BUSINESS SUPPORT
OVERVIEW AND SCRUTINY COMMITTEE

3 JANUARY 2008

DRAFT CAPITAL AND REVENUE BUDGET PROPOSALS 2008/2009

Report from: Mick Hayward, Chief Finance Officer

Author: Mick Hayward, Chief Finance Officer

1 Purpose of item

1.1 This report presents for consideration, the Cabinet's draft capital and revenue budgets for 2008/2009.

2 Recommendations

2.1 Members are requested to:

a) Consider the initial capital and revenue budgets, proposed by Cabinet on 27 November 2007 insofar as they affect this overview and scrutiny committee;

b) Consider the opportunities and implications of any other efficiencies or revenue generating measures for this committee;

(c) Forward to this Committee, in its co-ordinating role, on 7 February 2008, comments and suggestions with regard to the preparation of the Council's capital and revenue budget for 2008/2009.

3 Background

3.1 According to the Council's constitution, it is the responsibility of Cabinet, supported by the management team, to publish initial budget proposals. These proposals should be submitted to overview and scrutiny committees for their views at least three months before the Council's budget meeting.

3.2 Cabinet's proposals, as agreed at the meeting on 27 November 2007, were reported in full to Business Support Overview and Scrutiny Committee on 29 November who agreed to pass the proposals on to the relevant overview and scrutiny committees, with comments to be channelled back through that committee on 7 February.

3.3 As in previous years Cabinet's presentation is very much a 'work-in-progress' position, with incomplete information in relation to capital funding opportunities and a revenue funding gap of some £11.9 million albeit at that point the detail of the financial settlement was not known.

3.4 The report to Business Support Overview and Scrutiny Committee on 29 November was a re-statement of the Cabinet report and identified the position for the Council as a whole as presented by cabinet. This report moves the process on and concentrates on the impact upon the Business Support Department of the Council. However in doing so the opportunity is taken to update the overall position in respect of the capital and revenue announcements that have occurred subsequent to the meetings of Cabinet and Overview and Scrutiny in November.

4. Draft Capital Programme 2008/2009 and Beyond

4.1 The current forecast shows that almost £27 million of the current approved programme of some £128 million will be delivered in future years and capital resources will either roll forward or new allocations become available. The majority of capital resources to support investment for the current financial year were announced in 2005 as part of the transition to three-year settlements to be introduced from 2008/2009 following the Government's Comprehensive Review (CSR 2007). The recent publication of the Local Government Finance Settlement 2008/2009, considered by Cabinet on 18 December, has confirmed the majority of capital funding from Government for 2008/2009 to 2010/2011.

4.2 The annual target for capital receipts remains at £4 million as it is vital to ensure capital reserves are sufficient to match our investment plans. Commitments from the current capital programme and ongoing support of annual schemes represent an additional demand for receipts of £10 million by the end of 2010/2011.

4.3 The provisional capital programme for 2008/2009 and future years only incorporates schemes which are fully supported by borrowing, grant or other external contributions.

4.4 In setting a programme of investment in the capital programme, Members must consider all financing options available and have regard to option appraisal, asset management planning, strategic planning and achievability of the Council's forward plan.

4.5 As indicated in paragraph 4.2, the majority of funding announcements have been made but could be subject to minor revision. The capital programme must be considered provisional at this stage with the core funded programme and the unfunded proposals for consideration by overview and scrutiny as work in progress.

4.6 In considering schemes for inclusion within the programme the revenue implications of new investment must always be assessed. This information forms a component of the prudential indicators of affordability. Consequently, individual schemes will be considered in detail before submission to members for formal approval.

4.7 Schemes that require investment from reserves or revenue funds cannot be considered because of the over commitment on the revenue budget and uncommitted general reserves were £3.7 million at the end of March 2007 and this balance is committed to fund currently approved schemes as can be seen from Table 1.

4.8 The following table lists currently approved schemes, funded from capital receipts or reserves that will continue into future years to the extent of the unused amount of the approval. Shaded figures relate to this committee:

Table 1 Unsupported existing approved Capital Schemes for 2007/2008

Scheme funded from Capital Receipts and Reserves	Total Scheme Approval £000s	Forecast Spend to 31/03/08 £000s	Future Years to 2010/2011 £000s
Business Support Department			
Building Maintenance Programme 5	431	431	0
Building Maintenance Programme 6	1,000	0	1,000
Universities at Medway (Final Phase)	1,000	1,000	0
ICT Strategic Fund	848	300	548
Energy Efficiency Carbon Trust	150	25	125
Department Total	**3,429**	**1,756**	**1,673**
Other Directorates			
Regeneration and Development	7,657	3,413	4,244
Community Services	6,291	1,902	4,389
Member's Priorities	2,790	2,540	250
Total	**20,167**	**9,611**	**10,556**
Funding			
Reserves	**3,673**	**3,173**	**500**
Capital Receipts Existing Programme	**9,956**	**6,438**	**3,518**
Capital Receipts Future Programme	**6,538**	**0**	**6,538**

4.9 Accumulated capital receipts will be sufficient to cover the existing unsupported schemes detailed above with the exception of the future commitments for compensation payments to Network rail in respect of land acquisition at Strood Riverside and the Council's commitment to match the University of Kent's funding for Medway Park.

4.10 In addition to the future commitments indicated above, there are a number of currently uncommitted schemes, which arise from ongoing programmes and are considered essential to maintain service levels across the Council and these will present an additional demand on future capital receipts.

Table 2 Unsupported Programmes. Requirement for Future Years

Scheme currently unfunded	2008/2009 £000s	2009/2010 £000s	2010/2011 £000s
Existing Commitments from Table 1	4,730	1,808	0
Highways	1,500	1,500	1,500
Building Maintenance Programmes 7+	0	1,000	1,000
Disabled Facilities Grants (40%)	380	380	380
Empty Homes	300	300	300
Older Persons Plan	170	101	101
ICT Funding (top up)	5	60	114
Total	**7,085**	**5,149**	**3,495**

4.11 The following table lists approved schemes, funded from unsupported borrowing which will continue into future years to the extent of the unused amount of the borrowing approval. At this stage, no further schemes have been identified for funding under the prudential borrowing regime.

Table 3 Unsupported Existing Approved Capital Schemes for 2007/2008

Scheme funded from Unsupported Borrowing	Total Scheme Approval £000s	Forecast Spend to 31/03/2008 £000s	Future Years to 2010/2011 £000s
Gun Wharf	21,300	21,300	0
Medway Innovation Centre Phase II	4,150	450	3,700
Mercury Abatement	1,174	5	1,169
Napier Road	550	50	500
Strood SC Football Academy	292	292	0
Customer First	190	190	0
Total	**27,656**	**22,287**	**5,369**

4.12 As indicated in paragraph 4.1, CSR 2007 has introduced a three year funding settlement for local authorities. The following table, although incomplete, will give Members an indication of those major schemes or programmes which are funded by borrowing backed by Central government support (SCE(R)) or are externally funded by grant (SCE(C)). Comparative figures for 2007/2008, where appropriate, are shown for information.

Table 4a SCE(R) Allocations (supported borrowing)

SCE (R) Single Capital Pot	2007/2008 £000	2008/2009 £000	2009/2010 £000	2010/2011 £000
Education				
Modernisation	3,127	3,276	3,070	289
Basic Need	2,224	2,744	2,744	2,744
Schools Access Initiatives	546	620	620	620
Transport	3,216	3,840	4,249	4,791
Adult Personal Social Services	144	Now grant funded		
Mental Health	112			
Children's Personal Social Services	56	51	51	50
Housing Decent Homes Note 1	735	735	tba	tba
Total Supported Borrowing	**10,160**	**11,266**		

Table 4b SCE(C) Allocations (Capital Grant funding)

Capital Grants (basic allocations)	2007/2008 £000	2008/2009 £000	2009/2010 £000	2010/2011 £000
Education				
Devolved Formula Capital	5,713	5,351	5,301	5,301
LCVAP – Note 2	431	593	593	593
Modernisation – Note 2	1,340	0	0	2,780
Extended Schools	0	432	458	236
Harnessing Technology	0	939	940	965
Targeted Capital – Note 3	0	0	2,000	6,000
Early Years (Sure Start)	2,953	489	1,023	607
Early Years (Quality & Access)		1,177	1,177	1,177
Transport	1,205	947	1,054	1,165
Specific Road Safety Grant	0	68	72	71
Major Repairs Allowance (HRA) – Note 1	2,198	2,156	tba	tba
Housing (General Fund)	281	tba	tba	tba
Disabled Facilities Grant – Note 4	567	tba	tba	tba
Adult Personal Social Services	Previously SCE(R)	138	138	138
Mental Health		115	115	115
Total Grants	**14,688**			
Total Supported Capital Expenditure	**24.848**			

Notes:

1. *Draft figures (recently amended by CLG), final determination mid January*
2. *These allocations are reduced by the advances made in 2007/2008*
3. *This represents 14-19 Diplomas, SEN and disabilities*
4. *The allocation represents 60% funding and assumes 40% from Council resources*

4.13 In addition to the above, members will be aware that there have been further capital grant allocations announced from CLG and Department for Transport for specific regeneration and transport schemes over the next three years:

Chatham Centre and Waterfront	£20.1m
Strood	£5.0m
Rochester	£2.8m
Medway Renaissance Partnership	£3.6m

Public Transport Improvements	£13.0m
Improvements to A228	£9.0m
Gillingham Station Improvements	£1.5m

Detailed proposals in respect of these schemes will be presented to members in due course.

4.14 In addition to the above further announcements have been made in respect of Youth Capital Fund (continuation of £130,000 pa for next three years) and last year of ICT Mobile Technology for Social Workers (£39,000 in 2008/2009 only).

4.15 Apart from those schemes listed in Table 2, there are no new proposals for inclusion in the capital programme for 2008/2009 at this stage. New schemes may be proposed for inclusion in the capital programme, subject to full Council approval, at any time. Clearly in this regard there is a distinction between the capital and revenue budget, although there is a likelihood of revenue consequences arising from capital investment. The approval process for such schemes will need to have regard to their priority and funding mechanism.

4.16 It must be reemphasised at this stage that there will be limited funding available for 2008/2009 and future years. As indicated earlier, the availability of reserves is now non existent and the opportunity to generate substantial capital receipts from the sale of non-operational and surplus assets becomes more difficult with the passage of time.

4.17 The capital programme will be funded by several funding sources:

- Supported Borrowing (SCE(R));
- Government Grant (SCE(C));
- Other Capital Grants;
- Major Repairs Allowance; and
- Developer Funds / Specific Reserves.

Confirmation of the indicative allocations will be published throughout December, and any additional allocations announced over the winter and throughout the beginning of next year.

4.18 These funding streams have differing characteristics. Most central government support is allocated through the Single Capital Pot which comprises two components: Supported Capital Expenditure (Revenue), known as SCE(R) and Supported Capital Expenditure (Capital Grant), known as SCE(C). SCE(R) is the amount of expenditure towards which revenue support grant (RSG) will be paid to a local authority to reflect the costs of borrowing.

4.19 Central government support for borrowing through the Formula Grant system is only given on the amounts allocated within the single capital pot. Local authorities need to take the totality of Government support, both SCE(R) and SCE(C), into account in setting prudential limits for the forthcoming financial year. However, under the Prudential Code councils are free to make their own borrowing decisions (within certain parameters) according to what is affordable. This additional borrowing is not supported within the aggregate of external funding sources, and therefore is an additional revenue cost.

4.20 The majority of capital grants are current year allocations. However, school modernisation grants and some targeted capital funding has to be spent in 17 months aligned to the school year. Devolved formula capital grants must be spent within three years. Unused borrowing allocations may be carried forward into future years.

4.21 In keeping with the Council's clear policy objectives, further developer contributions will be secured throughout 2007/2008. These contributions will be applied to secure investment to match the objectives set out in the Community Plan, and other planning and development priorities.

4.23 The Community Plan, our local performance plan priorities, and key service plans encompass all aspects of capital expenditure within the authority. The Community Plan shows how the Council is able to work collaboratively with others to capitalise resources to realise the community's investment priorities.

5. Draft Revenue Budget 2008/2009

5.1 The monitoring report for September highlighted a forecast overspend on services, after management action, of approximately £2.7 million. This is mainly attributable to spending pressures within Children's and Community Services. A number of actions have been taken to reduce this overspending and attempt to achieve a break-even position by the end of the financial year, although it is largely the case that these are once-off measures that will need to be replaced by more sustainable actions in 2008/2009. An examination of service pressures highlighted later in this report reveals the ongoing impact of these spending needs in the context of setting a sustainable budget for 2008/2009.

5.2 The budget proposals for 2008/2009 are built using the current year's budget and spending as a starting point. The Cabinet proposal to Overview and Scrutiny identified a forecast budget gap of £11.9 million that is largely driven by these pressures already being experienced and the continued growth in those pressures.

5.3 When the draft budget proposals were considered by Cabinet, the level of government grant was a major area of uncertainty and although the Comprehensive Spending Review (CSR2007) removed the risk that efficiency savings would be withdrawn as part of the funding mechanism, the precise level of grant remained uncertain and would clearly not be sufficient to bridge the resource gap.

5.4 The Provisional Local Government Finance Settlement was announced on 6 December and launched the consultation period on the proposals that will end on 8 January 2008. The headline figures for Medway are:

- Formula Grant £79.226m, being an increase of 6%
- DSG £164.425m, an actual cash increase of £4.741m, or 3.0%, which represents an increase of 4.3% per pupil.

5.5 In addition a number of specific grants have been incorporated into the Revenue Support Grant settlement for 2008/2009 and more will do so in 2009/2010 and 2010/2011. For next year these amount to a total of £3.44 million and this is incorporated, in full, in an adjusted baseline for grant funding purposes.

5.6 The settlement was better than anticipated albeit on a par with most upper tier authorities and Medway's 6% increase compares to the Unitary Council average of 5.1%. This is welcome and the benefit to the Council is some £1.9 million. The DSG as announced is some £1.2 million less than the figure quoted in the Cabinet and subsequent Overview and Scrutiny Committee reports as a consequence of falling pupil numbers. This will also reflect in a reduced school's budget requirement and therefore has a net nil effect on the budget deficit. However, the overall budget requirement for services funded by the DSG does need to be contained to the level of the DSG and achieving this will have the effect of reducing the budget requirement by £1.2 million and this will impact upon the budget deficit. The net effect of the £1.9 million addition in the settlement and the £1.2 million requirement reduction to the DSG is to reduce the budget deficit from £11.9 million to £8.8 million. However, this remains predicated on a council tax increase of 5% for 2008/2009.

5.7 The settlement does little to further the relatively poor funding position of the council in comparison to peer authorities with like authorities also receiving similarly beneficial increases. In addition the minister stated: "Keeping council tax under control remains a top priority for the Government. We expect the average council tax increase in England to be **substantially below 5 per cent.** Councils must be under no illusions. We will not hesitate to use our capping powers as necessary to protect tax-payers from excessive increases. Authorities would be unwise to assume previous capping principles will be repeated." [John Healey, Local Government Minister, 6 December 2007

5.8 The formula grant summary is set out in the table below:

Table 5 Formula Grant Summary

	Actual	Provisional Settlement Amounts		
	2007/2008	**2008/2009**	**2009/2010**	**2010/2011**
Relative Needs Amount	49.554	59.024	60.544	62.012
Relative Resource Amount	-18.060	-22.194	-22.789	-23.362
Central allocation	44.306	47.792	49.327	50.800
Floor Damping	-4.519	-5.396	-4.754	-4.222
Formula Grant	**71.281**	**79.226**	**82.328**	**85.228**
% Increase		***6.0%***	***4.0%***	***3.6%***
DSG	**159.684**	**164.425**	**168.328**	**173.754**
% Increase per pupil		***4.3%***	***3.6%***	***4.1%***

5.9 The floor damping deduction of £5.396m (2008/2009) is the contribution Medway is having to make to ensure that other authorities have a minimum level of increased funding following the implementation of the new formula changes, on a national basis this is a nil sum equation.

5.10 As indicated earlier, there is a shortfall compared to the anticipated resources of approximately £8.8 million. Appendix 1 summarises the overall Council requirement and also highlights the percentage growth in budget demand and, to differing degrees, directorates have experienced difficulties in constraining this demand. This is partly due to the expenditure pressures experienced in the current year, contractual commitments and the escalating costs of children and elderly care.

5.11 Appendix 2 provides an analysis of the Business Support Department's requirement with appendices 3 and 4 providing more detail on both savings proposals and budget pressures.

5.12 In respect of the pressures identified in Appendix 4, to assist in understanding the nature of the identified pressures they have been classified in the same way as last year i.e.

(1) Already present in 2007/2008 as either a full year effect of current commitment or unfunded expenditure/unrealised income;
(2) A known and unavoidable consequence of current service provision such as an existing client moving from children's to adult services or a prescribed increase such as a payroll increment, or a known legislative change;
(3) A best estimate of a likely event such as an estimation of new home to school transport demands or new social service clients arising from the demographics of an ageing population.

5.13 In building the capital budget proposals, due regard has been made to the revenue consequences of proposed capital schemes and, in particular, the impact of additional borrowing requirements. In 2008/2009 it is anticipated that new borrowing of £32.3 million taken to fund the 2007/2008 programme (including the acquisition of the Gun Wharf building), will need to be serviced both in terms of principal repayments and interest, which, together, add some 9% per annum to costs at current rates. In addition, the proposals for 2008/2009 anticipate that further borrowing of almost £11 million will be taken at some point during the year, with the associated interest payment having to be met in proportion. Against this additional cost, there remains the potential for additional income from invested balances. Whilst reserves and capital receipts have generally been depleted, the Council's cash balances have been increasing for the past two years and this has presented a 'windfall' opportunity to offset service based overspending.

5.14 By way of an overview the following general comments are applicable to the Business Support Department's budgets:

5.14.1 Business Support

The directorate has had to provide for additional pressures from reduced income for both land charges and licensing that it is unable to influence. Legislative change for the rating of empty premises has also had a significant effect particularly when coupled with the move to Gun Wharf and the regeneration agenda. Loss of Government subsidy and a fall in the level of overpayment recovery associated with reduced levels of overpayments has also created a pressure upon the benefit payments heading. Other pressures accrue from historical underfunding of budget heads that has been 'managed' within the directorate. However the recent report on the 2007/2008 monitoring position identified a number of areas where the directorate was taking extreme action to reduce staffing and service cost to the extent of some £0.7 million and these measures are identified in Appendix 3.

5.14.2 Interest and Financing

Over the last few years active management of the Council's debt and investment portfolios has yielded substantial sums towards meeting expenditure deficits. In building the budget for 2007/2008 some £3 million of anticipated surplus was used to offset pressures from service areas. Favourable rates for investments and prudent borrowing decisions have enabled a further surplus to be directed towards direct service expenditure, albeit there are inevitable risks associated with assumptions of interest rates and cash flow forecasts.

5.14.3 Levies

This budget covers the levies raised by the Coroners Court, Internal Drainage Board, Environment Agency (flood defence) and Kent and Essex Sea Fisheries. In each case the Council has no choice but to pay the levy demanded but does have representation on the bodies setting the budget upon which the levies are based.

6. Financial and Legal Implications

6.1 The financial and legal implications are contained in the attached appendices.

7. Background papers

- Medium Term Financial Plan report to Cabinet 25 September 2007;
- Revenue Budget 2008/2009 report to Cabinet 27 November 2007;
- Capital Programme 2008/2009 report to Cabinet 27 November 2007;
- Capital Programme 2008/2009 and beyond report to Business Support Overview and Scrutiny Committee 29 November 2007;
- Draft Revenue Budget 2008/2009 report to Business Support Overview and Scrutiny Committee 29 November 2007.

Contact for further details:

Name: Peter Bown, Accounting Manager
Phone no: 01634 332311
Email: peter.bown@medway.gov.uk

Appendices

1. Revenue budget construction 2008/2009
2. Directorate budget construction
3. Directorate budget savings
4. Directorate budget pressures