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Date: 10 January 2011

Dear Member

COMMUNITIES POLICY OVERVIEW AND SCRUTINY COMMITTEE - TUESDAY, 11 JANUARY 2011

I am now able to enclose, for consideration at tomorrows meeting of the Communities Policy Overview and Scrutiny Committee, the following report(s) that were unavailable when the agenda was printed.

Agenda No	Item
B4	<u>Draft Budget and Medium Term Financial Plan (to follow) (Pages 1 - 8)</u>

Yours sincerely

Peter Sass
Head of Democratic Services & Local Leadership

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By: Mike Hill, Cabinet Member Communities
Amanda Honey, Managing Director Communities

To: Communities Policy Overview & Scrutiny Committee – 11th January 2011

Subject: Budget 2011/12 and Medium Term Financial Plan 2011/13

Classification: Unrestricted

Summary: The purpose of this report is to consult the Committee on the budget proposals for the Communities Directorate, with reference to the KCC published budget consultation paper issued on 6th January 2010.

Members are invited to comment on the proposed budget changes for the services provided by the Communities Directorate and the ongoing corporate led policy review process.

1. Introduction

- 1.1 The Autumn Budget Statement was presented to Cabinet on 29th November 2010 and set out the proposed budget strategy of the authority following the Spending Review Announcement on 20th October.
- 1.2 In the intervening months, the picture has been ever changing and even following the Local Government Financial Settlement on 13th December, there has been further clarity on certain grants but these are still draft and subject to consultation and final changes.
- 1.3 The Spending Review confirmed that the Department of Communities and Local Government (CLG) would receive £3.4bn of grants, previously allocated as Area Based Grant (ABG) and specific grants, to allocate via the un-ringfenced Formula Grant, but that the Formula Grant would be significantly reduced in both cash and real terms over the Spending Review period.
- 1.4 The overall position for the County Council was initially estimated as a £340m budget deficit over the next four years, with £136m anticipated as the gap for the next two years.
- 1.5 The Financial Settlement was broadly in line with these estimates but the unexpected sting in the tail was the front loading of savings with approximately £160m of the £340m total to be achieved within the first two years and £95m to be achieved in 2011/12, which equates to approximately 10% of the County Council's non-school budget.
- 1.6 In light of this front loading, the Budget and Medium Financial Term Plan ("MFTP") that was released on 6th January 2011 relates to the period 2011/13 and contains savings proposals for the first two years. The first two sections of this document contains further reference to the National and Economic Context as well as summarising the effect of the Financial Settlement.

- 1.7 Proposals for future years are being developed and will be aligned to the three ambitions of Bold Steps for Kent, the document that the County Council is using as a blueprint for their strategy to 2014/15. The three ambitions are:
- To grow the Kent economy
 - To tackle disadvantage
 - To put the citizen in control
- 1.8 The proposals included within the Medium Term Financial Plan for 2011/13 were developed with these ambitions – and the Big Society – as the key guiding principles of the County Council's strategy for the years ahead.
- 1.9 Members are invited to comment on the key issues included within these documents, as well as this report, in relation to the services provided by the Communities Directorate, in order that these can be taken into account at County Council on 17th February 2010.
- 1.10 Members are asked to read this report in conjunction with the draft Medium Term Financial Plan and Budget Book, issued on 6th January 2010, and are asked to bring those to this meeting to engender discussion and comment.

2. Background

- 2.1 The Budget Book and Medium Term Financial Plan document includes an overall summary of the proposed Portfolio budgets for 2011/12, showing the amounts proposed for each service within the portfolios. This identifies the gross expenditure, income and net expenditure.

For the first time, members are asked to note that presented within the papers is an A-Z (pages 69 to 81) of the County Council's services – as opposed to the standard presentation of services by portfolio - which will allow transparency and comparisons with other local authority data.

- 2.2 The papers also include the proposed capital investment programme and the medium term revenue (Appendix B on page 83) and capital plan (Appendix D from page 137) for 2011/12 to 2012/13 as well as the priorities that each Cabinet Member has identified for their portfolio in the coming years.

3. Revenue Budget – pressures and base adjustments

- 3.1 The overall direction for the Communities directorate is now well established, and the current Medium Term Service Priorities are included in Appendix C of the draft Medium Term Financial Plan (pages 121-123).
- 3.2 We are setting this budget in a period of great economic instability. The economic environment also increases the likelihood of new pressures arising, as a significant proportion of the Communities budget relies on income generation from fees and charges and also from external funding, the latter of which has seen significant in-year reductions in the past year.
- 3.3 In previous meetings it was communicated that in-year grant reductions exceeded £1m for 2010-11, with further grant reductions also anticipated in relation to Community Learning and Skills funding with enrolments below expectation in the early months of the new academic year.

- 3.4 As part of the Financial Settlement we have also seen certain grants and other external funding reduced or removed, with other grants rolling into the Formula Grant or the Early Intervention Grant with both having the effect of significant reductions in anticipated funding levels, with the latter experiencing over an 18% reduction in funding compared to 2010-11 allocations.

In addition there are some grants – such as the Stronger and Safer Communities Grant (previously Area Based Grant) and grants previously cascaded via the Youth Justice Board - whose ultimate fate has not yet been clarified and as with all grants within the Financial Settlement, is still subject to consultation and therefore remains provisional at this stage.

- 3.3 The position on budget for Communities for 2011/12 and 2012/13 in relation to total pressures and base adjustments can be seen on pages 93-94 of the MTFP and can be summarised as follows:

	2011/12	2012/13
	£'000	£'000
Base adjustments	-3,799	-2
<i>Budget increased for:</i>		
Prices	498	517
Legislative and Government Pressures	196	150
Demand and Demographic Led	225	50
Service Strategies and Improvements*	-167	1,144
Total Pressures and base adjustments	3,596	-2

Table 1: Summary of value of base budget adjustments and budget pressures

** Part of the 2012/13 figure (£1,288k) is directly linked to service improvements that are combined with policy-led savings and will be referred to in section 4 of this document.*

- 3.4 Areas of spending priority in 2010/11 for which significant funding is required are summarised below:
- 3.4.1 **Prices: £1,015k** – We have identified potential pressures in relation to transport, social care provision, utility costs, rent, rates and other ancillary costs over the two-year period.

The above pressures are in line with the Bank of England Consumer Price Index (“CPI”) inflation rates, where applicable, or conform to other industry information. The pressure on fuel prices for externally funded services (in this instance principally Adult Education) has been excluded.

Included within these costs are the ongoing pressures associated with the Coroners service, as previously reported to this committee. We are continuing to work with the Local Government Association (LGA) and other local councils to lobby government for a change in the funding and/or organisation of the Coroner’s service.

- 3.4.2 **Legislative pressures: £346k** - We have identified pressures caused by changing, or anticipated changes to, legislation surrounding our services.

The annual grant of £22k from the General Registrars Office was phased out in 2009-10 and presented a pressure on the service and there is a pressure of £200k in relation to the levels of rates potentially facing the Youth Service in the coming years if certain legislation proceeds. If these do not prevail then the service will report an underspend in these areas accordingly.

As a result of an increase in the Employer's rate of National Insurance, a pressure of £124k has been reflected in 2011/12.

- 3.4.3 **Demand and Demographic Led: £275k** – We have identified pressures that have resulted from increased demand of our services, or increased costs associated with a rising demand.

The Coroner's budget – despite the efforts of officers and members alike – has continued to be significantly overspent in the current year, as in prior years, and this is mainly in relation to long inquests. Further pressures have been identified in the year and have therefore been included as part of the Medium Term Financial Plan.

Also in relation to the Coroner's budget, is the pressure notified in-year due to one particular NHS Trust increasing their charge for providing post mortem provision and accommodation. This pressure has been reflected accordingly.

- 3.4.4 **Service Strategies & Improvement: £977k** – We have identified additional costs and pressures that relate to changing the way our services are delivered, some of which have an initial cost but produce either a financial saving or more effective service delivery.

The majority of the items under this heading were highlighted during the 2010/13 MTP process. The additional significant items under this heading are in relation to the Youth and Library service policy proposals.

As explained in section 3.3 above, the MTP is presented in a different way with the gross effect of policy-led savings proposals shown in section 4 below. However part of the proposals include additionality and service improvement so this is shown separately rather than showing the net impact of the proposal.

The two-year aggregated figure of £977k includes the removal of base funding of £400k in 2011/12 meaning that the gross effect of service improvements is actually in excess of £1.5m, with £1.288m of this directly relating to service improvements linked to policy-led savings and this is why the word "linked" is shown within brackets in the MTP booklet.

4. Revenue budget – savings and income generation

- 4.1 Provisional cash limits for each Portfolio have been set, and therefore to balance to those cash limits, given the pressures outlined above, we will need to deliver savings, efficiencies and new income streams as well as deliver the efficiency savings that were included within the previous Medium Term Financial Plan 2010/13.

- 4.2 The two-year financial plans, shown in Appendix B of the MTP (pages 93-94), detail the proposed savings required in 2011/12 and 2012/13 but have been presented slightly differently than in previous years.

In previous documents the savings have appeared as one figure directly against the services to which they refer whereas in the current presentation you will see that savings have been separated into different sections, firstly by efficiency and policy and then further by:

- Staffing
- Procurement and Contracts
- Other
- Service Strategies and Improvements*

** This element to the saving is actually an increase in cost and was referred to in section 3.*

Therefore the gross savings proposals for each service are quite transparent, with the different elements of saving shown separately within the document.

- 4.3 The total savings and income generation that is required for the Communities directorate can be seen at the bottom of page 94 of the booklet but to summarise is £7.1m and £8.1m (gross) for 2011/12 and 2012/13 respectively and **£15.2m** in aggregate.

The 2012/13 saving figure refers to the gross saving to be delivered but when the service improvements of £1.288m (referred to in 3.3 and 4.2 above) is taken into account, the net saving to be achieved in 2012/13 is £6.8m, meaning the net saving to be achieved in the next 2 years is **£13.9m** (£15.2m less £1.288m).

- 4.3 The net savings of £13.9m can be further analysed into income generation of £0.4m and **Net Savings and Mitigations of £13.5m** (Gross £14.8m).

Once service improvements have been netted from the gross savings and mitigations of £14.8m, the end result is **£4.8m of efficiency** and **£8.7m of policy** savings e.g. the £13.5m net Savings and Mitigations.

The net efficiency and policy savings of £13.5m are further analysed in 4.6 and 4.7 below.

- 4.4 The income savings of £0.4m were all included within the 2010/13 MTP with the exception of a new potential income stream of £100k within the Regulatory Services division. This target has initially been allocated to the Registration Service.

- 4.5 The efficiency savings of £4.8m can be analysed as follows:

- £2.0m - All: Continuation of options from 2010/13 MTP
- £1.5m - Libraries: Various options including RFID self service*
- £0.8m - All: HR policies, including £0.6m for pensions
- £0.5m - Youth/YOS: Management review

**The RFID gross staff saving is likely to be in the region of £1.5m, with £450k of service improvement required to ensure that the technology can be renewed at the end of its useful economic life so the £1.5m is split £1m RFID and £0.5m of other efficiency proposals.*

4.7 The policy-led savings of £8.7m can be analysed as follows:

- £7.0m - Supporting People: Review of Floating Support
- £0.9m - Youth: Review of service provision*
- £0.5m - Trading Standards: Review of service priorities
- £0.25m - CLS: Review of concessions and subsidies.

**Youth saving of £0.9m is net of £0.8m of service improvements.*

Not included within above are one-year reductions to service budgets that are then reinstated to the base budget in 2012/13 and examples of this are a £300k reduction to the book-fund and a £387k saving to be delivered by the Youth Service. These savings proposals were proffered to help mitigate the funding gap in 2011/12 due to the front loading of savings.

4.8 The proposed cash limits and net position for Communities is therefore:

	2011/12	2012/13
	£'000	£'000
Base budget	87,296	77,968
Total Pressures and base adjustments (Table 1)	-3,596	-2
Savings*	-6,684	-8,091
Income Generation	-430	-
Revised base budget	77,968	71,736

Table 2: Total proposed base budget for Communities.

** 2012/13 savings of £8,901k need to be considered in line with the service improvements of £1,288k referred to previously, meaning a net savings target of £6,803k. The overall net savings target is therefore **£13.5m**.*

5 Capital Budget

5.1 The starting point for the capital programme is the existing published capital programme for 2010/13 and this is adjusted for re-phasing of schemes during the current year, changes to the total cost or funding of schemes as well as new schemes.

The detail of the proposed capital programme is provided in Appendix D of the draft budget book on pages 151-152, with the Directorate's Capital Strategy outlined in Appendix E and on pages 167-169 of the draft MTP book.

5.2 The level of financial support from Government is expected to reduce by up to 34% and it is therefore very likely that across the authority we will see a significant reduction in expenditure due to the reduction in grants and supported borrowing made available to us.

In addition some grants have yet to be clarified and announced and as such we have presented the budget to show that the level of spend on certain schemes will be equal to the level of funding and support available. These schemes are identified in grey italic font in the booklet.

- 5.3 The total cost of schemes that are managed as part of the Communities directorate is £64.8m which is in contrast to the figure in the previous MTP 2010/13 of £77.0m – a difference of £12.2m.
- 5.4 This £12.2m variance does not represent a reduction in the County Council's investment in its capital programmes and in the most part is due to completed project's spend being removed from the budget. The above explanation accounts for £16.5m of the variance with therefore £4.3m of additional funding allocated to projects.
- 5.5 No new projects were brought into the programme and the main increase is an additional £3m allocated to the Modernisation Programme and this in itself is slightly misleading as the current MTP includes budgets for the next 5 years whereas the previous MTP included only 4 years of expenditure.
- 5.6 The remaining balance relates, on the whole, to additional funding and gross expenditure in relation to two projects; The Beaney (archaeological finds) and Edenbridge (expanded specification but funded by partners) with minor variances on other projects.
- 5.7 The Communities capital programme has much to be proud of with the successful handover of the Gallery to the Turner contemporary Trust occurring on 8th December 2010, with the completion of projects including the Kent History and Library Centre, Ashford Gateway Plus, Gravesend Library, The Beaney and Edenbridge all expected within the next two financial years.

6. Recommendation

- 6.1 Members are asked to note the revenue and capital budget proposals included within the Medium Term Financial Plan 2011/13.
- 6.2 Members are asked to comment on the revenue and capital budget proposals and to feed into the Cabinet Budget meetings and County Council in February.

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