Appendix 1

CABINET

24 NOVEMBER 2009

REVENUE BUDGET 2010/2011

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Summary

This report presents the Council's draft revenue budget for 2010/2011. 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 March 2010.

The draft budget is based on the principles contained in the Resource Strategy and Council Plan 2009/2012 approved by Cabinet in September 2008 and updated by the Medium Term Financial Plan endorsed by Cabinet in September 2009. The resource assumptions have not changed significantly since approval of the latter report but, as will be discussed later in this report, the detailed budget build process has identified an increased funding gap.

1. Budget and Policy Framework

1.1 It is the responsibility of Cabinet, supported by the management team, to develop a draft revenue budget.

2. Constitutional rules

2.1 The budget and policy framework rules contained in the constitution specify that Cabinet should produce the initial budget proposals. These should be produced and submitted to overview and scrutiny committee three months before the Council meeting that is scheduled to determine the budget and council tax. The overview and scrutiny committees have a period of six weeks to consider these initial proposals. Any proposals for change will be referred back to Cabinet for consideration.

2.2 Under the constitution Cabinet has complete discretion to either accept or reject the proposals emanating from the overview and scrutiny committees. Ultimately it is Cabinet's responsibility to present a budget to Council, with a special Council meeting arranged for 25 February 2010. The adoption of the budget and the setting of council tax are matters reserved for Council. The statutory deadline for approving council tax is 11 March 2010.

3. Budget monitoring 2009/2010

3.1 The monitoring report, considered elsewhere on this agenda, highlights a net underspending on services of just £5,000, an improvement of £610,000 from the previous report to Cabinet in September and a considerable improvement from the forecast this time last year. This underspend should increase as the net position is masking a projected overspend on Dedicated Schools Grant (DSG) funded services of £620,000 which will be rolled forward and funded by the 2010/2011 grant. However, it must be remembered that the 2009/2010 revenue budget contained a number of one-off funding options which cannot be sustained in future years.

3.2 The budget proposals for 2010/2011 are built using the current year's budget and spending as a starting point. Table 2 shows a forecast budget gap of just over £8.1 million that is largely driven by pressures already experienced and the continued growth in those pressures. A significant proportion of this pressure arises from the fact that the budget for 2009/2010 was dependent on the one off use of almost £3.9 million of reserve funding. This immediately creates an ongoing budget pressure for 2010/2011 and future years.

4. Financial strategy

4.1 The Resource Strategy and Council Plan incorporating the Council's aims for developing revenue budgets for 2009/2012 was considered by Cabinet on 23 September 2008. The strategy aimed to establish clear links between resource decisions and key priorities and provide a framework for more detailed preparation of the draft revenue budget for 2009/2010, the first year of the Strategy. In total the Strategy identified a potential resource gap of over £35m by 2011/2012. The Medium Term Financial Plan 2010/2013 (MTFP) updates the Strategy with similar resource assumptions for 2010/2011 but with the probability of severe Government public spending restraint for future years.

4.2 The key assumptions underlying the forecast for 2010/2011 contained in the MTFP are that current spend could be maintained, in inflationary terms, within a 3.6% increase in formula grant, 4.13% per pupil increase in DSG and a 3% increase in council tax. The increase in resources would also cover the non-recurring use of reserves indicated in paragraph 3.2 and the costs attributable to the DSG for school mergers and closures. However, future demographic pressures and service changes such as increases in elderly and disability care and the reduction in income, predominantly from leisure facilities, could not be funded without compensatory reductions elsewhere. These additional requirements amounted to almost £5 million for 2010/2011.

4.3 The MTFP will mesh with the review of the Council Plan in preparing the Council Plan for 2010/2013. This will seek to integrate budget setting with service planning and ensure priorities and funding are matched.

4.4 The strategic priorities for Medway are set out in the Council Plan and targets established for the Local Area Agreement. These present a greater focus than in previous years and are now based on our two core values of:

- Putting our customers at the centre of everything we do; and
- Giving value for money.

These themes are exemplified under the six key outcomes as follows:

- A clean and green environment;
- Safer communities;
- Children and young people having the best start in life;
- Older and vulnerable people maintaining their independence;
- People travelling easily and safely in Medway; and
- Everyone benefitting from the area's regeneration.

4.5 In addition, the underlying financial aims of the MTFP must be:

- To ensure there is a sustainable budget, without recourse to the use of reserves;
- To generate efficiencies, in partnership with others where appropriate, for re-investment in priority spending. This extends to approving a set of efficiency projects in each financial year;
- To consider the revenue impact of funding streams supporting capital investment decisions, whether that be from supported borrowing, use of reserves, capital receipts or prudential borrowing; and
- To avoid the sanction of central government controls, for example capping.

4.6 The strategy identified a number of areas to be investigated with a view to avoiding forecast pressures, or achieving savings. In that regard, as in previous years, the budget setting exercise is still at a formative stage given the significant resource gap.

5. Council Plan

5.1 As with last year, the Council Plan 2010/2013 will be developed alongside the budget setting process to ensure the link between resource planning and business planning is maintained. This link was noted positively in the council’s recent Use of Resources assessment.

5.2 There will be some differences to the previous Council Plan. Most notably the current MTFP will require even greater focus on firm decisions being made about priorities and outcomes to be achieved. However, there is also no need for a complete redevelopment of the plan; it was originally designed as a rolling three year plan so many of the outcomes and actions from the plan will remain relevant and can be ‘rolled forward’. Equally there are those outcomes and actions which need to be reviewed in the light of current performance and emerging issues such as legislation, national policy changes and the area’s demographic profile. This process has already begun through discussions between officers and members.

5.3 In addition there are some important influences on the Council Plan 2010/2013. These include the refresh of the Community Plan into the Sustainable Community Strategy. This will review the vision and priorities which the Local Strategic Partnership sets itself, and these changes will have to be reflected in the new Council Plan. In addition, the Council Plan will have to ensure it captures the learning from the first round of Comprehensive Area Assessment, including the Organisational Assessment of the Council.

6. Finance Settlement

6.1 The level of Government funding in 2010/2011 and the limits on council tax increases are influenced by:
- The Comprehensive Spending Review (CSR) 2007;
- Provisional Local Government Finance Settlement; and
- Capping rules.

6.2 CSR2007 introduced three year funding allocations and therefore the level of formula grant increase for 2010/2011 is already known at 3.6%. Forecast DSG funding will increase by 4.13% per pupil over the same period albeit falling pupil numbers will reduce the actual year on year cash increase.

6.3 For 2010/2011 an average increase in non-DSG resource at almost 3.7% (assuming council tax increases at 3% - see below) is likely to be in excess of pay and general price inflation and will therefore contribute towards other expenditure pressures. For future years the increase is unlikely to cover inflationary pressures. Increases in the DSG are marginally better in 2010/2011 but worse for future years and coupled with a forecast fall in pupil numbers will produce a cash reduction in the overall level of funding.

6.4 The Provisional Local Government Finance Settlement for 2010/2011 is expected to be formally announced at the beginning of December but it is not anticipated to be significantly different to the figures already announced. For 2011/2012 and 2012/2013 the position is far less certain and whilst this report and the MTFP forecast a zero increase in formula grant and a 1% increase in DSG per pupil, that could be an optimistic scenario given the pronouncements on the state of public finances.

6.5 For council tax increases it would be prudent to assume that the 5% target imposed for this year, to keep council tax in 'low single figures', is likely to be reduced. This will not assist our relative position, given the low baseline that we continue to have (6th lowest Unitary and 24th lowest nationally). A council tax increase of 3% has, therefore, been assumed for each year in the MTFP. A recent survey conducted by the Local Government Chronicle magazine suggests average council tax rises across England for all classes of local authority of just over 1.6% with the average for unitary authorities being 2.63%. At 3% our increase will clearly be at the upper end of the spectrum but is not inconsistent with a strategy of moving our base up from the bottom of the Unitary league.

6.6 Table 1 below illustrates potential resources for 2009/2013 assuming a growth in taxbase of 0.75% in 2010/2011 and 0.5% for the following two years. This equates to approximately 1,500 additional Band D equivalent properties over the period.

Table 1 Potential Resources for 2009/2013

Description	2009/10	2010/11	2011/12	2012/13
	£m	£m	£m	£m
Formula Grant - % Increase	**4.0%**	**+3.6%**	**+0%**	**+0%**
- amount	**82.225**	**85.130**	**85.130**	**85.130**
		+0.75%	+0.5%	+0.5%
Taxbase	86,098	86,744	87,178	87,614
Council Tax (£1,092.33 baseline)	**94.048**			
Increase @ +3.0%		**97.600**	**101.030**	**104.580**
DSG (based on forecast pupil numbers)	**167.759**	**173.627**	**173.315**	**172.840**
Pupil Numbers (Note 1)	**40,146**	**39,902**	**39,436**	**38,938**
Funding per pupil £ (Note 1)	**4,179**	**4,351**	**4,395**	**4,439**
Summary Resources:				
DSG (Note 1)	**167.759**	**173.627**	**173.315**	**172.840**
% Increase (per pupil)	**+3.59%**	**+4.13%**	**+1.0%**	**+1.0%**
Non-DSG (Council Tax @ +3%)	**176.273**	**182.730**	**186.160**	**189.710**
% Increase	**+4.63%**	**+3.66%**	**+1.88%**	**+1.91%**

Note 1: The DSG figures have been updated since consideration of the MTFP to reflect the latest actual and forecast pupil numbers.

7. Summary of draft revenue budget

7.1 At the time of producing the MTFP the detailed uplift of base budgets for inflation (both pay and prices) had not been completed. This has now been done and directorates, in consultation with portfolio holders, have been developing budget proposals incorporating pressures and savings proposals. The effect of these is summarised in Appendix 1 (a to c), with major pressures being identified in Appendix 2 (a to c). A summary of the budget proposals as they currently stand, including all savings proposals currently identified and pressures, is shown in Table 2 below. It will be apparent that the funding gap of £5 million reported in September has now increased to £8.123 million (£7.861 million for non-DSG services and £0.262 million for DSG services). The base budget for 2009/2010 has been revised to take account of the transfer of Supporting People Grant from specific grants to ABG (£5.841 million) and the reduction in the use of the Supporting People Reserve.

7.2 In respect of the pressures identified in the appendices, to assist in understanding the nature of the identified pressures they have been classified as follows:

1. Cost of Current Services. The categories within this classification are the unavoidable increases as a result of pay and price increases, increments and the full year effect of pressures already impacting upon budgets and

2. Changes to Service. These are the anticipated effects of changes to budgets in 2010/2011 that are not presently felt but will occur in 2010/2011 because of known events such as new legislation or regulation and the need for budget provision to cover estimated growth in service to compensate for a present shortfall or a reasonable estimate of future growth.

7.3 Members will recall that Council approved a number of service improvements for inclusion within the 2009/2010 revenue budget to be funded from PSA Reward Grant. Some of this funding will be ongoing to 2011/2012 but there are a number of service investments which received funding for 2009/2010 only.

7.4 Table 2 indicates a shortfall compared to the anticipated resources shown in Table 1, of £8.123 million. Table 2 highlights the growth in budget demand and, to differing degrees, directorates have experienced difficulties in constraining this demand. This is partly due to the pressures experienced in the current year, contractual commitments and the escalating costs of children, elderly and disability care. Consequently, more work needs to be undertaken to remove the budget gap. This is discussed in more detail in Section 8.

7.5 Capital budget proposals are dealt with elsewhere on this agenda, but 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 2010/2011 it is anticipated that new ‘supported’ borrowing of some £8.5 million will be taken to finance the capital programme predominantly for children’s services and highway schemes. This follows on new borrowing undertaken in 2009/2010 of £11.5 million. Both of these sums exclude ‘prudential borrowing‘ on an invest to save basis, and the temporary borrowing in advance of capital receipts. 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 in table 2.

Table 2. Draft revenue budget 2010/20011

Directorate	Budget 2009/10 £000's	Forecast Variation 2009/10 £000's	Forecast Req'ment 2010/11 £000's
Children and Adult Services (C&A):			
DSG Related Expenditure	166,261	620	172,391
Other Expenditure	108,452	(740)	114,784
Regeneration, Community and Culture (RCC)	46,198	311	48,622
Business Support (BS):			
DSG Related Expenditure	1,498	0	1,498
Other Expenditure	28,983	(196)	29,966
Public Health	373	0	388
Interest & Financing	13,450	0	14,450
Levies	882	0	900
Planned Use of Reserves	(3,350)	0	0
Budget Requirement	**362,700**	**(5)**	**382,999**
Funding			
Dedicated Schools Grant (See Table 1)	(167,759)		(173,627)
Council Tax (See Table 1)	(94,048)		(97,600)
Formula Grant (See Table 1)	(82,225)		(85,130)
Area Based Grant	(17,689)		(17,689)
PSA Reward Grant	(1,026)		(830)
Available Funding	**(362,700)**		**(374,876)**
Budget Gap DSG **General Fund**	**0** **0**		**262** **7,861**

7.6 In addition to the revenue resources shown in the table above, the council does have access to reserve balances. However, the balance of General Reserves (i.e. those not allocated for an earmarked purpose), whilst increased as a result of last year's favourable outturn, is still at a minimum level. Any possible underspending from 2009/2010 could be available, although prudence would dictate that any such windfall be used to build up reserves from their present low levels.

7.7 The pressures facing individual directorates have been well publicised in the past but the major areas are indicated below for information:

7.7.1 Children and Adult Services

Children and Adult Services is the largest directorate, representing the largest call on available resources, and it is subject to an increasingly rigorous and challenging inspection regime, which will have a significant impact on the Council's overall CAA rating. The pressures in the budget requirement that total some £6.7 million reflect ongoing demographic pressures on the demand-led elements of the service, particularly care for the elderly and disability care. There are also considerable pressures arising from increasing obligations for local authorities in respect of children's social care and our response to the Laming report. In addition the DSG and non-DSG element of the Directorate will be facing non-recurring pressures in respect of redundancy and retirement costs arising from the closure and mergers programme and the increasing costs of SEN placements. This is shown as part of the 2010/2011 pressure but the carry forward of the 2009/2010 overspending will be dependent upon the agreement of the Schools Forum.

7.7.2 Regeneration, Community and Culture

The Directorate is at the front of the organisation in terms of recessionary impact and is facing a considerable shortfall in income in both the current and next financial years. Leisure services and car parking are the areas most severely affected.

7.7.3 Business Support

The directorate has had to provide for additional pressures from reduced income for land charges, non-HRA property (shops etc), corporate property and an under recovery of reprographic income against budget. It is also forecast that the pressure will remain from the level of unsubsidised benefit payments for housing for vulnerable people.

7.7.4 Interest and Financing

The cost of supported borrowing features as part of the Revenue Support Grant system. The impact of new borrowing both in terms of the full year effect of the current year and new borrowing next year results in a pressure of £1 million. In addition the fall in interest rates will have a detrimental effect upon income from investments. This was anticipated in closing the accounts for 2008/2009 and a further £1 million was set aside as a rate equalisation reserve to help offset these pressures.

7.7.5 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.

7.7.6 Planned Use of Reserves

There is a need to fund the non-recurring support that was provided to the 2009/2010 budget This was £1m from the 2008/2009 underspend, £0.5m from miscellaneous reserves, £0.25m from the Local Authority Business Growth Incentive (LABGI) scheme, £0.5m from VAT recovery and £1.1m from the Supporting People reserve – a total of £3.35m. However, the increase in available resources above inflation should cover a sizeable element of this pressure.

8. Meeting the funding gap

8.1 Table 2, above, highlights a funding gap of just over £8.1 million for both DSG and non DSG services. There is, therefore, an urgent need to critically examine the pressures identified and to make immediate progress in a number of areas where there are potential efficiencies to be gained without impacting significantly on service delivery to residents. Initial areas to be covered are:

- Provision for pay and prices;
- Current over-provision;
- Scrutiny and management of pressures; and
- Efficiencies.

There are discussed in more detail in the following paragraphs:

8.1.1 With a budget provision for pay of 1% and most non-pay budgets being restricted to a cash freeze, there is limited scope for reducing overall assumptions for inflation as has happened in previous years. However, the latest forecast requirement for pay and prices is some £1 million above that predicted in the MTFP largely driven by incremental costs as highlighted in Appendix 1. This difference must be significantly reduced. Although vacancy provisions are proving difficult to manage in certain areas this must be another target for savings with current vacancy levels being responsible for a significant proportion of the variation between the current underspending forecast and the budget gap now predicted for next year.

8.1.2 As indicated in Table 2, a revenue underspend for non DSG services of £0.625 million is forecast for 2009/2010. In addition, an underspend of almost £3.5 million was declared in 2008/2009. This would imply an over-provision of budgets in certain areas beyond just vacancies. A critical review of all areas of current underspending must be undertake in order to reduce budgets no longer required.

8.1.3 With pressures of just under £13.7 million, excluding inflation and increments, there is an urgent need for directorates to critically review their demands for additional resources as these pressures represent almost 4% of the current budget requirement.

8.1.4 CSR2007 increased the challenge to Local Authorities in finding ‘Gershon’ efficiencies by introducing a number of changes including that all efficiencies must now be “cashable” or cash releasing. The 4% target announced for next year would represent an £8 million saving requirement, excluding schools. This is significantly greater than we have been able to achieve in previous years (£6.7 million in 2008/2009) and will be extremely challenging for an authority with a recognized low resource base.

8.2 In addition to the areas identified above it is important that the Council embarks upon a rational review of costs, performance and priorities. Whilst our overall score for Use of Resources has been consistently that of a ‘GOOD’ Council, there have been criticisms of our ability to get underneath the more high level picture of cost and performance. The new performance monitoring system ‘Covalent’ provides a tool for collating this information but it has to be collected and analysed in a systematic way. This is consistent with the approach to ensuring Value for Money (VFM) is embedded throughout the organisation and is not a high level view.

8.3 The Council has recently adopted a VFM Strategy that reinforces good practice and is a reference point for understanding what each core value should represent. It will be supported by a performance monitoring and service planning regime that identifies both costs and performance of services and a mechanism to demonstrate VFM through service self assessment. The focus should be on matching performance to cost. In non priority services, aside from the question as to whether they continue, there ought to be an emphasis to at least drive costs down, preferably with an improvement to performance. Such an approach may involve: radical service re-design; new ways of working; systematic, continuous improvement; or a combination of all.

9. Housing Revenue Account – Draft Budget 2010/2011

9.1 The Housing Revenue Account (HRA) must be operated for all local authorities with a retained housing stock and is “ring-fenced” from the General Fund. The account details the costs associated with the management and maintenance of the Council’s housing stock. As at 1 April 2009, the Council owned 3,053 properties, 297 of which were within sheltered housing units and 196 that are leasehold flats. The stock numbers reduce year on year as a result of tenants exercising their right to buy the home they live in.

9.2 The HRA budget setting process for 2010/2011 is still in progress and cannot be fully completed until notification of the final Housing Subsidy Determination from Communities and Local Government (CLG). Hopefully, draft subsidy figures will be released during November 2009 for consultation with the final determination expected in late December 2009.

9.3 A detailed budget report will be presented to the Business Support Overview & Scrutiny Committee on 2 February 2010 and Cabinet on 16 February 2010. As part of the process there will also be consultation with MeRGe, the Council’s Residents Association. Council will set the HRA budget, rents and service charges for 2010/2011 on 25 February 2010.

9.4 The main factors/assumptions that will form the basis of the 2010/11 HRA budget are:

9.4.1 The HRA must maintain a working balance of circa £450,000. At 1 April 2009 the working balance stood at just over £4.3 million. The expected outturn for the current year is a surplus of £74,900 which will increase the balance accordingly. The council is required by government to produce a 30-year business plan, which incorporates financial modelling for both revenue and capital. The latest projections show that there will be a need to utilise the existing balances to assist with funding the capital programme required to both meet and maintain the Decent Homes Standard in the coming years. A further update of the business plan will be carried out during the latter part of this financial year, following the completion of the remaining 75% stock condition survey, and the results will be then presented to Members for approval.

9.4.2 Rents will be adjusted in line with the Government's rent re-structuring policy, as previously agreed by Cabinet, in order to move actual rents towards a target rent over a period of ten years. In previous years this has been done by increasing rents, where required by inflation (the September Retail Price Index (RPI)) plus 0.5% plus £2 per week whilst only increasing the target rents by RPI plus 0.5%. There has been no information from Government as yet in respect of 2010/2011 guideline rent changes for 2010/2011 given that the September RPI was a negative 1.4%. It is also currently unclear as to exactly when the Government will expect rent convergence to take place nationally. Medway has a number of properties where actual rents are below the target rent, mainly in flatted areas, and others where the rents are currently higher than the target rent. It may be appropriate to increase rents where necessary for those properties where the rent is below the target rent, but to retain current rent levels for other properties.

9.4.3 Rent charges for garages are assumed to remain at current levels for 2010/2011 despite the negative RPI.

9.4.4 Service charges for 2010/2011 will be calculated using estimated costs based upon actual charges for previous years. Guidance states that the cost of providing services to tenants should be fair and fully recovered.

9.4.5 Staff related expenditure will increase by annual salary increments, a further 1% for cost of living, and a 0.6% increase for superannuation in line with the medium term financial plan.

9.4.6 Generally, all other expenditure will remain at 2009/2010 levels for 2010/2011 to reflect the current economic climate.

9.5 It is intended that the draft 2010/2011 HRA budget will be targeted to produce an in year surplus of just over £200,000 which in turn will produce an anticipated working balance at 31 March 2011 of just under £4.6m before any revenue contribution to capital outlay, if required. These figures will be added to the revised thirty-year business plan following the stock condition survey.

10. Conclusions

10.1 These initial budget proposals represent the first stage in developing the 2010/2011 revenue budget and, although the forecast funding gap at just over £8.1 million is less than the £14.3 million reported at this stage last year, the Council no longer has the opportunity to use one-off funding or reserves to mitigate the effect of this deficit.

10.2 As the report indicates, there is considerable work yet to be undertaken. The interim period leading to the Cabinet meeting on 16 February 2010 will be used for this purpose and overview and scrutiny committees have a vital role assisting in this process – both to review existing proposals and also to suggest new ones.

10.3 The possible allocation of any resources for service improvements is an exercise yet to be undertaken and, given the financial position, any room for such 'growth' is likely to be minimal and, indeed, the recognition of priority spending areas may be more apparent in those areas of the budget that are protected against financial restriction rather than growth. It is clearly prudent to delay this decision until the final stages of the budget setting process, when there is more certainty regarding the level funding available.

11. Risk Management

11.1 The risks exposed by a failure to effectively manage the resource planning and allocation process to achieve priorities and maintain effective service delivery are great. The inevitability of elections at both national and local level during the period, the uncertainties about recovery from the current recession and the consequences in terms of future financial assistance and targets imposed by Government will make this process difficult.

11.2 In monetary terms the impact of the recession is having a significant effect upon Council resources with fees and charges representing a greater income stream than Council Tax and there is a clear risk that it will take longer than expected to see a return to pre-recession levels. Formula Grant and DSG are but one aspect of Government funding with a significantly greater sum being received through specific grants and Area Based Grant. All of these funding streams are at risk in the absence of clarity about the next spending review period.

12. Financial and legal implications

12.1 The financial implications are fully detailed in the report. There are no direct legal implications.

13. Recommendations

13.1 That Cabinet forwards the provisional draft budget to Overview and Scrutiny as work in progress inviting them to offer comments on the proposals outlined.

14. Suggested reasons for decision

14.1 It is the responsibility of Cabinet to develop draft budget proposals for consideration by overview and scrutiny committees. These draft proposals are the first stage of the budget consultation process leading to further discussion by Cabinet on 16 February 2010 and formal council tax setting on 25 February 2010.

Background papers
Resource Strategy and Council Plan 2009/2012 – Cabinet 23 September 2008.
Medium Term Financial Plan 2010/2013 – Cabinet 22 September 2009

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