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To: Corporate Policy Overview Committee – 14 November 2008

Subject: Medium Term Financial Plan 2009-10 to 2011-12 for the Chief Executive's Department

Classification: Unrestricted

Summary: To update the Committee on the Autumn Budget Statement report to Cabinet on 15 September 2008 and any later announcements by Government departments.

To provide a strategic summary of the service enhancements for the next three years for the functions that this Committee exercises overview.

Members are invited to comment on the key issues for the services provided by the Chief Executive's Directorate.

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1. Introduction

1.1 The Autumn Budget Statement report by the Leader, Cabinet Member for Finance, Chief Executive and Director of Finance to Cabinet on 15 September 2008 set out the national and local context for KCC's medium term plan (MTP) for the period 2009-12 to 2011-12.

1.2 This report expands on that report, updates for the latest developments, looks in more detail at specific elements in the directorate medium term plan, and invites Members to comment on the key issues for the services provided by the Chief Executive's Directorate.

2. Background

2.1 This paper summarises the current budget position for 2009-10 and is based on submissions to Corporate Finance as part of the Medium Term Plan process. Indicative cash limits for 2009-10 and 2010-11 were approved by County Council in February 2008 in the MTP for 2008-11. These figures are being updated for known changes such as transfers of activities or staff between portfolios and the forthcoming provisional local government finance settlement, expected in late November or early December.

3. Latest Developments: National Context

3.1 There are a number of national factors to take into account.

3.2 The government's Comprehensive Spending Review 2007 which was published on 9 October 2007 set out national spending plans for the next three years, 2008-11. The overall position and direction of the UK and world economy has continued to clearly and significantly deteriorate since that point.

3.3 Inflation is running at 5.2% (CPI) and 5.0% (RPI), well above the levels assumed in the government's spending plans and well above the level of our indicative grant settlement increase.

3.4 The latest OECD forecast issued in September predicts growth of just 1.2% for 2008 in the UK and shrinkage in the economy for the latter two quarters of 2008-09, which meets the working definition of a recession, two successive quarters of negative growth. This growth is around half the medium term level assumed in the government's spending plans.

3.5 The "credit crunch" continues to provide instability in financial markets and credit markets. There are clear spill over effects on the ability of any one individual or organisation to lend and borrow, to know whom it is "safe to do so", at what is a "reasonable" rate of interest for the "risk" involved. These consequentially affect the ability of individuals and organisations to fund planned capital expenditure, thus limiting proven demand for assets, limiting the ability for counterparties to sell assets at a firm "market" price. KCC is less directly affected by the "credit crunch", but not exclusively insulated, from the wider effects that we are all experiencing in every day life.

3.6 There are no significant changes to our budget assumptions which were set out in the Autumn Budget Statement in September. Key assumptions remain:

- 3.2% formula grant increase for each of the next two years (although net of LABGI losses this is worth an effective 2.0% in 2009-10) given the pre-announced provisional local government finance settlement;
- Approximately 1% reduction in cash terms each year for Area Based Grant on like for like basis as some initial start up grants cease (Area Based Grant will increase by approximately £32m in 2009-10 to allow for the transfer of Supporting People grant into ABG – but this is merely a transfer and not new money);
- Specific grants (which are increasingly primarily targeted at education and children's services and of course ring-fenced) increase as set out in the three year local government finance settlement (e.g. DSG headline increases of 3.4% for 2009-10, 4.1% for 2010-11, Sure Start, Early years and Childcare headline increases of 10.6% for 2009-10 and 13.9% for 2010-11);
- 5% maximum increase in council tax per annum given the threat of capping but equally a desire to keep actual council tax increases as low as practicable;
- Council Tax base grows by 1% in 2009/10, then by 0.5% thereafter;
- That there is no deterioration beyond that already provided for in the collection fund as the housing market stalls;
- A limit on pay having due regard to the Chancellor of the Exchequer's stipulation to all pay review bodes that public sector pay increases must be contained within a 2% limit;

- That specific grant changes and risks do not adversely move against us, but if they do and funding is directly reduced, we will have no option but to reduce services;
- That Dedicated Schools Grant is sufficient to meet all government promises on service extension and minimum funding guarantees;
- That costs of asylum seekers are fully met and reimbursed by government;
- That we have fully captured updated pressures on our services (pay, prices, demographics, demand, legislation, impact of the “credit crunch” etc.);
- That we deliver significant efficiencies and savings in specific services and through a series of cross cutting reviews of services.

4. The Current Budget for the Chief Executive’s Department and Financing Items

4.1 The 2008/09 approved budgets for the Portfolios under the oversight of this POC started the year as follows:

Portfolio	Gross £’000	Income £’000	Net £’000
Corp. Supp. & Ext. Affairs	41,485	16,827	24,658
Policy & Performance	12,360	6,934	5,426
Finance	142,300	35,626	106,674
Public Health	957	0	957
Total	197,102	59,387	137,715

Since the start of the year, a number of adjustments have been made to the budget, most significantly, the transfer of Legal & Democratic services from the Policy & Performance Portfolio to the Corporate Support & External Affairs Portfolio.

Further detail is provided in Appendix 1. The figures in Appendix 1 show the latest approved cash limits, which will include in-year adjustments, virements, and roll-forward from 2007/08, and are therefore different from the base budgets shown in the above table.

4.2 At the macro level, this budget provides for the following outcomes, outputs and service improvements:

- Support to service directorates in delivering front-line services
- Public access services, such as Gateways
- The corporate costs of running the County Council
- The financing costs of the capital programme
- The commercial trading arm of KCC

The costs and activity levels associated with the main budgets for CED services are outlined in Appendix 2, which are intended to provide Members with more detail from which they can suggest any change in service policy and priorities and possible areas for budget savings.

4.3 As reported in the quarterly monitoring reports for 2008/09, there are spending pressures and savings in the following areas:

Unit	Projected variance £'000	Reason for variance
Legal Services	-218	Additional internal and external legal work
Kent TV	-200	Reflects the anticipated re-phasing of second year spend following confirmed profile of £1.2m cost over 2 years. Initial cash limits based on £600k per annum.
Democratic Services	147	Delayed staff savings and increased transport costs
Personnel & Development	22	Reduced levels of income resulting from staff vacancies
Debt charges and interest on cash balances	-2,266	Lower levels of borrowing in 07/08 and 08/09 and better rates for new borrowing than assumed
Commercial Services	300	Shortfall on income from roundabout sponsorship
LABGI	1,349	Reduction in estimated LABGI grant
Total	-866	

The on-going impact of these variations in to the medium term is included in the pressures and priorities shown in Appendix 4.

5. Priorities for the Medium Term Plan

5.1 The overall direction for the CED directorate is now well established, and attached at Appendix 3 is a copy of the current Medium Term Service Priorities for CED, which will shape our contribution to Section 3 of the new Medium Term Plan. Members are asked to suggest how these should change for the next three years.

5.2 Members will appreciate, from the information in Section 3 of this report, that the financial framework for the medium term will be very tough for all Directorates and comes at a time when demand for services has never been higher, both because of more people needing our services and because of greater public expectations.

5.3 Whilst the Directorate is implementing modernisation changes that will increase efficiency and effectiveness, there does need to be awareness of the need to consider some potentially difficult decisions affecting the directorate in the medium term

5.4 Areas of spending priority for which significant additional funding is suggested include:

Pay; £887k in 2009/10 – this reflects a provision for the 2009 pay award

Gateway; £950k across the 3 years – the current capital funding will provide for 17 Gateways across the County.

Debt servicing to support capital investment; £2,174k - this sum reflects the recommendation by the Chief Officer Group to fund capital investment from within the CED revenue budget, subject to completion of a full business case to demonstrate the benefits of those investments. The majority of this relates to two key projects:

- The extension of the IT asset maintenance fund to cover server environments
- The Better Workplaces project, which will rationalise existing offices

Financing Costs; £14,297k in 2009/10 – this reflects the expected cost of repaying new borrowing required to fund the existing approved capital programme. Any changes to the borrowing requirement as a result of changes to the approved capital programme will impact on this pressure

5.5 The position is summarised in the following table:

	2009/10	2010/11	2011/12
	£’000	£’000	£’000
Existing pressures in published MTP 2007- 2010			
Pay	863	880	
Prices			
Legislative			
Demand	100	-63	
Towards 2010	150	200	
Service Improvements	18,207	19,392	
New pressures			
Pay	24	24	923
Prices	326	492	400
Legislative	1,362	20	-20
Demand	-21	1,071	3,429
Towards 2010	200	100	300
Service Improvements	1,748	1,779	15,230
Total	**22,959**	**23,895**	**20,262**

5.6 More detail on the pressures on individual Portfolio level is provided in Appendix 4

5.7 The Comprehensive Spending Review 2007 confirmed Government’s expectation of a 3% efficiency saving on gross budgets per annum for local government budgets. If applied strictly across the board, that would mean an annual efficiency saving of £5.9m per annum for the portfolios covered by this Committee.

5.8 The POC is asked to prioritise the functions and budget that it has oversight of and indicate what types and areas of savings, efficiencies and income generation, broadly, might be achievable and acceptable, if there were a savings requirement on the gross budget of:

1%; which equates to just under £2m in 2009/10, then a further £2m in 2010/11 and a further £2m in 2011/12
2%; and
3%;

5.9 To assist and remind Members of the current position, the current budgets for the functions they have oversight of are attached at Appendix 2 to this report.

6. Recommendation

6.1 Members are asked to:

a) Note and comment on the above proposals.
b) Scrutinise the pressures attached to this report as shown at Appendix 4
c) Identify and express their relative priorities for services and to indicate, broadly, areas and types of savings, efficiencies and income generation that they consider could realistically be achieved.

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Background Documents:

- Cabinet 15 September 2008; The Autumn Budget Statement
- 2008/09 CED Business Plans
- 2008-11 Medium Term Plan and Budget Book
- Corporate POC 28 May 2008; Item B1 Financial Monitoring report and 2007/08 Business Unit Operating Plan Outturn Monitoring