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To: Corporate Policy Overview Committee – 14 January 2009

Subject: Budget 2009/10 and Medium Term Financial Plan 2009/12

Classification: Unrestricted

Summary: The purpose of this report is to consult the Committee on the budget proposals for the Chief Executive's Directorate, with reference to the KCC published budget consultation paper issued on 7 January 2009. The report also provides a response to the issues raised at the IMG of this Committee, created in November 2008 to discuss detailed budget issues.

Members are invited to comment on the key issues on the proposed funding changes for the services provided by the Chief Executive's Directorate, and to note the issues raised by the IMG, and the resulting responses.

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 2009-10 to 2011-12. The report to Cabinet on 12 January 2009 set out the provisional Local Government Finance Settlement, which confirmed that the level of Formula Grant was precisely as announced this time last year.
- 1.2 We reported the national and local context to the last Policy Overview Committee meeting and outlined the existing MTP priorities. The Committee discussed the policy issues from that report, and used an IMG to look at the budget details. The IMG met on 19 November and questioned a number of budget headings and pressures and offered suggestions for possible budget savings. This report provides a response to the issues raised.
- 1.3 Since the November meetings, there have been a number of further developments that have resulted in the budget proposals being presented for consultation. Members are invited to comment on the key issues for the services provided by the Chief Executive's Directorate, in order that these can be taken into account at the budget meetings of Cabinet on 2 February 2009 and County Council on 19 February 2009.

- 1.4 Members are asked to read this report in conjunction with the draft Medium Term Plan and Budget Book, issued on 7 January 2009.

2. Background

- 2.1 The budget consultation papers include an overall summary of the proposed Portfolio budgets for 2009-10, showing the amounts proposed for each service within the portfolios. This identifies the gross expenditure, income and net expenditure.
- 2.2 The papers also include the proposed capital investment programme and the medium term revenue and capital plan for 2009-10 to 2011-12. All MTP entries and budget book pages are presented in as a consistent format as possible for each Portfolio.
- 2.3 Copies of the draft Budget Book and Medium Term Plan have been distributed to all Members (on the 7 January). You are asked to ensure you bring those to this meeting.
- 2.4 The MTP and Budget Book reflect the new Portfolio responsibilities for Corporate Support & External Affairs and the Policy & Performance Portfolios. Some further adjustments may be necessary as the changes are worked through in detail. It also reflects the 'Delegation of Corporate Budgets' which impacts on all directorates. Further information is provided in Section 5 of this report.

3. Revenue Budget

- 3.1 The overall direction for the CED directorate is now well established, and the current Medium Term Service Priorities for CED are included in Appendix B of the draft MTP (pages 94-101).
- 3.2 We are setting this budget in a period of great economic instability. This Committee received a report at the last meeting on the impact the economic situation is having, or could have, on CED services. This made reference to the fact that with threats comes opportunities, and also that with the potential for savings comes the potential for costs. For example, the fall in the interest rate is good news for borrowing, but bad news for our returns on investment. This is reflected in our budget proposals.
- 3.3 Areas of spending priority in 2009/10 for which significant additional funding is required are:

Financing Costs; £7,686k – this reflects the cost of funding the proposed capital programme. Any changes to the borrowing requirement as a result of changes to the approved capital programme will impact on this pressure

Revised Treasury Management strategy; £3,100k – the Economic Management Group have been discussing our future investment strategy. At this stage, with a very limited number of counter-party options, we anticipate a reduction in interest earned of some £3.1m.

Impact of falling interest rates; £1,900k – the base rate has fallen significantly in the past few weeks and is predicted to stay low for the foreseeable future. This impacts upon our investment income budget.

Gateways; £850k across the 3 years – the current capital funding will provide for 17 Gateways across the County, and the £850k shown here reflects the additional annual revenue costs associated with those Gateways. We expect in the coming year to begin the process of identifying savings elsewhere in KCC budgets resulting from the Gateway model and from the Kent Access programme as a whole.

Change of accounting treatment; £862k – this has been widely reported to this Committee, both in the 2007/08 Final Accounts and the current year's budget monitoring. We can no longer charge these costs to the overall capital programme, therefore revenue funding needs to be found.

Pay; £443k in 2009/10 – this reflects a provision for the 2009 cost of living pay award

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

	2009/10	2010/11	2011/12
	£'000	£'000	£'000
Base adjustments	-19,982	2,204	152
Budget increased for:			
Pay	443	904	923
Prices	184	357	250
Legislative	862	20	30
Demand	79	1,008	3,429
Towards 2010	250	300	300
Service Improvements	14,546	9,241	5,731
Total Pressures and base adjustments	-3,618	14,034	10,815

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

3.5 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 to deliver a balanced budget. The three-year financial plans, shown in Appendix A of the MTP (pages 61-66), detail the proposed savings required in 2009/10. The major items are explained in the following paragraphs

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 £9.567m.

3.6.2 Of the £9.567m, £9.369m is proposed to come from savings, the major themes being:

- One-off use of 2008/09 forecast underspend; £3.569m
- Review of Minimum Revenue Provision; £2,820k
- Debt re-phasing and restructuring; £500k
- Re-tender of Insurance cover; £500k
- Efficiencies in procurement; £372k
- Review of Publicity costs; £295k (see Appendix A)

The above items account for £8.1m of the £9.4m savings. The saving from the review of Minimum Revenue Provision (MRP) is dependant upon County Council approval of the MRP policy that is included in the draft MTP at Appendix E (page 116).

3.6.3 A further £0.898m of net income is to be generated by CED Units in 2009/10, although this figure is 'masked' in the MTP by the reversal of last year's 'one-off' £700k contribution from the Property Enterprise Fund.

3.6.4 The proposed net position is therefore as follows

	2009/10	2010/11	2011/12
	£'000	£'000	£'000
Base budget	137,715	124,332	131,638
Total Pressures and base adjustments (from Table 1)	-3,618	14,034	10,815
Savings	-9,567	-6,417	-2,243
Income Generation	-198	-311	0
Revised base budget	124,332	131,638	140,210

Table 2; Total proposed base budget for CED Services, including Financing Items

4 The Committee's IMG to discuss budget issues

- 4.1 The IMG met on 19 November and asked for a number of issues to be considered when setting the draft budget proposals for this Directorate. The list of areas for review, along with our response, is attached at Appendix A.
- 4.2 The POC IMG process has been very useful in shaping the budget, and Members will see from Appendix A that a good number of the ideas put forward by the IMG have resulted in a budget saving proposal (or a reduced pressure) within the draft Medium Term Plan.

5 Delegation of Corporate Budgets

- 5.1 Staff in the Chief Executive's Directorate have been working very closely with the Resource Directors and Heads of Finance in service directorates, to determine how best to engage in a debate about support services' delivery and the resulting budget setting each year. The result is that the budget for services that are provided by CED Units directly to service directorates will be delegated to directorates. This has a number of advantages which, when aggregated, far outweigh the disadvantages of doing so.

- 5.2 Of the £46.4m base budget for CED Units in 2008/09 (excluding Financing Items), some £25.3m has now been formally delegated to directorates in 2009/10. In doing so, a list of protocols have been drawn-up to ensure that proper and timely business decisions are taken about service levels, including quantity and quality, and that these decisions are properly reflected in the budgets and business plans.
- 5.3 The vast majority of the budget is delegated on the basis that all directorates have to make unanimous decisions with regard to service provision. For example, one directorate alone cannot choose to buy their payroll service from an external provider. Nor can another directorate, alone, choose to have an IT help-desk provided by anyone other than ISG. The Resource Directors' Group, on behalf of the Chief Officer Group, will manage these delegated budgets and make collective recommendations as appropriate.

6 Capital Budget

- 6.1 The starting point for the capital programme is the existing published capital programme for 2008-11. This is adjusted for re-phasing of schemes from 2008/09, changes to the total cost or funding of schemes, and new schemes. The detail of the proposed capital programme for this Directorate is provided in the draft budget book on pages 43, 45 and 48.
- 6.2 There are four major new projects in the CED proposed capital programme, and one further project that has historically been included in the revenue budget but now appears in the capital programme:

Sustaining Kent, KPSN WAN replacement; £29.6m – this has previously been funded from the revenue budget, but under the new contract arrangements is now more correctly shown against capital. The funding will still be from revenue sources, so no long term debt is being committed to.

Web Platform; £1.1m – Investment to upgrade to Web 2.0 technologies to deliver National Performance Indicator 14 and reduce transaction costs.

Oracle Release 12, HR and Finance Modules; £1.7m – The current version of Oracle will no longer be supported. With our financial and HR systems totally reliant on Oracle, we have little choice but to upgrade to version 12.

Sustaining Kent, maintaining the infrastructure; £10.1m – This is an ICT investment strategy for the maintenance of line of business systems, significantly reducing the risk of service failure and delivering a net reduction in revenue costs. The solution will comprise:

- A common infrastructure platform for line of business systems
- Multi-agency public sector hosting facilities (data centre)
- Integration of voice and data infrastructure

Better Workplaces; £11.0m – is a programme of change which aims to ensure that we have the right buildings in the right places for the 21st century, for contact with Kent residents and for our staff, in conjunction with partner agencies, and to deliver real efficiencies. Our future office provision will be based on a significantly reduced number of sites, some of which will require redevelopment and/or relocation. Precise details are subject to approval of individual business cases, but are likely to include three key offices in each half of the county, and a focus on just Sessions and Invicta Houses in Maidstone. There will be significant revenue budget savings as this programme is delivered, reaching over £2m per annum by the end of the programme. This makes this a very effective spend-to-save project. A more detailed report on Better Workplaces is also on the agenda for this meeting.

7. Recommendation

- 7.1 Members are asked to note and comment on the revenue and capital budget proposals, and note the issues raised by the IMG, along with the resulting responses.

Background documents:

- Autumn Budget Statement; Cabinet, 15 September 2008
- Medium Term Financial Plan 2009-10 to 2011-12 for the Chief Executive's Department; Corporate POC, 14 November 2008
- Provisional Local Government Finance Settlement; Cabinet, 12 January 2009
- Draft Budget Book and Medium Term Plan 2009-12 (issued on 7 January 2009)

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Corporate POC Budget IMG; Areas for possible review of spending

Area for review	Potential target cost / saving (-) £'000	Response
Kent Health Watch	-300	No savings taken
Kent TV	-400	Subject to further review, pending review of the pilot project, which runs until August '09
IT Asset Maintenance reserve contribution	-500	No savings taken; The asset maintenance reserve was established to avoid erratic patterns of spend on desktop IT equipment. Under the current budget proposals, it is intended to extend this strategy to networks and servers, which need significant investment if we are to avoid major down-time and possible risk to service delivery
Workforce reduction	-500	Savings taken; The pressure built-in to the first draft of pressures presented to Corporate POC in November had a pressure of £2m. This has now been removed
Debt Charges	-500	Savings taken; The profile of borrowing has been reviewed in light of the recent changes to base rate and predicted costs of borrowing, and alongside some restructuring of debt, this results in potential savings of £500k
Corporate Communications	-500	Savings taken; A cross-cutting review of publicity spend has resulted in a Council-wide savings target of £1m. This includes a review of staffing and publications. The target saving for CED is £295k
Pay	-900	Savings taken; The assumption of the cost of living pay award has been reduced by £430k
Gateway	?	No savings taken; The gateway model is a fundamental part of our community engagement and public access agenda. The IMG asked that we consider both slowing-down and accelerating the roll-out of Gateways. No change to the planned roll-out is recommended, although it will be kept under constant review. Paper to be provided to a future meeting of this POC
In-source property functions	?	Subject to review by the Interim Director of Property Paper to be provided to a future meeting of this POC
Joint Sea Fisheries	?	No savings taken; This is a statutory function with no immediate prospect for budgetary savings
Income generation	-1,000	Savings taken; A total net additional income target of £898k has been set, to come from Commercial Services, Legal, Personnel & Development, Property and Finance
Localism	-400	No savings taken
Maintenance of assets	?	Subject to review by the Interim Director of Property Paper to be provided to a future meeting of this POC
General efficiencies	-100	Savings taken; A wide range of small savings have been proposed that significantly exceed the £100k target
Total	-5,100 (+/- ?)	