

BY: Kevin Lynes, Cabinet Member for Regeneration and Economic Development and David Cockburn, Corporate Director of Business Strategy & Support

To: Regeneration and Economic Development Policy Overview & Scrutiny Committee – 16th November 2011

**Subject: REVENUE BUDGET 2012/13 AND MEDIUM TERM FINANCIAL PLAN 2012/13 TO 2014/15**

Classification: Unrestricted

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**Summary:** This report identifies the latest forecasts for next year's budget and the financial plans for the following years. This includes an analysis of the overall financial outlook for the whole council, appraisal of the existing plans for 2012/13, an update on the budget pressures facing the Regeneration & Enterprise portfolio budget and recommendations from the Informal Member Group on areas for budget savings.

**Recommendation:** Members are asked to review and comment on the pressures outlined for the Regeneration and Enterprise portfolio and to identify their priorities for savings in light of the overall financial outlook for the next three years.

## **FOR COMMENT**

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### **1. Introduction**

- 1.1 The Autumn Budget Statement is due to be presented to Cabinet on 5<sup>th</sup> December 2011 and will set out the County Council's proposed budget strategy following the Chancellor of the Exchequer's statement to Parliament on 29<sup>th</sup> November. The Chancellor's statement will include the latest economic forecasts from the Office for Budget Responsibility (OBR). All the indications are that these forecasts will show the economy has not recovered from recession as quickly as earlier predictions on which the 2011 Budget announced on 23<sup>rd</sup> March 2011 were based.
- 1.2 The Spending Review 2010 (SR 2010) set out the Government's four year plans to reduce the budget deficit. This showed an anticipated 21.9% reduction in the Formula Grant for local government over the four year period<sup>1</sup>. The Local Government Finance settlement for 2011/12

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<sup>1</sup> The overall reduction in resources from the department for Communities and Local Government (CLG) was 19.6% over the four years after taking account of new money for Council Tax Freeze, New Homes Bonus and Transitional Protection.

was published on 13<sup>th</sup> December 2010 and included provisional grant figures for 2012/13 but did not provide any provisional figures for 2013/14 or 2014/15. The 2012/13 provisional grant showed a £26.9m reduction in Formula Grant on 2011/12 (8.5%) for KCC.

- 1.3 Our overall planning assumption for the next medium term financial plan (MTFP) remains that we will need to make a £340m reduction in spend in real terms between 2011/12 to 2014/15.

## 2. Background

- 2.1 The MTFP for 2011/12 to 2012/13 was approved by the County Council on 17<sup>th</sup> February 2011. The approved MTFP for the Regeneration and Enterprise portfolio is included as appendix 1. At the time the plan was approved we had £15m set aside for unforeseen “emerging” budget pressures and £28m of savings still to be identified in order to balance the budget for 2012/13 against the anticipated level of resources (CLG grants and Council Tax).
- 2.2 Monitoring reports during 2011/12 have identified a number of additional budget pressures arising during the year in other Portfolios not covered by this POSC, which will have a full year impact in 2012/13 and some changes in the planned savings. The overall position for the County Council is that we are preparing for £25m of additional pressures in 2012/13.
- 2.3 We will need to review the indicative pressures included in the plan for 2012/13 in light of the latest activity information and identify any new pressures likely to arise in 2012/13 to 2014/15. The current assumptions for the Regeneration and Enterprise portfolio are set out in table 1 below.

Table 1	2012/13 £000's	2013/14 £000's	2014/15 £000's	Total £000's
<b>Regeneration &amp; Enterprise</b>				
Existing Approved MTP				
Base	4,137			4,137
Base Adjustments	0			0
Pressures	135			135
Grants	0			0
Savings & Income	-879			-879
Total Existing MTP	3,393			3,393
New Base Adjustments	0	0	0	0
Changes to Pressures	3			3
New forecast Pressures	0	0	0	0
Changes to Savings	0			0
New Proposed Savings	0	0	0	0
Proposed Budget	3,396	3,396	3,396	10,188

- 2.4 There have been some changes in the likely grant settlements since the budget and MTFP were agreed by County Council on 17<sup>th</sup> February which improve the position slightly. In particular the Chancellor announced in October 2011 that a further one-off grant would be available in 2012/13 where councils agree to a continued freeze on Council Tax, and a number of grants which were unclear have now been included in an un-ringfenced Local Service Support Grant.
- 2.5 The overall planning assumption in light of these changes is that some savings still need to be identified to balance the 2012/13 budget and that over the following two years substantial savings (estimated £110m) will be needed. In a break from previous convention we are not planning to set individual portfolio cash limit targets for the next three years. Cash limit targets were an appropriate mechanism in times of relative growth but are not an appropriate mechanism to determine spending priorities at a time of budget cuts.
- 2.6 For 2012/13 POSCs are asked to consider what savings would be feasible or acceptable in order to close the estimated overall £32m gap (3.5% of net spend) arising from the combination of additional pressures and the unidentified savings in the existing plan partially offset by the additional grant that will be available. For the medium term, POSCs are asked to consider what strategies should be considered if overall the council needs to make 15% saving over the next two years.

### **3. Latest Developments: National Context**

- 3.1 The Government has launched a consultation about re-localising business rates. If the proposals are implemented they would mean that in effect existing Formula Grant allocations would form a set base for the future (adjusted to the overall spending totals within the Spending Review) and any increase (or reduction) in overall resources available to the council would be determined according to changes in the business rate tax base.
- 3.2 Local authorities would also still be able to set the level of council tax and would also receive any resources from changes in the Council Tax base (as now). The effect of these changes mean that any increase in funding can only come from increase in the local business rate base or Council

Tax and local authorities would no longer be reliant on Government grants.

- 3.3 At this stage we have no announcements on decisions following the consultation which is due to be implemented from 2013/14. We have factored in our best estimates into the planning assumptions for 2013/14 and 2014/15 but POSC members need to be aware that the overall funding available is likely to be heavily reliant on local factors in future rather than Government decisions on the allocation of grants.

#### **4. Revenue Budget Strategy**

- 4.1 The council's overall strategy will be set out in the Autumn Budget Statement setting out how the authority plans to deal with reducing funding and continuing additional spending pressures. POSC is invited to comment on the strategy proposed within the Regeneration and Enterprise portfolio.
- 4.2 The functions within the Regeneration and Enterprise portfolio have recently restructured into two lean teams; 'Strategic Commissioning' within Business Strategy and 'Delivery' within Enterprise and Environment. The challenging external environment coupled with the strong commitment the County Council has made via its Regeneration Framework, and Bold Steps for Kent - with the first of its three ambitions being "to grow the economy" – means that the spotlight is on this function to maximise its impact, and demonstrate the ability to achieve sharply targeted interventions that make good use of limited resources whilst attracting significant leverage, and delivers real economic growth .

#### **5. The Current Budget for the Regeneration and Enterprise Portfolio**

- 5.1 POSC members should be well informed on the current budget through the regular monitoring reports and should refer to these as part of their discussions. The current budget for the Regeneration and Enterprise portfolio under the oversight of this POSC are summarised in table 2 below:

Table 2	Gross Exp £'000	Service Income £'000	Net Exp £'000	Gov't Grants £'000	Net Cost £'000
Regeneration and Enterprise	5,698	-1,586	4,112	0	4,112

5.2 More details on the 2011/12 budget are included in appendix 1. In very brief summary this budget provides for the following outcomes, outputs and/or service improvements:

- Successful bid to Broadband Delivery UK (BDUK) for £9.87m towards the £43m costs of delivering superfast broadband to 90% of Kent and Medway and 2mb to the remaining 10%.
- The Sandwich Task Force and the successful RGF bid for £40m for grants/loans to businesses; the successful bid for Enterprise Zone status for Discovery Park and monies for flood protection for the Pfizer site and Sandwich town.
- The Kent & Medway Investment Fund, which stands to generate £300m of private sector investment from an initial £30m contribution;
- Delivered sector conversations for rural, construction, low carbon and health and social care sectors. One of our first wins, working closely with the rural sector, has been the launch of Kent Rural PLC.
- Worked on bids to support an Innovation and Growth Team following the demise of SEEDA and the reconfiguring of business start up support across Kent.
- Co-ordinated and managed developer contribution service on behalf of all services in KCC. Since 2002 the team has attracted over £110m for KCC services, excluding transport. The team is also heavily involved in site developments at Whitfield, Thanet, Ebbsfleet/EQ, Sittingbourne TC, Gravesham and Dartford.
- Managed Service Level Agreements with Locate in Kent, Visit Kent and Produced in Kent as well as a significant rural programme.
- Managed the 'No Use Empty' scheme which has approved £4.8m loans, returning 260 units in eight districts and attracting a further £10.4m leverage from public/private sector funding.
- Oversaw the preparation of the Housing Strategy and its subsequent Implementation Plan.
- Work closely with numerous partnerships including TGKP, TGSG, EKRB, Ashford Locality Board, Thanet Regeneration Board.

## **6. Informal Member Group**

6.1 Members of this POSC have had informal member group meetings (IMG) throughout the summer/autumn. IMGs have found these meetings useful to gain a more detailed insight into budgets controlled by the

Regeneration and Enterprise portfolio. The IMG made the following recommendation:

- 6.2 The IMG recommended that the Policy Overview and Scrutiny Committee be informed that the Informal Member Group has serious concerns about the Regeneration and Economic Development Units capacity, within its proposed resources, to undertake new initiatives without out dropping existing regeneration work.

## **7. Recommendation**

### 7.1 Members are asked to

- (i) note the latest forecasts for 2012/13 and the next two years
- (ii) comment on the outline 3 year plan for the Regeneration and Enterprise portfolio in Table 1
- (iii) comment on the IMG recommendations and identify priorities for delivering the 3.5% saving requirement for 2012/13 and 15% for the following two years

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## Appendix 1 – 2011/12 Revenue Budget

Budget Book Heading	Cash Limit				Reference
	Staff	Other costs	Service Income	Net Expenditure	
	£'000s		£'000s	£'000s	£'000s
<b>Regeneration &amp; Enterprise portfolio</b>					
Tourism	266	-5	-261	0	Row 8 page 32 Budget Book 2011-12
Regeneration and other projects	1,687	-637	-1,050	0	Row 10 page 32 Budget Book 2011-13
Economic Development	957	3,455	-275	4,137	Row 14 page 33 Budget Book 2011-14
Review of terms & conditions of employment	-28			-28	Row 2 page 33 Budget Book 2011-15
5p increase in casual user rate	3			3	In year cash limit adj
<b>Total R&amp;E portfolio</b>	<b>2,885</b>		<b>-1,586</b>	<b>4,112</b>	<b>0</b>

## Appendix 1 – Existing Published 2012/13 Medium Term Plan

<b>Regeneration &amp; Enterprise Portfolio Revenue Budget</b>				
				2012-13 £'000 Original Restated
Base budget				4,137
Total Base Adjustments				0
<b>Revised Base Budget</b>				<b>4,137</b>
<b><u>UNAVOIDABLE PRESSURES FUNDED IN INDICATIVE CASH LIMITS:</u></b>				
Pay:				0
Prices:				
Regen	Other	E		10
				10
<b>Service Strategies &amp; Improvements:</b>				
Regen	Analysis and dissemination of 2011 Census		E	25
Regen	AS Cyclopark		E	100
				125
<b>Total unavoidable pressures funded in indicative cash limits:</b>				<b>135</b>
<b>Total Pressures</b>				<b>135</b>
<b><u>SAVINGS AND INCOME:</u></b>				
<b>Efficiency Savings:</b>				
Regen	Central Costs		E	-12
Regen	Pensions		E	-12
				-24
<b>Political Prioritisation:</b>				
Regen	Regeneration Projects		E	-855
				-855
<b>Total Savings and Mitigations</b>				<b>-879</b>
<b>Total Savings and Income</b>				<b>-879</b>
<b>Budget controlled by this portfolio</b>				<b>3,393</b>