

**BUSINESS SUPPORT  
OVERVIEW AND SCRUTINY COMMITTEE**

**3 FEBRUARY 2009**

**DRAFT CAPITAL AND REVENUE BUDGET  
PROPOSALS 2009/2010**

Report from/Author: Mick Hayward, Chief Finance Officer

**Summary**

This report presents for consideration, the Cabinet's draft capital and revenue budgets for 2009/2010.

**1. Budget and Policy Framework**

- 1.1 In accordance with the constitution, Cabinet is required to develop initial budget proposals' approximately three months before finalising the budget and setting council tax levels in February 2009. These proposals should be submitted to Overview and Scrutiny Committees for their views.
- 1.2 It is proposed that the Council Plan is added to the Council's Policy Framework, as set out in the constitution. The draft plan will be considered as a separate item on this agenda.

**2. Background**

- 2.1 Cabinet's proposals, as agreed at the meeting on 25 November 2008, were reported in full to Business Support Overview and Scrutiny Committee on 9 December who agreed to pass the proposals on to the relevant overview and scrutiny committees, with comments to be channelled back through that committee on 3 February 2009.
- 2.2 However, as there was no appropriate committee to consider Business Support proposals, Members are requested to consider the budget implications insofar as they impact on this committee and forward comments direct to Cabinet on 17 February 2009.

- 2.3 As in previous years Cabinet's presentation was very much a 'work-in-progress' position with a revenue funding gap of some £14.3 million and some incomplete information in relation to capital funding opportunities. The Government's Comprehensive Spending Review in 2007 introduced three year indicative settlements for both capital and revenue thus removing a considerable amount of funding uncertainty.
- 2.4 The report to Business Support Overview and Scrutiny Committee on 9 December 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. 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 Business Support Overview and Scrutiny in November and December.

### **3. Draft Capital Programme 2009/2010 and Beyond**

- 3.1 The current forecast shows that almost £48 million of the current approved programme of £124 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 are part of the three year settlement announced in 2007 following the Government's Comprehensive Review (CSR 2007).
- 3.2 The provisional capital programme for 2009/2010 and future years incorporates schemes which are fully supported by borrowing, grant or other external contributions.
- 3.3 In addition to the supported programme there are commitments from the current capital programme and ongoing support of annual schemes which represent a demand for capital receipts in excess of £20 million by the end of 2010/2011 to provide funding for unsupported schemes.
- 3.4 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.
- 3.5 Schemes which require a draw on reserves or revenue funds cannot be considered due to severe budget constraints. Uncommitted general reserves were only £1.7 million at the end of March 2008 and over £1 million of this balance is committed to fund currently approved schemes as can be seen from Table 1.
- 3.6 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.

- 3.7 Table 1 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 2008/2009**

<b>Scheme funded from Capital Receipts and Reserves (General Fund)</b>	<b>Total Scheme Approval £000s</b>	<b>Forecast Spend to 31/03/09 £000s</b>	<b>Future Years to 2010/2011 £000s</b>
<b>Business Support</b>			
Building Maintenance Programme 6	1,075	790	285
ICT Strategic Fund	232	157	75
Energy Efficiency Carbon Trust	150	100	50
Member's Priorities	404	404	0
<b>Directorate Total</b>	<b>1,861</b>	<b>1,451</b>	<b>410</b>
<b>Other Directorates</b>			
Children & Adults	351	279	72
Regeneration Community & Culture	9,684	5,539	4,145
<b>Total</b>	<b>11,896</b>	<b>7,269</b>	<b>4,627</b>
<b>Funding</b>			
<b>Reserves</b>	<b>1,044</b>	<b>941</b>	<b>103</b>
<b>Capital Receipts</b>	<b>10,852</b>	<b>6,328</b>	<b>4,524</b>

- 3.8 In addition to the current commitments detailed in Table 1, there are a number of schemes, although uncommitted at this stage, which have been ongoing programmes in the past and are considered essential to maintain service levels across the Council and these will also present a draw on capital receipts yet to be realised. These schemes are summarised in Table 2.

**Table 2 Unsupported Programmes. Requirement for Future Years**

<b>Scheme currently unfunded (General Fund)</b>	<b>Total £000s</b>	<b>2009/2010 £000s</b>	<b>2010/2011 £000s</b>
Existing Commitments from Table 1	4,627	3,936	691
Strood Riverside Land Compensation	3,100	3,100	0
Highways Planned Maintenance	3,000	1,500	1,500
Building Maintenance Programmes	2,000	1,000	1,000
ICT Strategic Fund	554	190	364
Transformation Programme	202	101	101
Ward Improvement Fund	330	165	165
<b>Total</b>	<b>13,813</b>	<b>9,992</b>	<b>3,821</b>

- 3.9 For Member's information, the following table lists all approved schemes to date, funded from unsupported borrowing with the revenue costs met from existing resources.

**Table 3 Unsupported Existing Approved Capital Schemes for 2007/2008**

<b>Scheme funded from Unsupported Borrowing</b>	<b>Total Scheme Approval £000s</b>	<b>Forecast Spend to 31/03/2009 £000s</b>	<b>Future Years to 2010/2011 £000s</b>
Medway Innovation Centre Phase II	4,150	4,150	0
Library management System	300	300	0
Strood SC Football Academy	292	292	0
Gun Wharf	21,300	21,300	0
Customer First	776	776	0
Mercury Abatement	686	0	686
<b>Total</b>	<b>27,504</b>	<b>26,818</b>	<b>686</b>

- 3.10 As indicated in paragraph 3.1, 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 externally funded or funded by borrowing backed by Central government support. Comparative figures for 2008/2009, where appropriate, are shown for information.

**Table 4 Summary of External Funding for 2008/2011 Programme**

<b>Directorate/Scheme</b>	<b>2008/2009 £000s</b>	<b>2009/2010 £000s</b>	<b>2010/2011 £000s</b>
<b>Regeneration, Community &amp; Culture</b>			
Transport – Integrated Transport	2,841	3,163	3,494
Transport – Maintenance	1,946	2,140	2,462
Road Safety	68	72	71
Waste Infrastructure Capital Fund	447	447	165
Safer Stronger Communities	75	75	75
<b>Business Support</b>			
Housing Maintenance Programme (MRA)	2,156	2,212	tba
Decent Homes	735	735	tba
Housing (General Fund)	649	985	904
<b>Children and Adults</b>			
Disabled facilities Grant	570	648	tba
Devolved Formula Capital	4,870	4,820	4,820
Modernisation	3,276	3,069	3,070
Basic Need	2,745	2,744	2,745
Primary Strategy for Change (Indicative)	0	3,404	5,782
School's Access Initiative (SCE(R))	620	620	620
Extended Schools	432	457	236
Pathfinder Short Breaks	0	168	392
Harnessing Technology Grant	947	940	965
Youth Capital Fund	130	130	130
Targeted Capital Fund	0	2,000	6,000
Sure Start, Early Years & Childcare	1,666	2,200	1,784
ICT Mobile Technology for Social Workers	39	0	0
Children's Social Services	51	51	50
Mental Health	115	115	115
Social Care	138	138	138
<b>Total</b>	<b>24,516</b>	<b>31,333</b>	<b>34,018</b>
<b>Government Grant</b>	<b>13,241</b>	<b>19,865</b>	<b>25,523</b>
<b>Supported Borrowing</b>	<b>11,275</b>	<b>11,468</b>	<b>8,495</b>

- 3.11 In addition to the external funding indicated in Table 4, Communities and Local Government (CLG) have allocated almost £63 million over the next three years through the Thames Gateway Delivery Plan for specific regeneration projects. However, allocations for 2009/2010 and beyond are subject to CLG receiving the necessary funds from Parliament and are therefore indicative at this stage.
- 3.12 Apart from those schemes listed in the tables above, there are no new proposals for inclusion in the capital programme for 2009/2010 and future years at this stage. A sizeable amount of the anticipated funding will be allocated to ongoing programmes e.g. MRA and Local Transport Plan (LTP) resources. Almost £48 million has been allocated to Children and Adult Services. Of this allocation, over £9 million is devolved to schools and £19 million earmarked for specific programmes and future years commitments from the current capital programme. Some £20 million is therefore available to fund to future projects.
- 3.12 New schemes proposed for inclusion in the capital programme have the potential to be included at any time, subject to full Council approval. The approval process for such schemes will need to have regard to their priority and funding mechanism and any impact on the revenue accounts.
- 3.13 It is clear that outside of existent approvals and future supported projects, there is little scope for adding to the programme at this time. Reserves are no longer available and the existing programme already stretches potential capital receipts against the current state of the property market.

#### **4. Funding the Approved Programme**

- 4.1 The capital programme is funded by several sources:
- Supported Borrowing (SCE(R));
  - Government Grant (SCE(C));
  - Other Capital Grants;
  - Major Repairs Allowance;
  - Capital receipts and
  - Developer Funds/Specific Reserves.

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

- 4.2 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.

- 4.3 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. Local transport plan (LTP) grants are allocated for the current year with indicative figures of a second year allocation. Devolved formula capital grants must be spent within three years. The CSR has demonstrated that there is a marked shift from SCE(R) to capital grant over the three year life.
- 4.4 Although, according to CLG, the individual elements of SCE(R) and some specific grants are not ringfenced, the Council has always applied this funding to relevant services as there is an expectation from individual Government departments that the full funding will be allocated appropriately. There is a risk that future funding could be jeopardised if this policy is not continued.
- 4.5 In keeping with the Council's clear policy objectives, further developer contributions will be secured throughout 2009/2010. These contributions will be applied to secure investment to match the objectives set out in the Community Plan, and other planning and development priorities

## **5. Draft Revenue Budget 2009/2010**

- 5.1 The revenue budget monitoring report for September highlighted a forecast overspending on services, before management action, of approximately £2.4 million. The forecast overspend encompasses all directorates of the Council with the main pressures from children and adult services compounded by hyper inflation on energy costs affecting all the Council's premises and highways etc. 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 2009/2010. 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 2009/2010.
- 5.2 The budget proposals for 2009/2010 are built using the current year's budget and spending as a starting point. Appendix 1 shows a forecast budget gap of £14.3 million that is largely driven by pressures already experienced and the continued growth in those pressures.
- 5.3 CSR2007 introduced three year funding allocations and therefore the overall level of formula grant increase for 2009/2010 and 2010/2011 are already known at 4% and 3.6% respectively. Forecast DSG spending will increase by 3.6% and 4.1% per pupil over the same period albeit falling pupil numbers will reduce the actual year on year cash increase.

5.4 The Provisional Local Government Finance Settlement was announced on 26 November and launched the consultation period on the proposals that will end on 7 January 2009.

The headline figures for Medway for 2009/2010 are as follows:

- Formula Grant £ 82.225m, being an increase of 4.03%;
- DSG £167.254m, a cash increase of 2.1% above the final DSG for 2008/09 (representing £4,179 per pupil, an increase of 3.6%).

5.5 The total allocation of DSG at £167.254m includes additional funding of £1.127m for personalised learning and SEN. The indicative allocation for 2009-2010 will be adjusted in due course to reflect the actual pupil numbers in January 2009 and the early years headcount. The final pupil numbers are normally verified by the DCSF in May and the final DSG allocation will not be known until then.

5.6 Unsurprisingly, 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, John Healey the Local Government Minister stated: "For 2009/10 the Government again expects the average council tax increase in England to be **substantially below 5%**. And again, we will not hesitate to use our capping power as necessary to protect council tax payers from excessive increases."

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

**Table 6 Formula Grant Summary**

	Actual	Provisional Settlement Amounts		
	2008/2009	2009/2010	2010/2011	2011/2012
Relative Needs Amount	59.025	60.545	62.013	Assumed increase
Relative Resource Amount	-22.194	-22.789	-23.362	
Central allocation	47.790	49.326	50,800	
Floor Damping	-5.502	-4.857	-4.321	
<b>Formula Grant</b>	<b>79.120</b>	<b>82.225</b>	<b>85.130</b>	<b>88.110</b>
<b>% Increase</b>		<b>4.03%</b>	<b>3.5%</b>	<b>3.5%</b>
<b>DSG</b>	<b>159.684</b>	<b>167.254</b>	<b>172.277</b>	<b>179.340</b>
<b>% Increase per pupil</b>		<b>3.6%</b>	<b>4.1%</b>	<b>4.1%</b>

NB. The 4.03% increase in formula grant for 2009/2010 is based on an adjusted 2008/2009 figure of £79.038 million reflecting a notional transfer of £82,000 in respect of Student Finances funding away from local authorities.

5.8 The floor damping deduction 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.

- 5.9 As indicated earlier, there is a shortfall compared to the anticipated resources of approximately £14.3 million. Appendix 1 summarises the overall Council requirement and highlights a £16 million growth in budget demand and any savings identified to date to constrain this demand. The overall growth in budget requirement is influenced by the following:
- Care for the elderly;
  - Looked after children;
  - Additional placements in independent and non-maintained schools;
  - Increase in unsubsidized housing benefit payments;
  - Reduced income from land charges;
  - Reduced income from Council property, additional maintenance and unprecedented increase in energy costs;
  - New waste contract and
  - Reduction in investment returns and increased borrowing costs.
- 5.10 Appendix 2 provides an analysis of the Business Support Department's requirement with Appendix 3 providing more detail on budget pressures.
- 5.11 In respect of the pressures identified in Appendix 3, to assist in understanding the nature of the identified pressures they have been classified as follows:
1. The current and full year effect of pressures already impacting upon budgets;
  2. The anticipated effect of changes to expenditure in 2009/2010 that are not presently felt but will occur in 2009/2010 because of known events;
  3. The need for budget provision to cover estimated growth in service to compensate for a present shortfall or a reasonable estimate of future growth;
- 5.12 In building the budget requirement, due regard has been made to the revenue consequences of proposed capital schemes and, in particular, the impact of additional borrowing requirements. In 2009/2010 it is anticipated that new 'supported' borrowing of some £11.5 million will be required to finance the capital programme predominantly for children's services and highway schemes. This follows on new borrowing undertaken in 2008/2009 of £11.3 million. Both of these sums exclude 'prudential borrowing' on an invest to save basis. There will be a revenue cost associated with all borrowing arising from the interest paid upon the debt and the amount required to be set aside each year for repayment of the debt (MRP – minimum revenue provision). This additional cost, together with the reduction in investment rates, is the cause of the increase in costs for interest and financing shown in Appendix 1.
- 5.13 By way of an overview the following general comments of the Chief Finance Officer are applicable to the Business Support and corporate budgets:
- The Resource Strategy identified pressures of £1.4 million for the directorate and corporate issues and these have been refined and updated during the detailed budget preparation process and are reflected in the budget build. Falling income in respect of land charges and property rents amounts to over £200,000. Additional energy and other building costs amount to over £700,000 and net benefit payments are expected to increase by some

£300,000. These are the more significant contributors to the total pressures of some £2.1 million.

- 5.14 In considering Cabinet's initial budget proposals on 9 December, this committee expressed concern about the effect of the fall in inflation rates especially in relation to existing contracts that have already been let and run into the following year and to the effect of the pressure on the Council on incremental payments to its staff and asked that these issues be included in the budget reports going to the February 2009 Business Support Overview and Scrutiny Committee.
- 5.15 Officers have carried out a critical review of all inflation provision, in particular, energy and salary costs, which has resulted in a decrease in a budget pressure of £2.8 million across the Council. These changes have been incorporated on the report to Cabinet on 17 February.

## **6. Financial and Legal Implications**

- 6.1 The reports as distributed to the individual Overview and Scrutiny Committees set out the financial position as proposed by Cabinet. Responses to those proposals are contained in this report.
- 6.2 The Constitution of the Council incorporated under the Local Government Act 2000 contains the budget and policy framework rules. The relevant parts of the Constitution are as follows:
- The budget and policy framework rules contained in the constitution specify that the Cabinet should produce initial proposals for the budget three months before the Council meeting that is scheduled to determine the budget and Council Tax. These initial proposals should then be submitted to the Overview and Scrutiny Committees. The Overview and Scrutiny Committees will advise the Cabinet of their views of the proposed budget, having six weeks to respond to the initial proposals of the Cabinet.
  - Under the constitution the Cabinet has complete discretion to either accept or reject the proposals emanating from the Overview and Scrutiny Committees. Ultimately it is the Cabinet's responsibility to present a budget to the Council, with a special meeting arranged for this purpose on 28 February. The statutory deadline for approving the Council Tax is 11 March 2009.

## **7. Recommendations**

- 7.1 Members are requested to:
- a) consider the initial capital and revenue budgets, proposed by Cabinet on 26 November 2008 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) incorporate comments and suggestions arising from this item into the discussion of the Council's overall capital and revenue budget proposals for 2009/2010 considered later in this agenda.

## **9. Background papers**

Resource Strategy and Council Plan 2009/2012 report to Cabinet  
23 September 2008.

Capital Programme 2009/2010 and Beyond report to Cabinet 25 November  
and Business Support Overview and Scrutiny 9 December 2008.

Individual Overview and Scrutiny meetings during January 2009.

### **Contact for further details:**

Name: Peter Bown, Accounting Manager  
Phone no: 01634 332311  
Email: [peter.bown@medway.gov.uk](mailto:peter.bown@medway.gov.uk)

### Appendices

1. Revenue budget construction 2009/2010
2. Directorate budget construction
3. Directorate budget pressures