Financial Recovery Plan at Appendix 1 to bring the council back into balance for 2023/24, albeit with significant reliance on non-recurring savings.

3. Note the Urgent Actions with Medium to Long-Term impacts set out in the Financial Recovery Plan at Appendix 1 as necessary to support the development of a sustainable 2024/25 budget and MTFP.
4. Agree to the further development and inclusion of the actions in the Financial Recovery Plan at Appendix 1 into the draft Budget 2024/25, to be published late October / early November 2023.
5. Agree to the prioritisation of the 'New Models of Care' objective within the strategic statement, *Framing Kent's Future* as the council's primary objective to meet its Best Value duties.
6. Agree the position set out in paragraph 4.5 regarding delivering the Best Value statutory duty, and the requirement for Best Value considerations to be evidenced in all service, policy, and budgetary decisions at all levels of the council.
7. Agree the need for increased risk appetite set out at paragraph 7.2, and for any changes necessary to the council's Risk Management Policy to be made and considered by the Governance & Audit Committee as appropriate.
8. Agree the four objectives outlined for *Securing Kent's Future* and to develop *Securing Kent's Future* as the Strategic Business Plan for 2024/25.

Appendices:

- Appendix 1: Securing Kent's Future – Detailed Financial Assessment of budget proposals

Background Papers:

- Cost Driver Assessment by Kent Analytics Service, Corporate Board,
- Securing Kent's Future – Budget Recovery Strategy & Financial Reporting, KCC Cabinet, 17 August 2023

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