

**BUSINESS SUPPORT
OVERVIEW AND SCRUTINY COMMITTEE
27 JANUARY 2011
CAPITAL AND REVENUE BUDGET 2011/2012**

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Summary

This report presents the Council's draft capital and revenue budget for 2011/2012.

The draft budget is based on the principles contained in the Medium Term Financial Plan (MTFP) 2011/2014 approved by Cabinet in September. Work since the publication of the MTFP and the recently announced Provisional Local Finance Settlement for 2011/2012, has firmed up the forecast for revenue spending requirements and now provides a better informed analysis of the expected funding gap.

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 2011. These proposals should be submitted to Overview and Scrutiny Committees for their views.

2. Background

- 2.1 Cabinet's proposals, as agreed at the meeting on 30 November, were reported in full to Business Support Overview and Scrutiny Committee on 15 December who agreed to pass the proposals on to the relevant overview and scrutiny committees with comments to be channelled back through this committee on 27 January 2011.
- 2.2 It is incumbent on this committee to consider the Business Support proposals and, in the absence of a suitable intervening meeting, Members are requested to consider the budget implications insofar as they impact on this committee and incorporate comments with those of the other overview and scrutiny committees and forward to Cabinet on 15 February 2011.
- 2.2 As in previous years Cabinet's presentation is very much a 'work-in-progress' position, with incomplete information in relation to government funding for both revenue and capital and identified a revenue funding gap of some £21.5 million.

2.3 The report to this Committee on 15 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 Children & Adults Directorate. However in doing so the opportunity is taken to update the overall position as a result of the Provisional Local Government Finance Settlement considered by Cabinet on 21 December 2010. For clarity, shaded figures in the tables and appendices, where appropriate, relate to this committee and, where, text has been updated to include settlement details, this is shown in italics.

3. Budget monitoring 2010/2011

3.1 The monitoring report, considered elsewhere on this agenda, highlights a net revenue overspending on services of some £0.4 million compared to the previously reported £1.2 million. Members are reminded that this forecast overspend is against a background of in-year budget reductions in excess of £2.8 million. Council has agreed that any shortfall in achieving these savings and associated redundancy and early retirement costs can be met from general reserves. Every effort will be made to minimise the forecast overspend and hence reduces call on the Council's reserves. The trend in recent years has been one of a steady improvement in the forecast position during the second half-year as the more cautious first half-year projections unwind and this appears to be borne out by the movement between September and November forecasts.

3.2 For the capital programme the forecast, based on the first half-year expenditure, is that there will be a minor underspend of £47,000 but that some £38 million of the £128 million programme will be spent in future years – an increase of £29 million. The total programme has increased from £116 million at Council in February 2010 to the current £128 million, the bulk of which is a £5 million roll-over from 2009/2010 in excess of forecast, coupled with a new allocation of £5 million from S106 funds for Stoke Crossing, with various smaller changes forming the reconciliation. The change in spending profile is across all directorates with Children and Adults seeing the major shift of some £20 million reflecting a more realistic assessment of spending pattern.

4. Medium Term Financial Plan

4.1 The Medium Term Financial Plan (MTFP) identified the key issues that need to be addressed as part of the budget preparation process and endeavoured to integrate budget setting with service planning and ensure priorities and funding are matched. The MTFP made assumptions about future funding following the Government's announcement of severe public spending reductions earlier in the year. In view of this announcement the MTFP quantified the effect of budget reduction scenarios of 15%, 20% and 25% for both General Fund and those services funded from the Dedicated Schools Grant (DSG) across the four-year period between 2011/2012 and 2014/2015. This is in addition to any additional resource demand identified as part of the MTFP process, including the £3.6 million commitment for the recurrent funding of services that was financed from non-recurring resource in 2010/2011.

4.2 The key assumptions underlying the forecast for 2011/2012 and future years contained in the MTFP were that current spend can no longer be sustained and, what is now clearly an optimistic assumption of a zero increase in formula grant for 2011/2012. Additionally the MTFP forecast an increased resource requirement of £7.7 million for General Fund and £0.5 million for DSG services

predominantly as a result of demographic changes and non-recurring support of the budget in 2010/2011.

- 4.3 The MTFP will mesh with the review of the Council Plan in preparing the Council Plan for 2011/2014. 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 MTFP 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 Alongside the budget preparation for next year, the council will be producing the Council Plan 2011/2014. In response to the implied new freedoms and flexibilities the plan will be more streamlined and outcome focused. It will also include the small number of key projects that the Council can afford and will deliver, itself or with partners, to achieve its priorities. The plan will be underpinned by a limited and high-level set of outcomes underpinned by clear measures of success, so that for each priority a cluster of indicators can be tracked to gauge progress making it possible to see how well the Council is doing against its priorities and whether the Council's actions are making a difference and are giving value for money.

6. Finance Settlement

- 6.1 The level of Government funding in 2011/2012 and future years and the ability to generate additional council tax income are influenced by:
- The Government's Spending Review (SR) 2010;
 - Provisional Local Government Finance Settlement; and
 - Proposals to limit or freeze council tax increases.
- 6.2 The three-year funding settlement introduced in the Comprehensive Spending Review 2007 ends this current financial year and Members will be aware of the in-year Government funding reductions announced in the summer as a pre-cursor to the SR. In presenting the emergency budget in June 2010, the Government emphasised the need to significantly reduce the budget deficit over the life of the current parliament with Departmental Expenditure Limits (DEL's) reducing by 25% over the period. This followed immediate and unprecedented in-year reductions announced at the beginning of June.
- 6.3 SR 2010 was published on 20 October and announced overall Government spending reductions over the four-year period to March 2015 that were consistent with the statement at the end of June (headlined at a real-terms reduction of 28% for Local Government). The detailed funding for individual local authorities will not be known until the finance settlement is published in December and will be affected by the changes to the distribution formula and any subsequent impact of the damping mechanism. Further uncertainty will arise as a consequence of the changes announced for non-formula grants some of which are to be consolidated in the Formula, most are to be non-ringfenced and there will be a number of new grants such as that for council tax described below
- 6.4 In his letter to all Local Authorities on the 20 October, Eric Pickles, the Secretary of State stated the settlement:
- tackles the principal pressure on social services by providing an additional £2 billion to support adult social care by 2014-15;
 - commits £6.5 billion to affordable housing and Decent Homes over four years;
 - offers help to the vulnerable with £6.5 billion to Supporting People over the Spending Review period;
 - offers more flexibility to councils by ending ring-fencing of all revenue grants from next year, except for simplified school grants and the new public health grant which will be introduced in 2013. In total, local authorities will have greater control over more than £7 billion of funding from 2011-12 which is moving into formula grant, being unringfenced or is new funding for the SR10 period;
 - protects council tax payers by offering, in partnership with local authorities, a council tax freeze;
 - shifts many other budgets – including budgets for GPs and Police and Crime Commissioners – to the local level, so that you can pool and prioritise this money more effectively;
 - sets out plans to implement the first phase of Community Budgets in 16 areas from April 2011, by pooling departmental budgets at source for 16 places, to tackle families with complex needs, with the intention that all areas will be able to take this approach from 2013; and

- radically reforms the Housing Revenue Account, so that you will have much greater ability to run your own affairs, provides over £2 billion on Decent Homes in total over four years and enables councils who own housing to improve the decency of tenants' homes with enough money to more than halve the backlog by 2015.

6.5 More specifically the SR identified that:

- Councils in England to face an average 7.1% cut in real terms for central government funding for each of the next 4 years; and
- Capital funding from all departments to councils will fall by around 45 per cent over the spending review period.
- Homelessness Grant will remain at current levels;
- Disabled Facilities Grant protected, however ring fencing will be removed;
- Schools budget to rise every year until 2015;
- Underlying per pupil funding to be protected in cash terms;
- Sure Start services to be protected in cash terms.

6.6 The offer to local authorities that choose to freeze council tax in 2011/2012 is based on a promise that the Government will grant fund the equivalent of a 2.5% increase in council tax that year for the SR period. This could be worth some £2.4 million for Medway based on the projected 2011/2012 taxbase.

6.7 The Government will offer more flexibility to councils by ending ringfencing of all revenue grants from next year, except for a simplified Dedicated Schools Grant (DSG) and a new public health grant which will be introduced in 2013. The majority of revenue grants will be rolled into formula grant for 2011/2012. However, despite announcing a 7.1% annual reduction in Government funding, there is a general agreement that because of the impact of cross departmental movement and grants, the actual reduction of the new formula grant is likely to be front ended and experts have predicted reductions of between 11% and 17% for 2011/2012. However Formula Grant represents only £85 million of the total General Fund funding of £201 million in 2010/11 and at 17% such a cut would represent £14.4 million compared to the £12.5 million 'budget' cut forecast in the MTFP for 2011/2012 at the 25% scenario.

6.8 Whilst the financial modelling exercise can be compelling it is clear that at this stage there is insufficient information to determine the exact nature of the reduction in resource that Medway will face both for General Fund services and the 'protected' schools' budgets. What is certain is that the level of Government funding to local authorities will be drastically reduced over the coming years and budget reductions will need to be sought as forecast in the MTFP.

6.9 *The Provisional Local Government Finance Settlement, considered by Cabinet on 21 December, indicated that Medway had lost some £20 million of government grant funding in 2011/2012 and, as predicted, a number of specific grants and Area Based Grant have been incorporated into formula grant making year on year comparisons difficult. Initial calculations indicate an overall formula grant loss of 11.9% with a further fall of 8.3% (£7.811 million) forecast for 2012/2013.*

7. Summary of draft revenue budget

- 7.1 The MTFP focussed on the high-level budget pressures that already existed or were seen as unavoidable. These pressures amounted to £7.7 million in 2011/2012 and averaged some £4 million a year for the following two years.
- 7.2 Since publication of the MTFP directorates, in consultation with portfolio holders, have been developing more detailed budget proposals incorporating pressures and current year savings. The effect of these is summarised in Appendix 1, with major pressures relating to this committee being identified in section 8 below. A summary of the budget proposals as they currently stand, including any savings proposals currently identified and pressures, is shown in Table 1 below with more detail included in Appendix 2.
- 7.3 The Formula Grant forecast used in Table 1 assumes that the 2010/2011 level of grant (inclusive of Area Based Grant (ABG)) will reduce by the £12.550 million forecast in the MTFP (25% reduction scenario). The reality behind this assumption was clarified when the financial settlement was announced in December 2010.
- 7.4 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:
- Cost of Current Services. The categories within this classification are the unavoidable increases as a result of price increases, increments and the full year effect of pressures already impacting upon budgets; and
 - Changes to Service. These are the anticipated effects of changes to budgets in 2011/2012 that are not presently felt but will occur in 2011/2013 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.

Table 1. Draft revenue budget 2011/2012

Directorate	Original Budget 2010/2011 £000's	Forecast Requirement 2011/2012 £000's
Children and Adult Services (C&A):		
DSG Related Expenditure	172,130	172,102
Other Expenditure	113,602	114,288
Regeneration, Community and Culture (RCC)	48,641	48,704
Business Support (BS):		
DSG Related Expenditure	1,497	1,497
Other Expenditure	29,731	29,876
Public Health	388	371
Interest & Financing	15,358	16,358
Levies	900	974
Corporate Savings	(2,300)	0
Budget Requirement	379,947	384,170
Estimated Funding		
Dedicated Schools Grant	(173,627)	(171,600)
Council Tax	(97,583)	(100,760)
Formula Grant	(85,130)	(90,296)
Area Based Grant	(17,716)	0
PSA Reward Grant	(830)	0
Planned Use of Reserves	(4,078)	0
Collection fund Surplus	(983)	0
Estimated Available Funding	(379,947)	(362,656)
Budget Gap DSG	0	1,999
 General Fund	0	19,515

7.5 Table 1 indicates an increase in the budget requirement of £4.3 million (compared to the £7.7 million identified in the MTFP) but, when coupled with the forecast reduction in resources, produces an overall shortfall of just over £21.5 million. Whilst almost £2 million of this relates to schools activity the Council Tax borne deficit at £19.5 million is the highest ever reported at this point in the budget process and is clearly driven by the reductions in funding streams rather than growth in service budgets.

7.6 However whilst growth in budgets has been limited, there are still sizeable budget pressures that have been identified by directorates and these have been significantly offset by savings already made as a reaction to funding reductions in the current year. These pressures are discussed in more detail in Section 8.

- 7.7 Capital budget proposals are dealt with in Section 9, but in common with revenue funding, there is very little detailed information forthcoming from Government as to the level of capital resources available. The Interest and Financing heading in Table 1 reflects the additional cost to the council of both borrowing for capital investment and also any income loss from using accumulated cash reserves. In 2010/2011 the loss of investment income experienced as a consequence of low interest rates was mitigated by the use of the rate equalisation reserve to the extent of £1 million. This is no longer available and is driving the budget pressure in Table 1. However there are schemes in the current capital programme that are yet to commence that require new borrowing and any further allocation of Supported Capital Expenditure (SCER) will also attract additional revenue costs as the borrowing is undertaken. Formula Grant calculations contain theoretical 'support' for such allocations but the reality is that such support is lost in the complexity of the formula and the subsequent application of damping. The harsh reality is that if council is minded to use the borrowing approval there will be a revenue cost equivalent to the interest paid on the loan (currently circa 5%) and the annual provision that has to be made for the future repayment of the debt (circa 4%). The amounts in Table 1 do not allow for any new borrowing and to the extent that this is taken there will be an additional revenue pressure.
- 7.8 In addition to the revenue resources shown in Table 1 above, the council does have access to limited reserve balances. However, the redundancy/retirement costs of the 2010/2011 staffing reductions and costs arising from any future restructuring will be a first call on these reserves.
- 7.9 *The loss of Formula Grant reported to Cabinet was some £4 million greater than anticipated and the funding gap now stands at almost £23.5 million. This is a material deterioration from an already bleak position and will necessitate dramatic action to close this gap and set a balanced budget.*

8. Budget Pressures

- 8.1 The pressures facing individual directorates were flagged at a high level in the MTFP. However where possible these have been subject to more detailed work and the major issues are highlighted in the following paragraphs.
- 8.2 All directorates:
- Increments £1.63 million – the council is currently consulting on a proposal to freeze increments which would negate this pressure; and
 - NI changes £0.88 million – the results of the 3-yearly valuation of the pension fund (LGPS) are beginning to emerge and it may be possible to negate this increase in employers national insurance by an equivalent reduction in the employers pension contribution.
- 8.3 Business Support
- ICT contract inflation £30,000;
 - Non-achievable target for shop rents £40,000;
 - Non recoverable housing benefit payments £680,000;
 - Loss of housing benefit administration grant £170,000;
 - Additional demand for discretionary rate relief £58,000;
 - Homelessness Grant – move of grant from specific to ABG £100,000;
 - E-petitions - £34,000

Both the homelessness Grant and e-petitions should result in a transfer of funding streams into Formula Grant/ABG but are likely to be lost in the overall calculation of grant received and will reflect budget 'growth' in terms of requirement.

- Loss of Land Charges income from personal searches £140,000; less
- Non-recurring items from 2010/2011 for which funding ceases - saving £138,000

8.4 Interest and Financing

The fall in interest rates created a further pressure of £1 million in 2010/2011 but this was funded by a compensating contribution from the Rate Equalisation Fund. This fund is now extinguished and so long as rates remain at the current low level then the pressure of £1 million will remain. A rise in average returns of 1% would remove this pressure but economic forecasts do not foresee any significant change until March 2012.

8.5 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. The forecast requirement is based on the current budget monitoring including a forecast overspending of £74,000.

8.6 Planned Use of Reserves

The 2010/2012 budget included non-recurring support of £1 million from the 2009/2010 underspend, £1.6 million from VAT recovery, £570,000 from General Reserves, £900,000 from the Rate Equalisation fund and £1 million from the Collection Fund Surplus – a total of £5.070 million. The loss of these reserves is reflected in the funding gap shown in Table 1.

9. Meeting the funding gap

9.1 Table 1, above, highlights a funding gap of just over £21.5 million for both DSG and non-DSG services (*now £23.5 million for non-DSG services and zero for DSG services*). This is an unprecedented scenario for the Council and clearly it will not be possible to absorb such a shortfall without an impact on services and staff.

9.2 In the first instance there is an imperative to ensure that all those pressures identified in section 8 are re-examined with a view to finding the means to mitigate or manage the effect so as to minimise the £12.4 million demand.

9.3 There is also an additional imperative to ensure that as the detail of the budget preparation becomes finalised, no additional pressures are allowed to emerge.

9.4 Whilst it is still early in the process to report specific proposals the organisation has been embarked on two significant pieces of work to not only drive forward the efficiency agenda, but also to identify areas of the budget where it may be possible to reduce costs whilst preserving key front line services. These two areas are briefly discussed below but will feature more prominently in the development of Cabinet's proposals for the final budget in February. They will also look forward to the agenda the council must face in the four years of spending reduction that the spending review identified.

- 9.5 The first area of work relates to a proposal received earlier this year from Price Waterhouse Coopers (PWC) under the banner of their 'perfect storm' analysis. This built on their experience in working with a number of councils to understand the way service delivery and support functions worked and to explore the possibility of improving upon the outcome to deliver improvement in service delivery with a more efficient support mechanism for the business. This had proved to be a successful model, even in low spending and well performing councils. The diagnosis work was funded by a rebate against the fees the company levied for the VAT recovery work they undertook in 2009/2010.
- 9.6 The PWC work is still at an early stage but the outline business cases developed from the diagnostic analysis suggest that significant savings may be achievable across the four-year horizon. The project has been re-named 'achieving better for less' and an internal website created to communicate activity within the Council domain.
- 9.7 The second area of work has been instigated by the management team and informed by the outlook in the MTFP. This has targeted Directors and assistant Directors to examine their budgets and functions with a view to achieving a 25% reduction in cost by 2014/2015. This is a major piece of work for officers and inevitably there is also some overlap between this and the 'achieving better for less' project.
- 9.8 Many councils have chosen to be very public about the potential changes to service delivery and consequent cost savings despite a lack of clarity about the impact of the SR 2010. The financial settlement was announced on 13 December 2010 and gave greater clarity about the challenge the council faces. Whilst this report clearly does not set out the actions, in detail, that will be taken to achieve a balanced revenue budget for both next year and thereafter it is inevitable that a dramatic shift in the way the council is able to function is likely and that this will have impact both within and outside of the council. Portfolio holders will work with officers and other members to develop a deliverable budget for February 2011.
- 9.9 *As part of this work to establish a balanced budget for 2011/2012 there also needs to be a review of those areas where the settlement has seen specific funding streams removed.*
- 9.10 At the December meeting Members suggested removal of the Member's Ward Improvement Fund as this is discretionary expenditure that the Council should no longer support in view of impending service and staff reductions. It was agreed that the Members Discretionary Fund of £156,000 would be considered by this committee when it considered the draft budget within its remit at this committee.
- 9.10.1 The Ward Improvement Fund was introduced in the early years of Medway Council to help fund deserving schemes solely for the benefit of the Medway residents. Initially the yearly allocation was £2,000 for each ward member which was subsequently increased to £3,000 when the membership of the Council dropped from 80 to 55.

9.10.2 The criteria and guidelines for use of the Ward Improvement Fund are summarised as follows:

The proposal should command community support and strictly relate to something in the ward;

- No budget should already exist to cover the type of spending proposed. This is to reflect the principle that the funds should not be considered as an extension of existing budgets;
- The project can be completed within the financial year and have no ongoing revenue implications. This is to ensure that the investment has an impact on Medway in the short term whilst not committing the council to long term expenditure such as on-going maintenance costs for bollards/lighting, or emptying costs of litter and dog bins and refilling of salt bins

9.10.3 For Member's information a summary of Ward Improvement Fund expenditure in 2009/2010 is as follows:

Category	£
Country Park/Play Areas/Benches Furniture & Allotments	26,229
Church Hall improvements etc and Church Community Projects	26,051
Schools & Educational Services Schemes	22,276
Highways Signs Noticeboards Bollards & Street Furniture	17,425
Salt Bins	14,995
Good Causes Voluntary Organisations - Donations	12,450
Trees & Planting	6,862
Village Decorative Signage	6,395
Xmas Trees lights decorations	5,583
Village Halls & Community Centres	4,180
High Street Clock repairs	4,000
Residents & Community Association Projects	3,782
Scouts & Guides schemes	3,526
Restoration projects of Local Heritage	3,000
Sports clubs Youth Centres	2,250
Theatrical Societies	1,500
Fetes Carnivals Fundays	1,470
Musical Instruments for Clubs	1,200
Total	163,174

9.10.4 Members are requested to consider the Ward Improvement Fund as part of the budget setting proposals for 2011/2012.

10. Draft capital budget proposals 2011/2012

10.1 Development of the capital programme needs to be integrated with the process for setting the revenue budget and the level of council tax and all capital expenditure must be matched to available resources. However the Government has not yet announced funding allocations to individual authorities and this report is, of necessity, therefore confined to a continuation of the existing approved capital programme. To date *there have been no capital funding announcements relevant to this committee although the government has indicated that it will continue to support Disabled Facilities Grants.*

- 10.2 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 Spending Review (CSR 2007) which ends in March 2011. With very few exceptions (for example protection of Disabled Facilities Grants), there has been no indication from Government how an anticipated reduced level of capital funding will affect local authorities capital programmes over the next four years.
- 10.3 No new schemes are included in the current proposals but local authorities do have access to 'unsupported' borrowing through the prudential regime for capital investment providing that these capital investment plans are affordable, prudent and sustainable. All revenue implications for unsupported capital schemes, including the cost of borrowing, must be within the parameters established for the revenue budget setting process and the medium term financial plan. To date the Council has approved some £32 million of capital expenditure to be funded through the prudential regime as 'invest to save' projects with the major component being the £21.5 million Gun Wharf project that has just been closed with a minor overspending of £50,000.
- 10.4 The existing capital programme will continue into 2011/2012 and future years where funding comes from the Council's own resources, where there are external contributions or where Government support (i.e. borrowing approval or grant) extends past March 2011. In addition to the supported programme there are commitments which will represent a demand for capital receipts (both General Fund and HRA) in excess of £12 million by the end of 2013/2014. Table 3 summarises the current capital programme and analyses the resource requirement.
- 10.5 Publication of the Local Government Finance Settlement confirmed that there are no supported borrowing approvals in 2011/2012. There may be further announcements of funding opportunities but in this context the only confirmed commitment is to announce the funding for DFG's. As a consequence the capital programme for 2011/2012 can only be considered as provisional at this stage.
- 10.6 In considering the capital budget monitoring report in December, this committee requested officers to investigate the consequences of early withdrawal of the English Heritage (EH) Management Agreement.
- 10.6.1 Over the last five years, both the Council and EH had committed £425,000 each for capital works at the three heritage sites and this agreement comes to an end on 31 March 2011. Members will be aware that EH withdrew £140,000 of their funding in 2010/2011 in order to contribute to Rochester Castle retaining wall repairs. This work has now been completed and is slightly under budget.
- 10.6.2 In view over the uncertainty of capital resources available to both the Council and EH, the Management Agreement has, by mutual agreement, been extended by one year only to March 2012. The intention is to renew in the longer term, subject to detailed negotiation of terms and our overall financial position next year.

10.6.3 The Council's remaining contribution to the Management Agreement (£105,000) will be included in the capital programme proposals for 2011/2012 and beyond with the intention of attracting future match funding from EH. More specifically, officers are hopeful that EH will provide match funding in 2011/2012 for long term conservation monitoring works to Rochester Castle keep.

Table 3. Funding the Current Capital Programme

Directorate	Scheme Budget £000s	Forecast Spend			
		2010/2011 £000s	2011/2012 £000s	2012/2013 £000s	2013/2014 £000s
Business Support	15,891	11,056	3,942	943	0
Children & Adults	50,064	28,082	18,502	3,319	0
Regeneration, Community & Culture	60,026	48,667	7,796	3,562	65
Member's Priorities	2,468	2,343	125	0	0
Total	128,449	90,148	30,365	7,824	65
Funding Sources					
Government Grant	82,238	56,151	20,494	5,493	0
Supported Borrowing	17,421	12,884	3,881	660	0
Capital Receipts	12,101	8,342	3,391	303	65
Developer and other contributions	6,630	3,734	2,271	625	0
Prudential Borrowing	4,764	3,743	328	743	0
Major Repairs Allowance/Reserve	4,373	4,373	0	0	0
Reserves/ Revenue	921	921		0	0
Total	128,449	90,148	30,365	7,824	65

11. Conclusions

11.1 These initial budget proposals represent the first stage in developing the 2011/2012 revenue budget and show a forecast funding gap of over £21.5 (now £23.5) million. It is already known that this gap will grow during the balance of the SR period and it is therefore imperative that commensurate reductions in the budget requirement are effected and plans developed to deal with the future reductions.

11.2 As the report indicates, there is considerable work yet to be undertaken in developing a balanced budget for 2011/2012 which will be the immediate priority. The interim period leading to the Cabinet meeting on 15 February 2011 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.

11.3 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. Growth will need to be restricted to those areas demonstrated as unavoidable in meeting the council priorities.

12. Risk Management

12.1 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.

12.2 In monetary terms the impact of the recession had 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 will undergo a radical transformation with a significantly greater sum being received through this source rather than specific grants. However, this funding stream will be severely reduced as a result of proposed Government spending reductions over the next four years. The absence of any detailed information about individual local authority funding inevitably delays vital decisions on budget proposals.

12.3 With a total current capital programme of over £128 million there is always a possibility that schemes may not be delivered on time thus not fulfilling the Council's strategic priorities and also schemes may not be delivered within approved external funding approvals thus straining the Council's limited capital resources. The Council has a good track record of managing capital schemes and identifying alternative sources of funding where schemes are subject to unforeseen and unavoidable additional costs.

12.4 The most significant risk facing delivery of the Council's capital programme is maximising external funding for regeneration. The current economic climate is deterring investors from committing substantial sums for development as is the case at Rochester Riverside, for example. 2010/2011 is the last year of funding under the Government's Comprehensive Spending Review (CSR 2007) and the majority of schemes funded by government grant must be completed by 31 March 2011 otherwise grant may be lost. Officers are continually investigating alternative methods of delivery should external funding not be forthcoming.

13. Diversity Impact Assessment

- 13.1 The council has legal duties to give due regard to race, gender and disability equality in carrying out its functions. This includes the need to assess whether any proposed changes have a disproportionately negative effect on people from different ethnic groups, disabled people and men and women, which as a result may be contrary to these statutory obligations. These draft budget proposals predicts the resources available which will determine the service priorities within the Council Plan. Diversity Impact Assessments will be undertaken and reported to Members as part of the budget and service planning process as the quantum of resources and hence the impact on Council services unfolds

14. Financial and legal implications

- 141 The financial implications are fully detailed in the report. There are no direct legal implications at this stage.

15. Recommendations

- 15.1 Members are requested to:
- a) consider the initial capital and revenue budgets, proposed by Cabinet on 30 November 2010 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) consider the future of the Member's Ward Improvement Fund as outlined in Section 9.10;
 - c) incorporate comments and suggestions with regard to the preparation of the Council's capital and revenue budget for 2011/2012 with those of other overview and scrutiny committees considered later in this agenda.

Background papers

Medium Term Financial Plan 2011/2014 – Cabinet 28 September 2010

Regular capital and revenue budget monitoring reports to Cabinet.

Capital and Revenue Budgets 2011/2012, report to Cabinet 30 November 2010.

Capital and Revenue Budgets 2011/2012, report to Business Support Overview and Scrutiny Committee 15 December 2010.

Provisional Local Government Finance Settlement 2011/2013, report to Cabinet 21 December 2010.

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BUDGET BUILD SUMMARY 2011-2012

Directorate/Service	2010/2011 Budget Requirement	Budget Adjustments	Spending review savings	Adjusted base	Cost of current service			Changes to service		2011-12 Draft Budget (Nov 2010)	Further Savings and Adjustments	2011-12 Budget Requirement
					Inflation	Increments	Other	Legislation / Regulation	Demographic			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Childrens and Adults Services												
DSG Funded Services	172,130	(677)	0	171,453	24	70	0	55	500	172,102	0	172,102
General Fund Services	113,602	(543)	(1,662)	111,398	4	752	208	427	1,500	114,288	0	114,288
Regeneration, Community and Culture Services	48,641	(482)	(312)	47,847	350	332	(16)	191	0	48,704	0	48,704
Business Support Department DSG	1,497	0	0	1,497	0	0	0	0	0	1,497	0	1,497
Business Support Department OTHER	29,731	(867)	(755)	28,109	30	475	715	547	0	29,876	0	29,876
Public Health	388	75	(100)	363	0	8	0	0	0	371	0	371
Interest & financing	15,358	0	0	15,358	0	0	1,000	0	0	16,358	0	16,358
Levies	900	0	0	900	0	0	0	74	0	974	0	974
Corporate Savings	(2,300)	2,205	0	(95)	0	0	95	0	0	0	0	0
TOTAL NET BUDGET	379,947	(289)	(2,829)	376,830	408	1,637	2,002	1,294	2,000	384,170	0	384,170

2011-12 Budget Requirement		
Gross Expenditure	Direct Income	Net Expenditure
£'000	£'000	£'000
207,940	(35,838)	172,102
169,055	(54,767)	114,288
72,664	(23,960)	48,704
1,497	0	1,497
154,058	(124,182)	29,876
1,272	(901)	371
20,274	(3,916)	16,358
974	0	974
0	0	0
627,734	(243,564)	384,170

BUSINESS SUPPORT DEPARTMENT - BUDGET BUILD 2011-2012

General Fund Activities

	2010-11 Base (Sept 2010)	Remove Support Services	Adjustments	2010-11 Adjusted Base	Cost of current service			Changes to service		2011-12 Draft Budget (Nov 2010)	Further Savings and Adjustments	2011-12 Budget Requirement
					Inflation	Increments	Other	Legislation / Regulation	Demographic			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Local Land Charges	(70)	(29)	0	(99)	0	2	0	141	0	44	0	44
Housing Performance Team	476	(42)	0	434	0	5	0	2	0	441	0	441
Housing Strategy	429	(54)	(2)	373	0	5	0	3	0	381	0	381
Housing Solutions	2,452	(472)	98	2,078	0	27	0	11	0	2,116	0	2,116
Private Sector Housing	613	0	(2)	611	0	6	0	5	0	622	0	622
Housing Property Management	(209)	(2)	0	(211)	0	0	40	0	0	(171)	0	(171)
Housing Disabled Adaptations	124	(21)	(1)	103	0	3	0	1	0	107	0	107
Commercial Property	(1,015)	(68)	0	(1,083)	0	0	0	0	0	(1,083)	0	(1,083)
Licensing	20	(46)	0	(26)	0	3	(20)	2	0	(41)	0	(41)
Central Services & Procurement	196	290	0	486	0	5	0	4	0	495	0	495
Central Accommodation	(20)	3,144	0	3,124	0	5	0	4	0	3,133	0	3,133
Legal Services	7	1,307	(5)	1,310	0	22	0	14	0	1,346	0	1,346
Monitoring Officer	11	0	0	11	0	0	0	0	0	11	0	11
Design and Surveying	(475)	(18)	(2)	(495)	0	11	0	7	0	(477)	0	(477)
Asset and Property Management	24	255	(3)	276	0	1	0	4	0	281	0	281
H&CS Vacancy Saving Target	(167)	0	0	(167)	0	0	0	0	0	(167)	0	(167)
Total for Housing & Corporate Services	2,398	4,244	84	6,726	0	95	20	198	0	7,039	0	7,039
Benefit Payments	459	(1)	0	458	0	0	680	0	0	1,138	0	1,138
Revenues and Benefits Admin Total	1,845	(1,314)	0	531	0	52	170	25	0	778	0	778
NNDR Discretionary Relief	193	0	0	193	0	0	58	0	0	251	0	251
Rural Liaison Grants	75	0	0	75	0	0	0	0	0	75	0	75
Ward Improvements	165	0	0	165	0	0	0	0	0	165	0	165
Corporate Management	3,282	(2,713)	0	569	0	0	0	0	0	569	0	569
Non Distributed Costs	1,618	(127)	0	1,491	0	0	0	0	0	1,491	0	1,491
Corporate Provisions	446	0	72	518	0	0	0	0	0	518	0	518
Business Support Management Team	(20)	862	0	842	0	7	0	8	0	857	0	857
Financial Management	46	1,344	0	1,390	0	19	0	15	0	1,424	0	1,424
Cashier Services	(53)	187	0	134	0	1	0	1	0	136	0	136
Financial Systems	0	128	0	128	0	2	0	1	0	131	0	131
Financial Support	0	321	0	321	0	7	0	3	0	331	0	331
Creditors and Income Services	(0)	249	0	249	0	2	0	2	0	253	0	253
Audit Services	(61)	752	(3)	688	0	11	0	6	0	705	0	705
FS Vacancy Saving Target	(111)	0	0	(111)	0	0	0	0	0	(111)	0	(111)
Total for Finance	7,885	(312)	69	7,642	0	101	908	61	0	8,712	0	8,712
Democratic Services	953	(339)	34	648	0	8	0	6	0	662	0	662
Members and Mayoral Services	1,177	(61)	0	1,116	0	1	0	3	0	1,120	0	1,120
Electoral Services	474	(31)	0	443	0	2	0	1	0	446	0	446
Community Interpreters	(9)	(9)	0	(18)	0	0	0	1	0	(17)	0	(17)
Registration Services	217	(51)	(3)	163	0	10	0	5	0	178	0	178
Bereavement Services	(132)	(79)	(1)	(212)	0	15	0	5	0	(192)	0	(192)
Libraries	4,159	(432)	0	3,727	0	60	(118)	26	0	3,695	0	3,695
Customer First	0	2,280	0	2,280	0	38	0	21	0	2,339	0	2,339
CF Vacancy Saving Target	(114)	0	0	(114)	0	0	0	0	0	(114)	0	(114)
Total for Democracy & Customer First	6,724	1,278	30	8,033	0	134	(118)	68	0	8,117	0	8,117
Research & Review	(25)	503	0	478	0	6	0	4	0	488	0	488
Management Information	(9)	402	0	393	0	10	0	3	0	406	0	406
Strategic Plan	0	0	0	0	0	0	0	0	0	0	0	0
Childrens Review Services	879	(106)	0	773	0	10	0	7	0	790	0	790
Communications and Improvement	(202)	1,100	0	898	0	19	0	9	0	926	0	926
CPP Vacancy Saving Target	(69)	0	0	(69)	0	0	0	0	0	(69)	0	(69)
Total for Communications, Performance & Partnerships	573	1,899	0	2,472	0	45	0	23	0	2,540	0	2,540
Human Resource Services	(221)	1,753	(4)	1,528	0	39	0	24	0	1,591	0	1,591
Adult Education	(1)	(174)	(1)	(175)	0	33	0	15	0	(127)	0	(127)
ICT	(61)	3,634	(11)	3,562	30	28	0	24	0	3,644	0	3,644
OS Vacancy Saving Target	(143)	0	0	(143)	0	0	0	0	0	(143)	0	(143)
Organisational Services Total	(425)	5,213	(15)	4,772	30	100	0	63	0	4,965	0	4,965
Total for Business Support Department	17,155	12,322	167	29,645	30	475	810	413	0	31,373	0	31,373