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.

<table>
<thead>
<tr>
<th>Financial Challenge</th>
<th>Financial Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Table 1</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Original MTFP £m</strong></td>
<td><strong>Updated MTFP £m</strong></td>
</tr>
<tr>
<td>Spending Demands</td>
<td>Council Tax/Business Rates</td>
</tr>
<tr>
<td>58.8</td>
<td>21.2</td>
</tr>
<tr>
<td>Net Government Grant Reductions</td>
<td>Identified Savings Options</td>
</tr>
<tr>
<td>43.7</td>
<td>29.4</td>
</tr>
<tr>
<td>Net Government Grant Reductions</td>
<td>Unidentified Savings</td>
</tr>
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<td>5.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>102.5</td>
<td>108.3</td>
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</tbody>
</table>

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>
<thead>
<tr>
<th>Table 2</th>
<th>Updated MTFP £m</th>
<th>Updated MTFP £m</th>
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<tbody>
<tr>
<td><strong>Transformation Savings</strong></td>
<td><strong>Increased Income</strong></td>
<td></td>
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<tr>
<td>Adult Social Care</td>
<td>13.3</td>
<td>Client Income</td>
</tr>
<tr>
<td>Digital Communications</td>
<td>0.6</td>
<td>Trading Income</td>
</tr>
<tr>
<td>Tactical Procurement</td>
<td>2.0</td>
<td>Other Agencies</td>
</tr>
<tr>
<td>Other</td>
<td>3.3</td>
<td><strong>Investment Strategy</strong></td>
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<td><strong>Efficiencies Savings</strong></td>
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<td>Other</td>
</tr>
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<td>Staffing</td>
<td>8.9</td>
<td>Policy Changes</td>
</tr>
<tr>
<td>Contracts</td>
<td>11.7</td>
<td>Social Care</td>
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<tr>
<td>Other</td>
<td>4.1</td>
<td>ESG Support to Schools</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Other</td>
</tr>
<tr>
<td><strong>Grant Income</strong></td>
<td></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>New DSG block for ESG</td>
<td>3.4</td>
<td></td>
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<tr>
<td><strong>Financing Savings</strong></td>
<td></td>
<td>Items in <strong>Bold</strong> agreed by cross party advisory groups</td>
</tr>
<tr>
<td>Drawdown Reserves</td>
<td>6.8</td>
<td></td>
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<tr>
<td>Capital Receipts</td>
<td>2.5</td>
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</tr>
<tr>
<td><strong>Capital Financing</strong></td>
<td><strong>4.1</strong></td>
<td></td>
</tr>
</tbody>
</table>
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 a 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.

<table>
<thead>
<tr>
<th>Table 3</th>
<th>2017-18</th>
<th>2018-19</th>
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<tr>
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<td>Published MTFP £m</td>
<td>Updated MTFP £m</td>
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<tr>
<td>Transformation</td>
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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.
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.

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.

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.

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.

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.

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

10.2 Budget consultation materials published on KCC website can be found at [www.kent.gov.uk/budget](http://www.kent.gov.uk/budget)

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