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To: Regeneration and Economic Development Policy Overview & Scrutiny Committee – 18<sup>th</sup> January 2011

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

Classification: Unrestricted

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Summary: The purpose of this report is to consult the Committee on the budget proposals for the Regeneration and Economic Development Portfolio, with reference to the KCC published budget consultation paper issued on 6<sup>th</sup> January 2010.

Members are invited to comment on the key issues on the proposed budget changes for the services provided by the Regeneration and Economic Development Division.

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## 1. Introduction

- 1.1 The Autumn Budget Statement report by the Leader, Cabinet Member for Finance, Group Managing Director and Head of Financial Management to Cabinet on 29<sup>th</sup> November 2010 identified that following the announcement on of the Spending Review 2010 it was clear local government would have to make significant savings to compensate for reductions in government grants. As well as announcing spending plans for all government departments, the Spending Review confirmed that for the Department of Communities and Local Government (CLG) would receive £3.4bn of grants previously allocated as Area Based Grant (ABG) or specific grants to allocate via the un-ringfenced Formula Grant, but that Formula Grant would be significantly reduced in both cash and real terms over the Spending Review period.
- 1.2 The provisional Local Government Finance settlement was announced on 13<sup>th</sup> December 2010. This set out provisional grants for 2011/12 and 2012/13 including the impact on individual authorities of the grant transfers and cuts heralded in the Spending Review announcement. Details of the Spending Review 2010 and provisional Local Government Finance settlement are set out in section 2 of the draft Budget 2011/12 and Medium Term Financial Plan 2011-13 (hereafter referred to as the “draft budget book”).
- 1.3 Cabinet on 10<sup>th</sup> January 2011 considered the impact of the provisional Local Government Finance settlement. The headline is that the grant cuts are more severe than previously estimated and this has increased the overall revenue savings requirement for the next two years up to £160m. Details of how the combination of Government Grant cuts, unavoidable additional spending pressures and new spending priorities which lead to the £160m requirement are set out in the draft budget book, as are the proposed savings in order to balance the budget.
- 1.4 For 2011/12 the draft budget proposes freezing council tax at the same level as 2010/11 i.e. £1,047.48 for a band D property. Cabinet members have been

considering a freeze on council tax through-out the budget planning process and the announcement of Council Tax Freeze grant is factored into our calculations on the overall net loss of grant.

- 1.5 Members are asked to read this report in conjunction with the draft budget book, issued on 6th January 2010.

## **2. Background**

- 2.1 The budget consultation papers include the proposed 2011/12 budgets as an A to Z of services (appendix A of the draft budget book). This revised presentation is an attempt to make the budget more transparent to the general public, however, it does mean we cannot present the budget entirely in portfolio order which makes it more difficult for POSCs to scrutinise the portfolio proposals. For ease of reference the A to Z entries for the Regeneration and Economic Development Portfolio are set out in appendix 1.
- 2.2 Appendix B of the draft budget book sets out the medium term priorities by portfolio for 2011/12 and 2012/13. Previously we have set out priorities over a three year horizon but the announcement of a two year provisional settlement for 2011-13 in expectation of a fundamental review of the local government funding formula for 2013/14 renders a three year plan unrealistic. The 2011/12 column of appendix B sets out the main reasons for the changes between the agreed budget for 2010/11 and proposed budget for 2011/12.
- 2.3 Appendix D of the draft budget book sets out the proposed capital investment programme for each portfolio. Overall there have been significant reduction in government grants for capital projects but in spite of this the authority is seeking to maintain its capital investment and has provided additional revenue funding in the Finance portfolio to meet the cost of financing this programme.
- 2.4 Copies of the draft budget book have been distributed to all Members (on the 6th January). You are asked to ensure you bring those to this meeting.
- 2.5 The draft budget book is based on the current organisation of portfolios and directorates. At this stage in the restructuring process it is not appropriate to identify budgets for the new structure. We have designed the draft budget book in appropriate building blocks which can be used to construct a comparable budget under the new structures after the budget has been finalised without having to go back to County Council for a revised approval to spend.

## **3. Revenue Budget**

- 3.1 The overall direction for the Regeneration and Economic Development Division is now well established, and the current Medium Term Service Priorities are included in Appendix C of the draft budget book.
- 3.2 We are setting this budget in a period of the greatest fiscal challenge that public services have faced for a very long time. The Government has identified the need to tackle the national deficit and local government has a significant role to play. In setting out this proposed budget for the Regeneration and Economic Development portfolio we have taken a policy-led approach and in particular the vision and priorities set out in Bold Steps for Kent.

- 3.3.1 Areas of spending priority for the Portfolio in 2011/12 for which significant additional funding is required are:

**Cyclopark** - £25k operational costs in 2011/12 and a further £100k in 2012/13 to support the running of the Cyclopark facility due to open in spring 2012. The draft business plan identifies that in order for this project to be viable KCC needs to make an annual contribution of up to £125k towards the running costs. The final amount payable will be subject to negotiation with the chosen operator. During the development of the project in 2010/11 there will be some additional revenue costs relating to site security, legal fees and project management.

**Research & Intelligence Group** - £109k operational costs in 2011/12 following re-engineering of the service. £25k in 2012/13 to enable the analysis and dissemination of the 2011 National Census. This latter funding can be removed in later years after the census analysis is complete.

- 3.4 The position on budget increases can be summarised as follows:

	2011/12	2012/13
	£'000	£'000
Base adjustments	-149	0
Budget increased for:		
Pay & Prices	10	10
Legislative	11	0
Service Strategies & Improvements	134	125
<b>Total Pressures and base adjustments</b>	<b>6</b>	<b>135</b>

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

- 3.6 Savings and Income generation

- 3.6.1 The total of the proposed savings and income generation required in order to meet the indicative cash limits, is £2.022m.

- 3.6.2 Of the £2.022m, £0.187m is proposed to come from efficiency savings and £1.835m from Policy Savings:

Efficiency savings will come from a combination of staff savings, savings from the reduction in employer's pension costs and reduction in the cost of ongoing pension enhancements for staff who previously took early retirement and costs are now covered from the pension fund.

Over the medium term, the portfolio will seek to achieve its overall objectives by streamlining delivery structures, maximising private sector leverage and developing innovative, incentive-based approaches to project financing in the context of the new localist approach to economic development. In particular project management activity will have to be factored into the cost of individual projects rather than KCC base budget funded. The KCC base budget for staff will only cover strategic activity.

We will review all projects to ensure that our priorities for 2011/12 and 2012/13 reflect those included in 'Bold Steps for Kent' and the priorities identified by REDPOSC.

- 3.6.3 The proposed net position is therefore as follows

	2011/12	2012/13
	£'000	£'000
Base budget	6,361	5,224
Total Pressures and base adjustments (from Table 1)	6	135
Efficiency Savings	-163	-24
Policy savings	-980	-855
Revised base budget	5,224	4,480

Table 2; Total proposed base budget for R&ED Services

#### 4 Capital Budget

- 4.1 The starting point for the capital programme is the existing published capital programme for 2010/13. This is adjusted for re-phasing of schemes from 2010/11, changes to the total cost or funding of schemes, and new schemes. .
- 4.2 The capital programme for R&ED is largely unchanged. Gravesend Town Hall, Dover Priory, Dover Sea Change and Margate Eastern sea front are largely completed, with only retention costs still outstanding.  
The main emphasis in the programme remains the empty property initiative and projects funded from the capital regeneration fund. Recently approved is the 'Broadband demonstration project' which aims to facilitate access to high-speed broadband, especially to support small and medium enterprises and home based businesses in rural Kent, implementing the solutions identified in *Connected Kent*, the digital strategy for the County.
- 4.3 The proposed capital programme includes an additional £10m contribution towards the Margate Housing Intervention Strategy. This funding will only be drawn down in partnership with funding commitments from Thanet District Council and the Homes and Communities Agency, to enable the delivery of a significant intervention to improve housing in Margate to stimulate the regeneration of the area.
- 4.4 Members should note that the level of financial support from Government in 2011/12 and 2012/13 is still largely unknown. It is very likely that we will see a significant reduction in the grants and supported borrowing. Because of the difficulty in predicting this we have presented the budget to show that the level of spend on certain schemes will be equal to the level of Government financial support. These schemes are identified by a grey background in the draft budget book.

#### 6. Recommendation

- 6.1 Members are asked to note and comment on the revenue and capital budget proposals.

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*Background documents:*

- *Autumn Budget Statement; Cabinet, 12<sup>th</sup> October 2009*
- *Medium Term Financial Plan 2010/11 to 2012/13 for the Regeneration and Economic Development Division; Regeneration and Economic Development Policy Overview & Scrutiny Committee, 17th November 2009*
- *Provisional Local Government Finance Settlement; Cabinet, 11th January 2010*
- *Draft Budget Book and Medium Term Plan 2010/13 (issued on 4th January 2010)*

## Appendix 1

### Details of proposed Revenue Budget 2011/12 for the Regeneration and Economic Development portfolio

Service	Gross Exp. £000s	Service Income £000s	Net Cost £000s	Govt. Grants £000s	Net Exp. £000s
	2011-12	2011-12	2011-12	2011-12	2011-12
<b>Regeneration &amp; Economic Development</b>					
Delivery of Regeneration projects	3,132	-933	2,199	0	2,199
Visit Kent Ltd, Produced in Kent, Locate in Kent and Tourism	2,254	-653	1,601	0	1,601
	<u>5,386</u>	<u>-1,586</u>	<u>3,800</u>	<u>0</u>	<u>3,800</u>
<b>Management, Support Services and Corporate Overheads</b>					
Economic Development & Regeneration Strategy	447		447		447
Economic Strategy & Intelligence	658		658		658
Research & Intelligence Group (R&I)	387	-68	319	0	319
	<u>1,492</u>	<u>-68</u>	<u>1,424</u>	<u>0</u>	<u>1,424</u>
<b>Total Regeneration and Economic Development Portfolio</b>					
	<u>6,878</u>	<u>-1,654</u>	<u>5,224</u>	<u>0</u>	<u>5,224</u>

The Portfolio budget is further enhanced by £1m project fund financed by transfer from the Kings Hill reserve.