

**REGENERATION, COMMUNITY AND CULTURE  
OVERVIEW AND SCRUTINY COMMITTEE**

**13 JANUARY 2010**

**DRAFT CAPITAL AND REVENUE BUDGET  
PROPOSALS 2010/2011**

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**Summary**

This report presents for consideration, the Cabinet's draft capital and revenue budgets for 2010/2011.

**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 2010. These proposals should be submitted to Overview and Scrutiny Committees for their views.
- 1.2 The Council Plan is part of the Council's Policy Framework as set out in the constitution. A completed draft of the plan will therefore be submitted to Business Support Overview and Scrutiny Committee on 2 February 2010, prior to consideration by Cabinet and approval by Council.

**2. Background**

- 2.1 Cabinet's proposals, as agreed at the meeting on 24 November 2009, were reported in full to Business Support Overview and Scrutiny Committee on 10 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 2 February 2010.
- 2.2 As in previous years Cabinet's presentation is very much a 'work-in-progress' position with a revenue funding gap of some £8.1 million and some incomplete information in relation to capital funding opportunities.

- 2.3 The report to Business Support Overview and Scrutiny Committee on 10 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 Regeneration, Community and Culture Directorate. 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 2010/2011 and Beyond**

- 3.1 The current forecast shows that almost half (£77 million of the current approved programme of £155 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 2010/2011 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, both General Fund and housing, in excess of £16 million by the end of 2011/2012 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 £3.2 million at the end of March 2009 and £1.5 million of this balance is committed to fund revenue in 2009/2010 and over £330,000 committed to fund currently approved capital 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(a) Unsupported existing approved Capital Schemes for 2009/2010**

<b>Scheme funded from Capital Receipts, and Reserves (General Fund)</b>	<b>Total Scheme Approval £000s</b>	<b>Forecast Spend to 31/03/10 £000s</b>	<b>2010/2011 and Future Years £000s</b>
<b>Regeneration Community &amp; Culture</b>			
Highways Capital Works	3,096	1,596	1,500
Medway Park (Black Lion)	2,100	2,100	0
Member's Priorities	921	772	149
Church Terrace Retaining Wall	847	847	0
Eastgate House Improvements	568	18	550
Townscape Heritage Initiatives	362	250	112
EH Local Management Agreement	158	30	128
Gillingham Park	103	103	0
Ranscombe Farm Country Park	97	97	0
Hard Landscaping within GM Contract	82	40	42
Guildhall Museum - Opening the Doors	70	70	0
Upnor Castle – Visitor Interpretation	50	50	0
Playbuilder	29	29	0
Floodlighting	27	27	0
Strood Environmental Enhancements	26	26	0
Chatham Centre and Waterfront	24	24	0
Jobshop Chatham	19	19	0
Echoes Extension Strood	18	18	0
Watermill Wharf	10	10	0
<b>Directorate Total</b>	<b>8,607</b>	<b>6,126</b>	<b>2,481</b>
<b>Other Directorates</b>			
Business Support	6,300	3,469	2,831
Children and Adults	529	400	129
<b>Total</b>	<b>15,436</b>	<b>9,995</b>	<b>5,441</b>
<b>Funding</b>			
<b>Reserves</b>	<b>332</b>	<b>322</b>	<b>10</b>
<b>Capital Receipts</b>	<b>15,104</b>	<b>9,673</b>	<b>5,431</b>

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

**Table 2 Unsupported Existing Approved Capital Schemes**

<b>Scheme funded from Unsupported Borrowing</b>	<b>Total Scheme Approval £000s</b>	<b>Forecast Spend 2009/2010 £000s</b>	<b>2010/2011 &amp; Future Years £000s</b>
<b>Regeneration, Community &amp; Culture</b>			
Highways Investment Programme	4,000	2,000	2,000
Medway Innovation Centre Phase II	4,150	333	0
Strood SC Football Academy	293	0	0
<b>Other Directorates</b>			
Business Support	22,864	104	488
<b>Total</b>	<b>31,307</b>	<b>2,437</b>	<b>2,488</b>

3.9 Table 3, although incomplete at this stage, indicates those core schemes or programmes which are funded by government grant or borrowing backed by Central government support over the three year life of CSR 2007.

**Table 3 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	1,976	2,167	2,462
Road Safety	68	72	71
Waste Infrastructure Capital Fund	447	447	165
Safer Stronger Communities	75	75	75
PSA Funded Schemes	0	1,961	925
<b>Directorate Total</b>	<b>5,407</b>	<b>7,885</b>	<b>7,192</b>
Business Support			
(Housing General Fund))	649	985	903
(HRA)	2,891	2,947	tba
(Other)	570	648	Tba
Children and Adults			
Devolved Formula Capital	4,870	4,820	4,820
Other	10,176	16,098	22,092
<b>Total</b>	<b>24,563</b>	<b>33,383</b>	<b>35,007</b>
<b>Government Grant</b>	<b>13,289</b>	<b>21,914</b>	<b>26,512</b>
<b>Supported Borrowing</b>	<b>11,274</b>	<b>11,469</b>	<b>8,495</b>

- 3.10 In addition to the 'core' funding indicated in Table 3, there are a number of major schemes managed by Medway Renaissance funded both from the Homes and Communities Agency (HCA) through the Thames Gateway Delivery Plan and Department for Transport major projects. These are shown in Table 4.

**Table 4 Summary of Government Funding for Regeneration Schemes**

Directorate/Scheme	2008/2009 £000s	2009/2010 £000s	2010/2011 £000s
<b>Regeneration, Community &amp; Culture</b>			
Medway Renaissance Partnership	1,400	1,215	1,000
Rochester Riverside	558	377	565
Chatham Road Network Phases 2 & 3	1,798	3,017	3,235
Chatham Development Briefs	170	230	0
Queen Street Chatham	230	220	0
Chatham Bus facility	454	2,097	3,949
Chatham Waterfront	133	1,110	1,007
Chatham Public Realm	105	250	1,500
Corporation Street Rochester	39	130	131
Medway Park (Black Lion)	2,750	1,500	0
Parklands (Inc Non-Medway Schemes)	733	4,797	4,666
A228 Ropers Lane to Grain	177	2,931	7,472
Quality Passenger Transport Corridor	205	565	7,230
Urban Traffic Management & Control	0	1,233	6,767
Gillingham Station	24	200	1,276
<b>Total</b>	<b>8,775</b>	<b>19,871</b>	<b>38,798</b>

- 3.11 Cabinet, on 24 November 2009, also considered a report on the Historic Building Grant Scheme Rochester and Chatham requesting match funding for a Partnership Scheme with English Heritage in Conservation Areas, which would help the area achieve its full potential as an attractive and vibrant strategic link between regeneration activities at Rochester Riverside and Chatham Centre. Cabinet agreed to confirm its support in principle for applying for an English Heritage grant under the "Partnership Schemes in Conservation Areas" (PSiCAs) scheme and agreed to consider the inclusion of the sum of £300,000 (over 3 years) as the Council's contribution to the PSiCAs scheme into the discussions on the Council's capital budget programme (decision 198/2009 refers).

- 3.12 Apart from those schemes listed above, there are no new proposals for inclusion in the capital programme for 2010/2011 and future years at this stage as the majority of provisional funding has already been allocated to existing schemes. 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 very little scope for adding to the capital 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
- Developer Funds/Specific Reserves

Confirmation of some of the indicative allocations has been received, and any additional allocations will be announced during the beginning of 2010.

- 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 2010/2011. 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 2010/2011**

- 5.1 The monitoring report for September predicted an underspend on non Dedicated Schools Grant funded services of £625,000. 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.
- 5.2 The budget proposals for 2010/2011 are built using the current year's budget and spending as a starting point. Appendix 1 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 £3.4 million of reserve funding. This immediately creates an ongoing budget pressure for 2010/2011 and future years.
- 5.3 The Provisional Local Government Finance Settlement was announced on 26 November and launched the consultation period on the proposals that will end on 6 January 2010. The settlement confirmed the figures (both capital and revenue) already announced as part of CSR 2007 and reported to Cabinet in November 2009. The headline figures for Medway for 2010/2011 are:
- Formula Grant £ 85.130m, being an increase of 3.60%;
  - DSG £173.627m , a cash increase of 3.5% above the final DSG for 2009/2010 (representing £4,351 per pupil, an increase of 4.13%.
- 5.4 The indicative DSG allocation for 2010/2011 is based on Medway's own estimate of the number of pupils in January 2010 (39,902) at the fixed Medway rate per pupil of £4,351.36. The number of pupils represents a reduction of 244 from the final number of pupils (40,146) as at January 2009, used for the final DSG allocation for 2009-2010. The allocation will be adjusted in due course to reflect the actual pupil numbers in January 2010 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.
- 5.5 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, Barbara Follett, The Parliamentary Under Secretary of State, Communities and Local Government also included a statement that she expects the average increase in Council Tax to fall to the lowest increase in 16 years. She has also stated that she will not hesitate from using capping powers to protect taxpayers from excessive Council Tax increases. However she fell short of specifying what "excessive" would be. Last year the capping level was set at 5% against a background of an expressed desire for 'low single figures'. A recent survey suggested that average Unitary rises would be 2.6% and in that context, and allowing for our low base, the draft budget suggestion of a 3% increase would not seem to be inconsistent with this announcement. However, to match the lowest increase in the last 16 years then that figure would be 2.1% achieved in 1994/1995.

- 5.6 Assuming a council tax increase of 3% for 2010/2 011 and an increase in council tax base of 0.75% as predicted in the Medium Term Financial Plan considered by Cabinet last September, the resources available to the Council over the CSR 2007 period are summarised in the following table:

**Table 5 Resources Summary**

<b>Details</b>	<b>2008/2009</b>	<b>2009/2010</b>	<b>2010/2011</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Formula Grant	79,120	82,225	85,130
Council Tax	88,955	94,048	97,600
DSG	163,918	167,759	173,627
<b>Total</b>	<b>331,993</b>	<b>344,032</b>	<b>356,357</b>

- 5.7 As indicated earlier, there is a shortfall compared to the anticipated resources of approximately £8.1 million. Appendix 1 summarises the overall Council requirement and highlights a £13.7 million growth in budget demand over and above inflation and incremental pressures. The overall growth in budget requirement is influenced by the following:
- Care for the elderly;
  - Care for disabled persons;
  - Looked after children;
  - School closures and mergers programme;
  - Additional SEN placements
  - Reduced income from car parks;
  - Reduced income from leisure facilities;
  - Reduced income from and land charges;
  - Reduced income from Council property and additional maintenance;
  - Increase in unsubsidized benefit payments;
  - Reduction in investment returns; and
  - One-off use of reserves in 2009/2010.
- 5.8 Appendix 2 provides an analysis of the Regeneration, Community and Culture Directorate's requirement with Appendix 3 providing more detail on budget pressures.
- 5.9 In respect of the pressures identified in the Appendix 3, 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.



- 5.10 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 Appendix 1.
- 5.11 There are no service improvements, apart from those referred to in paragraph 5.9, included in the draft budget proposals. However, in considering a report on the provision of residential on-street disabled parking bays on 3 November 2009, Cabinet made the following recommendations (decision 173/2009 refers):
- (a) Additional funding of £35,000 for the installation of disabled parking bays is considered as part of the budget setting process for 2010-2011 and onwards, and that this figure is reviewed annually;
  - (b) Upon reaching the approved budget, no further applications are processed until the commencement of the new financial year;
  - (c) Funding of £17,500 for the re-charge of the Occupational Therapy service to make the relevant site inspection, is considered as part of the budget setting process for 2010-2011 and onwards (however, this is to be reviewed annually).
- 5.12 The Medium Term Financial Plan, considered by cabinet on 22 September 2009, identified pressures of just over £1 million for the directorate. These pressures have been refined and updated during the detailed budget preparation process and are reflected in the budget build. The reduction in parking income (£450,000), shortfall in income predominantly from leisure facilities (£580,000), increased take up of concessionary fares scheme (£320,000), unachieved savings target for Development Control (£270,000) and financing costs for the Innovation Centre (£290,000) are significant contributors to the overall directorate pressure of just over £2 million.

## **6. Council Plan 2010/2013**

- 6.1 As with last year, the Council Plan is being developed alongside the budget setting process to ensure the link between resource planning and business planning is maintained. This link has been positively noted in the council's various inspection and assessment frameworks.

- 6.2 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.
- 6.3 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, **where appropriate**, 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. A summary of the draft Council Plan 2010/2013 is attached at appendix 4.

## **7. Financial and Legal Implications**

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

## **8. Recommendations**

- 8.1 Members are requested to:
- a) consider the initial capital and revenue budgets, proposed by Cabinet on 24 November 2009 insofar as they affect this overview and scrutiny committee;
  - b) consider the proposed additions to the capital programme and revenue budget referred to in paragraphs 3.11 and 5.11.
  - c) consider the opportunities and implications of any other efficiencies or revenue generating measures for this committee;
  - d) forward to Business Support Overview and Scrutiny Committee on 2 February 2010, comments and suggestions with regard to the preparation of the Council's capital and revenue budget for 2010/2011.

## **9. Background papers**

Medium Term Financial Plan 2010/2013 report to Cabinet 22 September 2009.

Capital Programme 2010/2011 and Beyond report to Cabinet 24 November and Business Support Overview and Scrutiny Committee 10 December 2009.

Revenue Budget 2010/2011 report to Cabinet 24 November and Business Support Overview and Scrutiny Committee 10 December 2009.

## Appendices

1. Draft revenue budget summary 2010/2011
2. Directorate budget construction
3. Directorate budget pressures
4. Summary Draft Council Plan 2010/2013

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