



Meeting of the

CABINET

Wednesday, 4 August 2010 at 5.30 p.m.

SUPPLEMENTAL AGENDA

	PAGE NUMBER	WARD(S) AFFECTED
10 .2 Budget 2011/12 - 2013/14 - Resource Allocation and Budget Review (CAB 026/101)	1 - 36	All Wards;

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact:

Angus Taylor, Democratic Services

Tel: 020 7364 4333, E-mail: angus.taylor@towerhamlets.gov.uk

This page is intentionally left blank

Agenda Item 10.2

Committee: Overview & Scrutiny Cabinet	Date: 3 rd August 2010 4 th August 2010	Classification: Unrestricted	Report No. CAB 026/101	Agenda Item
Report of: Corporate Director - Resources Originating Officer: Alan Finch, Service Head Corporate Finance		Title: Budget 2011/12 – 2013/14 - Resource Allocation and Budget Review Ward(s) Affected All		

1. SUMMARY

- 1.1 This report begins the formal budget process for 2011/12- 2013/14 with the intention of setting the Council Tax for 2011/12 and a Three Year Budget for the period 2011/12 – 2013/14 on the 2nd March 2011. The report also considers how the Council can maximise the value it receives from public money through medium term planning, greater scrutiny of spending, and focusing resources on the priorities in the Community Plan 2020.
- 1.2. After many years of growth in public spending, the country now faces a large annual public spending deficit. At its last meeting, the Cabinet considered the Government's package of grant cuts for 2010/11 and agreed measures to ensure that the authority's budget will remain in balance.
- 1.3. In the emergency Budget on 22nd June, the Chancellor of the Exchequer indicated that public services which did not have their budget protected as a matter of policy would face on average 25% spending cuts in real terms over the four years from 2011/12- 2014/15. It has been suggested that local government's target may be above this average level, perhaps as much as 30-40% real cuts in funding.
- 1.4. A Comprehensive Spending Review and review of grant distribution is being carried out in 2010 with an announcement expected in the Autumn. The last review of distribution implemented in 2008 leaves the authority at the Formula Grant floor for the foreseeable future. The annual increase in funding will not be sufficient to meet the cost of inflation and substantial projected population growth. There seems little prospect at this stage that this position will change following the current spending review.
- 1.5. In summary, the authority is facing its share of major public spending reductions required to fund the deficit and a real terms reduction in funding as a result of population growth. This report estimates that savings will be required in each financial year from 2011/12 onwards adding up to around

£70m over three years. Since both of the factors affecting the Council's funding are likely to extend beyond 2013/14, further savings targets similar in scale may be required in later years.

- 1.6. It is important that this projected savings target is tackled as part of the three year budget plan, in order to ensure the best possible opportunity that it can be achieved without reductions in priority front-line services and to provide the authority with the flexibility to pursue its policy objectives.
- 1.7. The report also covers plans for capital investment in local assets and infrastructure, which are inseparable from those which concern the day-to-day running of services, and concludes that asset disposals will be necessary to fund an ongoing capital programme. It is also suggested that non-ringfenced allocations from Government departments should be allocated in accordance with Council priorities and not automatically passported to Directorates as in previous years.
- 1.8. The report identifies the planning parameters which should apply to strategic and resource planning for 2010/11- 2013/14, with the overall aim of providing sufficient flexibility to deal with risk and provide scope for a degree of policy choice, and invites Cabinet to consider a strategy for meeting a balanced budget for the period.

2. RECOMMENDATIONS

Overview & Scrutiny Committee is recommended to consider the report and pass any comments it wishes to make to Cabinet

Cabinet is recommended to:

- 2.1. Consider the financial outlook and medium term projection set out in this report.
- 2.2. Note the outcome of the review of the budget forecast for 2010/11 and officers advice on the risks of additional costs falling in 2010/11- 2013/14, and note the Medium Term Financial forecast for 2011/12-2012/13.
- 2.3. Note the approach to developing the Strategic Plan set out in Section 4 of the report.
- 2.4. Note the position in relation to funding for the capital programme and agree that non-ringfenced capital resources from Government should be treated in the same way as locally generated funding for capital planning purposes.
- 2.5. Note the position in relation to the Housing Revenue Account.
- 2.6. Determine a budget strategy for 2011/12- 2013/14 and agree that Corporate Management Team prepare service and financial planning submissions in accordance with agreed parameters, and the outline process and timetable set out in section 10 of the report.

- 2.7. Agree to earmark £2.5m from General Reserves to fund work required to conclude a variation to the Council's Grouped Schools PFI contract and delegate authority to the Chief Executive to agree to spend sums up to this amount. [para 7.3.4 refers]
- 2.8. Delegate to the Corporate Director – Resources the authority to allocate reserves set aside for measures to manage transformation and improve efficiency, in order to progress work to identify savings [para 8.5 refers]

3. BACKGROUND

- 3.1 The Council operates a sound resource allocation process underpinned by an integrated strategic and resource planning framework. Processes are designed to ensure that:
 - Service plans are developed against the background of forward looking financial forecasts
 - The financial consequences of proposed actions are identified and are seen as an integral part of service planning
 - Financial plans allocate resources to address changing community needs and priorities.
- 3.2. Medium term financial planning is an essential component of the Council's strategic and resource planning framework. While many key decisions, including the formal setting of Council Tax, will continue to be taken annually, those decisions need to be set in the context of a longer term plan. Forward planning offers greater opportunities to link service and financial planning.
- 3.3 A Spending Review has been announced by the Coalition Government reporting on 20th October, and it is hoped that this will announce a three year settlement enabling local authorities to plan ahead and ensure more effective and efficient use of resources. In the absence of any announcement of grants after the current financial year, local authorities will need to plan with caution.
- 3.4 The report is intended to provide the context for the development of the detailed budget proposals in the coming months.

4. STRATEGIC PLANNING

- 4.1. The Council has a well-embedded approach to strategic and resource planning (SARP). Key priorities are agreed with residents and partners in the Community Plan 2020 and these are interpreted into a set of strategic objectives in the Council's 3 year Strategic Plan. As part of the annual SARP process, Members identify key priorities for the year ahead. This year priorities will need to be set in the context of less money being available, and savings will need to be delivered in ways that least impact priority areas.

- 4.2. Whilst the scale of the financial challenges ahead are unprecedented, they can be addressed in the context of this robust, well-embedded approach. This will mean that, whilst the SARP process for 2011/12 and beyond will be more challenging, the key mechanics will remain the same. A key element will be the need to ensure a continuing clear focus on outcomes for local residents despite the need to find efficiency savings.
- 4.3. The process needs to be informed by an up-to-date understanding of the priorities for our local citizens and partners. Whilst regular engagement with partners and the community means that there is already a strong understanding of these, a programme of engagement and consultation to refresh our Community Plan will take place during Summer 2010. A key focus of this consultation is to engage with residents and partners about areas for improvement to ensure the focus on the Council's key priorities is not lost. A robust review and analysis of needs and data will be used to inform how activity should be focussed in the future. It is known from the ongoing engagement with residents, that the priorities are likely to include key areas such as:
- Tackling crime and anti-social behaviour;
 - Overcrowding and improving access to affordable housing;
 - Employment, skills and jobs; and
 - Cleanliness and the local urban environment.

The focus of the consultation over the summer will also be about ensuring residents are supported to take a greater role in tackling these issues themselves and within their own communities.

- 4.4. Some early indications from this engagement will be available by the end of the Summer. The priorities agreed through this process will inform the development of a strategic direction for the Council which, coupled with the Medium Term Financial Strategy, will provide the context for the 3 year budget and strategic plan to be agreed by December.

5. REVIEW OF BUDGET FOR 2010/11

- 5.1. The Council set its General Fund revenue budget for the current financial year, 2010/11, on 3rd March 2010. The budget was set at a level of £310.4m and provided for savings of £5.1m which enabled Council Tax to be frozen for 2010/11.
- 5.2. On 24th May 2010, the Government announced a £6.2bn package of in-year savings affecting the current year. Local Government's share of these savings was set at £1.165bn which is to be achieved by reducing specific grant allocations to local authorities, and subsequently the authority was advised that it would not now be receiving £4.125m in grants which it had been allocated by the previous Government.

- 5.3. At the meeting in July, Cabinet agreed a package of measures totalling £7.630m (plus a further £0.490k subject to the agreement of the Schools Forum) that would ensure that the Council's budget would remain in balance for 2010/11.

6. MEDIUM TERM PLAN 2011/12-2013/14

6.1. The Council's Medium Term Financial Plan sets out;

- the ongoing effects of growth and savings agreed in previous budget rounds.
- the unavoidable spending pressures likely to bear upon the Council's revenue budget over the next three financial years
- the assumed income from Council Tax and Government grants.
- the adequacy of reserves and budget contingencies and the impact on the revenue budget of changes to these.
- as a balancing figure, the level of savings required to set a balanced budget for each year of the plan.

In Tower Hamlets the Medium Term Financial Plan covers a period of three years.

6.2 This report provides forecasts for a revised three-year plan covering 2011/12-2013/14;

- Building 2009/10 financial results ('outturn') into the three-year forecast,
- Reviewing the budget for 2010/11 in the light of changes which have emerged since the budget was set, and;
- Reviewing the forecasts for 2011/12- 2012/13 and rolling out the forecast to 2013/14 in the light of the information currently available, and assessing the risks inherent in budget assumptions.

6.3. Section 7 below sets out the detailed review of the Medium Term Financial Plan on this basis, informing the three year budget process for 2011/12-2013/14. The revised Medium Term Financial Plan statement is set out at **Appendix A**.

6.4. The principle change in the revised Medium Term Plan from that agreed by Members in March is that, although as a result of the Chancellor's announcement that unprotected Government budgets would be cut by 25% in real terms over the life of this Parliament, a more pessimistic approach needs to be taken to the level of funding likely to be available, this is offset to some extent by the prospect of a pay freeze for all but the lowest paid in local government for the period 2010/11 -2013/14.

- 6.5. It needs to be stressed that the ongoing uncertainty arising from the economic situation, the somewhat sporadic announcements from Government, uncertainties relating to factors such as inflation and interest rates and the need for the authority to deliver savings in a timely fashion to avoid additional costs means that the Medium Term Financial Plan and the overall budget strategy set out above will need to be kept under review as we move forward.
- 6.6. On the basis of the Chancellor's budget announcement of an average 25% real terms reduction in funding for public services over the next four years, a savings target of £57.5m is required over the three years covered by the Medium Term Financial Plan, as shown at **Appendix A**.
- 6.7. In addition, savings to all Government spending Departments will mean that specific grants are also likely to be subject to reductions. In the case of ringfenced grants, reductions in grant will need to be matched by reduced spending in these areas.. In accordance with the commentary at paragraph 7.4.2 a planning figure of £12.7m would be appropriate.
- 6.8. The two targets taken together amount to £70.2m over the next three financial years. They can effectively be treated as a single target since Area Based Grant is non-ringfenced.

7. REVIEW OF THE MEDIUM TERM FINANCIAL PLAN

- 7.1. This section of the report sets out the detail behind the review of the Medium Term Financial Plan as summarised in Section 6.

It needs to be stressed that all forecasts are dependent upon the outcome of the Spending Review and grant distribution review which are not expected to be known for 2011/12 until October or November, and which may not be announced for subsequent financial years until later.

- 7.2.. The General Fund budget established for 2010/11 is set out at **Appendix B**. The budget set by Council for 2010/11 on 4th March 2010 was £310.369m and this is therefore the base budget for all subsequent budget decisions.

7.3. Spending Pressures

7.3.1 Inflation

For 2011/12- 2013/14 estimates of the cost of funding inflation in the General Fund have been prepared on the basis of an estimated increase for general costs of 2% a year for the period 2011/12- 2013/14, which is in line with the Government's long term inflation target. Independent forecasts suggest that inflation could be a little higher in 2011/12 (perhaps 3%) and if this happens the excess will need to be absorbed within budgets.

In relation to pay, a 0% pay offer has been made to local government staff in 2010. The new Government has indicated that public sector pay constraint will remain a major part of its strategy to tackle the budget deficit. In the Budget, the Chancellor called for a two year pay freeze from 2011/1, subject to a flat rate £250 per year increase for public sector staff earning less than £21,000 a year. The local government pay award is not determined by the Chancellor, but is a separate national negotiation process. Nevertheless, an estimate in line with the Chancellor's announcement is included in the Medium Term Financial Plan for 2011/12 – 2012/13.

The forecast breaks down as follows;

Figures in £m	2011/12	2012/13	2013/14
Pay	714	714	2641
Non Pay	3356	3311	3165
Total	4,070	4,025	5,806

In the event that the pay award is lower than this, this funding would be available to cover other risks. If inflation is higher than anticipated, the current level of general reserves held by the authority would allow risks to be managed in the short term.

In setting the budget for 2010/11, Members agreed not to fund non-pay inflation, requiring officers to manage within a budget cash limit which did not make full provision for inflation. This strategy is acceptable in the short term as a way of squeezing budgets to ensure value is optimised. However repeatedly using this tactic would make it difficult for officers to avoid cuts in services which, because they would need to be actioned as part of the in-year budget monitoring process, would not have been scrutinised by Members. It is therefore recommended that this approach should not be taken again in 2011/12. In light of this an estimate of 3% has been included for 2011/12, in line with Treasury forecasts, and 2% thereafter.

7.3.2. Severance

The level of savings predicted for 2011/12-2013/14 suggests that a higher than normal level of staff severance will be necessary. No additional provision has been made in the Medium Term Financial Plan for staff severance. These amounts will need to be funded from existing contingencies and reserves if necessary.

7.3.3. Committed Growth Pressures

Committed Growth is the unavoidable cost of maintaining services at existing levels, taking account of demographic change, new legislation or other unavoidable factors. A review of spending pressures is in progress and bids

will need to be scrutinised by Members as part of the budget process. The scrutiny will need to include those items already agreed.

The committed growth agreed in previous financial years, net of approved savings, which has a financial impact in 2011/12 and beyond is set out in detail at **Appendix C** and summarised as follows;

The Medium Term Financial Plan also includes	the impact of two items initially brought to	2011/12	2012/13
A		£000s	£000s
Growth		3,004	4,645
Savings		-180	-180
Total		2,824	4,465

er tranche of the increase in the **levy to the London Pensions Fund Authority** in respect of the pensions deficit for former GLC and ILEA staff. The estimated amount relating to 2011/12 is an additional £235,000.

- The loss of **income from Area Based Grant** which was set aside in 2009/10 to fund the You Decide (LAP) budgets and to hold down the level of Council Tax. It was recognised when these amounts were allocated that the grants so utilised had only been allocated for three years and it was anticipated at that stage that the national finances would be unlikely to afford an extension. The amount in question is £3.796m. To partly offset this, the Medium Term Financial Plan currently assumes that funding agreed for 2009/10 and 2010/11 in respect of You Decide in LAP areas (£2.380m per year) will not continue after 2010/11.

7.3.4. Service Spending Risks

In view of the limited resources available to the authority over the forthcoming period, it is important that service growth pressures are contained as much as possible within existing budgets. The table below sets out the issues that could create significant additional spending pressure over the period of the Medium Term Financial Plan. Most of these issues were reported to Members when the budget for 2010/11 was set in March.

Issue	Narrative
Child Protection	The Laming Review of child protection services followed the Baby Peter case. Work is ongoing to identify an appropriate response in terms of social worker caseloads and the costs of this are difficult to assess. This would be an ongoing financial commitment and the minimum costs has been assessed at £1m.
Waste Management	The cost of disposal of waste generated is projected to rise as a result of an increasing waste stream and the 'ratchet' effect of landfill disincentives. A Waste Strategy for the authority has been agreed which will involve mitigating this cost by procuring sufficient waste disposal capacity to manage an increasing waste stream in a cost effective and environmentally sustainable way. The costs of this procurement are still being assessed, but are likely to be significant.
Housing Benefits & Homelessness	<p>Members will recall that changes to subsidy arrangements introduced by the last Government capped the subsidy receivable on rents paid in respect of homeless families. The impact of this was largely mitigated by negotiation with landlords, although there will still be a small cost.</p> <p>In the emergency Budget, the Chancellor has now announced further changes among which is a cap on Local Housing Allowances. The changes apply to private rented accommodation from April 2011 and temporary housing from April 2012. This will further reduce the amount payable to landlords and may thus have an impact on the supply of accommodation and increase homelessness, with a corresponding cost increase for the Council.</p>
Older People	The number of older people continues to increase and this will create financial pressure on older people services.
HRA Reform	A report to the Cabinet in July set out the implications of proposed Government reforms to the HRA Subsidy system. One implication of this would be that the 'ring-fence' around the HRA would be drawn more tightly and some services currently charged to the HRA may not be chargeable there in the future. An exercise will need to take place to identify the extent to which any additional costs to the General Fund can be contained by downsizing the services concerned.

Local Land Charges	A legal issue has been raised at national level which may result in a diminution of income from land charge searches, and as part of this there could be the need for backdated refunds. Annual income from this service currently amounts to around £200,000 a year, while the bill for refunds could be around £1.2m.
Carbon Reduction	The mandatory CarbonReduction Commitment applies to the authority with effect from the current financial year. Under the scheme the authority will have to pay into the scheme in the event that it performs poorly in reducing carbon in comparison with other organisations.
Building Schools for the Future (BSF)	The interface between the BSF contract and the existing schools PFI contracts is an issue that remains to be resolved. For BSF to proceed on sites managed by the PFI provider, access to the site and the ongoing arrangements for management of the site following the BSF works need to be resolved and the interests of all parties balanced. The costs of negotiating a settlement and then of the settlement itself cannot accurately be assessed until the negotiations are close to conclusion, and there are a number of parties to satisfy, including the Government which is providing the funding for BSF and the responsible quasi- Government agency, Partnerships for Schools. The costs will fall to be met by the Council and provision would need to be made from the General Fund.

Work to conclude a variation to the Council's Grouped schools PFI contract are drawing to a close and resources will now need to be committed in order to conclude this process. It is therefore requested that Members set aside up to £2.5m from the General Reserve for this purpose and that the delegated authority be given to the Chief Executive to allocate funding from this amount.

The other issues listed here will need to be kept under review throughout the budget process and Members will be advised if additional resources need to be allocated. It is currently anticipated that any further committed growth can be contained within available budget contingencies.

7.3.5 Capital Financing & Investments

The updated Medium Term Financial Plan includes forecasts for the cost of capital financing and investment income for the forthcoming period. Interest rates remain at an historic low and remain difficult to predict moving forward, much depending upon how the economy responds to Government policy

and wider, global factors. The forecasts have taken a prudent approach which assumes that rates will remain comparatively low for the foreseeable future, and this appears to be the consensus among independent analysts.

The forecasts do not assume any additional borrowing over the next three years, which means that any cost of prudential borrowing or borrowing allocations from the Government would need to be met from additional savings.

7.3.6.. Capacity to Deliver Efficiencies

In addition, the annual savings target, if it is to be achieved substantially through efficiencies, will need to be delivered through a number of projects or programmes which will transform back office services to be as efficient as possible, and make front-line services as cost effective as possible. Such projects require investment in resources to bring them to fruition, and this makes financial sense as long as the business case provides for an appropriate return over an acceptable period. Achieving this 'pay back' in itself requires a robust approach to project management and governance: the skills required often need to come from outside the authority. Officers are considering how such investment will need to be funded. As a rule of thumb, for every £1 released in ongoing savings by transformational change, £1 needs to be invested up front. Sums have been set aside in earmarked reserves for efficiency and investment to help support the change process necessary and it is now appropriate to begin the process of allocating these resources to establish the infrastructure required to deliver the scale of savings indicated.

7.3.7 Contingency

In light of these issues and risks, and the general uncertainty surrounding costs and funding in these unusual and difficult economic conditions, Members will be aware that in setting the budget for 2010/11 in March, a contingency of £6.066m was set aside in 2010/11, in addition to a provision for future growth of £2.200m.

As indicated above, the Council's decision not to fund inflation on non-pay in 2010/11, and a probably 0% pay award in 2010 means that this figure is available to cover other risks. Initially, and subject to further work to mitigate the effects of growth, this contingency should be sufficient to absorb committed growth risk in 2010/11 and 2011/12.

However the Medium Term Financial Plan includes planning figures allowing for some additional growth from 2012/13 onwards. This is to ensure that a balanced three year budget is not put in jeopardy by unforeseen growth pressures, but this should not be seen as a target and Members will wish to ensure that all growth are thoroughly justified before agreeing to provide funding for them.

7.4 Resource Projections

7.4.1. Formula Grant

The main grant contributing towards the authority's General Fund revenue budget is Formula Grant. The Formula Grant figure for 2010/11 is £232.204m and this funds 74.8% of the authority's Budget Requirement.

	2010/11 £m
Formula Grant	232.204
Annual Increase %	1.5%

The authority's grant settlement is at the minimum level allowed for by Government, known as the 'grant floor'. This is because grant distribution changes introduced in 2007 had a severely detrimental effect on the authority's grant settlement. The floor is intended to protect the authority from the worst effects of this change by phasing in its impact. In this case it is estimated that the authority will remain at the grant floor until around 2014/15. This position may change subject to the latest review of grant distribution which is current underway and which is due to be introduced with effect from 2011/12. However there is nothing in the proposals at the moment to suggest that the Council will not remain at the grant floor for a period beyond the end of the current Medium Term Financial Plan.

The grant floor is normally set at a level below inflation. The practical impact of the floor, therefore, is that the authority is likely to receive grant increases at below the rate of inflation for some years, and in practice no funding towards the costs of population growth.

No announcement has been made of Formula Grant figures for 2011/12 onwards, although the Chancellor in his Budget on 22nd June gave an average figure of 25% real terms cuts to be expected over the next 4 years for those Government budgets which are not protected from cuts. Medium term forecasts prepared on this basis, would imply a 4.6% a year cash cut in grant, although this could be too optimistic if local government are regarded as relatively low priority by the Government.

The draft Medium Term Financial Plan has therefore been prepared on the basis of a real terms 25% reduction in grant over 4 years. .

7.4.2. Area Based Grant

A new form of grant called Area Based Grant (ABG) was introduced in 2008. This was created by combining around 40 former specific grants, including the Working Neighbourhoods Fund and Supporting People Grant. The

authority's initial allocation for 2010/11 was £41.917m following £4.125m in cuts announced in June. Of this, it is known that the Working Neighbourhoods Fund, which is part of ABG and for which the Council receives £10.122m, is coming to an end in 2010/11. The 'baseline' position for 2011/12 is therefore £31.795m

No Area Based Grant announcement has been made for 2011/12 or beyond, and in line with reports of 40% cuts across most Government departments, a reduction of this magnitude can be anticipated. This would amount to £12.7m.

7.4.3. Other Specific Grants

Specific grants have been announced for 2010/11, but as explained above, these allocations are now subject to review by the new Government. The assumption built into these forecasts is that any cuts in specific grants in future years will be contained by reducing the expenditure currently funded by those grants. The availability of specific grants must therefore be considered a risk for this budget process. Final allocations for grant for 2011/12 are not expected to be announced until November 2010 at the earliest.

7.4.4. Dedicated Schools Grant

Dedicated Schools Grant to fund schools budgets is announced on an annual basis, with a provisional sum announced in November or December in the year before the start of the financial year to which it applies, and final figures the following May once the school census has taken place. The schools budget needs to be set in accordance with the grants allocated. Education budgets have not been protected by the Coalition Government.

The Medium Term Financial Plan does not reflect any assumption for net costs of schools falling on the General Fund. However, if any schools in Tower Hamlets become established as academies, it may be necessary for the authority to find savings in its central budgets to cover the loss of grant implied.

7.4.5. Parking Control Account

The Parking Control Account is in surplus by £1.828m as at 31st March 2010

7.4.6. Council Tax

The three year budget includes a general assumption that Council Tax will not rise throughout the period. In practice, the Council Tax is agreed by the Council on an annual basis and the level used in these forecasts is simply a planning assumption and will be subject to amendment by Cabinet and Council.

The marginal amount raised for each 1% increase in Council Tax in 2011/12 is estimated at £0.774m. Correspondingly, each 1% reduction in Council Tax would require additional savings to be made of this same amount.

The Government has announced that it intends to help authorities that wish to set a 0% Council Tax to achieve this in 2011/12, and possibly in 2012/13. The likelihood is that this would be provided through additional allocation of grant. The consultation on this offer is likely to take place over the Summer, but at present no assumption has been made in the Medium Term Financial Plan. If the authority does receive additional grant, this would improve the Council's financial position, but this is not likely to be in any substantial way.

7.4.7 Collection Fund

Council Tax collected on behalf of the Council and the Greater London Authority is paid into the Collection Fund. Any surplus on the fund is available to the authorities to reduce the Council Tax in future years; any deficit must in turn be recovered from Council Tax. It should be noted that the aim each year is to equalise the fund, so the amount required as a contribution or available from redistribution should be zero.

In 2009/10, the rate of new homes being brought onto the Council Tax list was expected to dip as a result of the recession. In fact, this did not happen, and this led to a healthy surplus on the Collection Fund for that year. As a result, it is currently estimated that an £2m is available from the Collection Fund in 2011/12 which will help towards a balanced budget. This is one-off allocation available in 2011/12 only.

7.5. Reserves

- 7.5.1. Elsewhere on this agenda, the Cabinet is receiving a report setting out the financial outturn for the General Fund and Housing Revenue Account. These can be summarised as follows;

Figures in £ million	2009/10 deficit	Balances as at 31 st March 2010
General Fund	NIL	27.1
Housing Revenue Account (HRA)	1.5	13.0

- 7.5.2 The Council's current financial position remains sound, but will require continuous assessment and vigilance in the light of the pressures and issues identified in this report.

7.5.3. The Council's overall financial health places it in a good position to face the reductions in funding. Adequate levels of reserves provide cover for the additional risks inherent in a time of reducing resources. The authority is in a strong position to face this situation providing key decisions are taken at the appropriate time.

7.5.4. General Fund Reserves stand at £27.1m as at 31st March 2010. This is slightly higher than the Council's historic guide range of 5.0-7.5%. . Funding to conclude variation to the PFI Grouped schools contract will reduce the balance available by up to £2.5m. The level of reserve will need to remain under review throughout this period of uncertainty and tight control of Council spending will be required to ensure spending remains within budget thus avoiding unforeseen calls on reserves.

8. RESPONDING TO THE FUNDING DEFICIT

- 8.1. The savings target indicated for the forthcoming period far exceeds any target necessary in recent years. The savings target for 2011/12 of £18m is about three times the level of savings delivered in any recent financial year, and that scale of target will need to be repeated each year for some years to come.
- 8.2. The scale of the issue points to the need for a radically different approach to finding savings. Whilst some savings will be found as in previous years by reviewing the costs of Council services individually, a large part of the savings required will need to be found by fundamentally reviewing the way the Council delivers services across the whole organisation.
- 8.3. In response to this, in February officers instituted a Service Options Review exercise which is currently looking into the costs of Council services in detail and identifying opportunities for savings. In addition, Directorates have been challenged to review their services and identify ways in which these can be delivered more efficiently and effectively. The full results of this exercise will be available to feed into the budget process for 2011/12-2013/14.
- 8.4. Some initial outcomes from this exercise are set out at **Appendix D**. In view of the size of the deficit and the organisational effort which will be required to deliver the savings required and Members are invited to consider these and instruct officers to proceed with those savings proposals which do not require a change in Council policy.
- 8.5. The savings target identified is much larger than anything tackled by the authority. Clearly, the consequence of not delivering a substantial part of the savings would be extremely serious for the Council's finances and therefore for service delivery. Ensuring that savings are delivered will involve establishing governance and project management arrangements to ensure that savings proposals are robust and delivered effectively. It is therefore requested that Members delegate the allocation of the reserves set aside to manage transformation and improve efficiency to the Corporate Director – Resources to enable him, in discussion with the Corporate Management Team and Lead Members, to put in place the arrangements required to deliver these savings.

9. CAPITAL PROGRAMME

- 9.1. The Council maintains a capital programme which is partly funded from Government grants and other resources allocated from outside bodies (such as Transport for London) and partly by locally generated funding such as capital receipts.
- 9.2. Members will be aware that for some years locally generated funding has been harder to come by, principally as a result of a reduction in Right to Buy

receipts and a dip in the property market which made it uneconomic to sell assets. The local capital programme has been maintained in the short time by using reserves and other revenue contributions but further opportunities for this are now limited.

- 9.3. As set out in the Capital Strategy agreed by Cabinet in February, the Council's rising population presents a considerable challenge in ensuring that investment in buildings and infrastructure keeps pace with the needs of the community.
- 9.4. It is suggested that for the purposes of the Capital Programme 2011/12-2013/14, two actions are necessary to ensure that resources are optimised over the forthcoming period;
 - * Consider all non-ringfenced capital allocations from Government as part of the overall capital pot so that priorities can be chosen at local level.
 - * Institute a more aggressive programme of surplus asset disposals to ensure that resources can be generated locally.
- 9.5. With capital resources likely to remain limited for some time, Members will need to choose capital priorities carefully in the light of the needs of a growing population.
- 9.6. **Appendix E** sets out this advice in more detail.

10. HOUSING REVENUE ACCOUNT

- 10.1. As resources become scarcer, there is a need to ensure that the implications of spending decisions are picked up in both the General Fund and HRA. .
- 10.2. There is a close relationship between the General Fund and the HRA in that;
 - the General Fund provides a range of support services to the housing management functions of the Council.
 - the way the capital financing and housing subsidy system in local government currently works, any borrowing decisions taken by the Council to fund capital expenditure can have an impact on both the General Fund and HRA

The budget process for the General Fund and the HRA needs to be a single process for 2011/12- 2013/14.

- 10.3. The HRA is a statutorily ring-fenced account and expenditure must relate solely to the Council's landlord functions. Its turnover is currently some £90m. To maintain a balanced HRA, costs must be contained within the income generated from tenants rents (the majority of which is supported

through housing benefit), non-dwelling rents, tenants and leaseholders (and freeholders) service charges. The Council is however also one of the small minority of authorities still in receipt of HRA Subsidy. A forecast Medium Term Financial Plan for the HRA is attached at **Appendix F**. If the changes to subsidy consulted upon by the last Government are followed through, this position should improve. The forecast is based on the assumption that the existing system of subsidies stays in place; Government proposals for a replacement were reported to Cabinet in July.

- 10.4. Cabinet in July received a report explaining Government proposals to reform the HRA finance system and abolish HRA Subsidy. This would be achieved by funding authorities to pay off sufficient housing debt to cancel out the need for further subsidy. It is not known whether this proposal will proceed, but if it does it is likely to come in with effect from the 2011/12 financial year.
- 10.5. There are a number of factors bearing on the budget process for the HRA.
 - To achieve 2* status Tower Hamlets Homes must demonstrate value for money. Failure to do this will mean that the Council does not achieve access to up to £250m of additional capital investment for Decent Homes. Audit Commission data suggest the Council and its ALMO are in the highest spending quartile for housing management.
 - Leaseholders have questioned the charges they receive from the Council and challenged the value for money the Council delivers in this area. The Council has committed to tackle this issue with leaseholder groups.
- 10.6. The forecast at **Appendix F** suggests that the HRA will have a deficit and therefore a 3 year savings target of £4.7m by the end of 2013/14, representing nearly 5% of turnover. However, since around one third of the turnover of the HRA relates to capital financing costs arising from past spending decisions, and is therefore not manageable in the short term, this probably translates to around 8% of manageable expenditure.
- 10.7. Members need to bear in mind their priorities in relation to the Council's housing management service and consider the HRA as part of their budget strategy for 2011/12- 2013/14.

11. NEXT STEPS

11.1 Budget Timetable

A timetable for the remaining stages of the budget process is shown at **Appendix G**.

11.2 Instructions to Officers

Following this meeting, the Corporate Director of Resources will issue instructions to officers to seek options for delivering the budget approach

agreed by the Cabinet in accordance with the timetable and the themes set out at **Appendix C**.

12. COMMENTS OF THE CHIEF FINANCIAL OFFICER

12.1 The comments of the Chief Financial Officer are the subject of this report of which he is the author.

13. RISK MANAGEMENT IMPLICATIONS

13.1 The absence of a forward financial forecast would expose the Council to the risk of making decisions which are not sustainable in the longer term, or of missing opportunities which might only be identified through a longer term planning horizon. Furthermore, inadequate integration of service and financial planning gives rise to the possibility of service planning without regard to affordability, or a budget that does not direct resources to service priorities.

13.2 This report, and its subsequent development, is intended to substantially address those risks.

13.3 The timetable includes provision to consider specific financial risks as part of the budget making process, initially in the Autumn. The Director of Resources will report further to Members throughout the budget process.

14. EFFICIENCY STATEMENT

14.1 The efficiency and value for money implications of individual budget proposals will be set out as part of the budget process as it progresses.

15. CONCURRENT REPORT OF THE CHIEF LEGAL OFFICER

15.1. The report provides Cabinet with information concerning the current financial outlook, the budget process and the housing revenue account. Cabinet is asked to determine a budget strategy and agree a budget process.

15.2. The setting of the budget falls to the Full Council under the Council's Constitution. The Council is required pursuant to section 151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs. The chief finance officer is responsible for that administration. It is proper for the chief finance officer to bring forward the information in the report to Cabinet, for Cabinet to determine a strategy for preparation of the budget and for Cabinet to agree a budget process.

16. ONE TOWER HAMLETS CONSIDERATIONS

16.1. The budget and Medium Term Financial Plan is one of the main instruments through which the Council delivers its Strategic Plan, including its objective to promote One Tower Hamlets. It is important that decisions taken as part of the budget process take account of equalities and diversity issues.

17. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

17.1 SAGE considerations have been taken into account in the forecasts.

18. INDEX OF APPENDICES

Appendix	Detailing the following:
A	Revised Medium Term Financial Plan 2010/11- 2013/14
B	Approved Budget 2010/11
C	Approved Growth and Savings to March 2010
D	Service Options Review Outcomes
E	Capital Programme
F	Housing Revenue Account
G	Timetable

**LOCAL GOVERNMENT ACT 1972 (SECTION 100D)
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT**

Brief description of "background papers"

Tick if copy supplied for register

If not supplied, name and telephone number of holder

Held by Resources Directorate
4th floor, Mulberry Place)

Alan Finch 020-7364-4915

MEDIUM TERM FINANCIAL PLAN 2010/11 - 2013/14

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
Initial Budget	297,926	310,369	300,957	290,309
Inflation and Other Contingencies	8,266			
Pay		714	714	2,641
Other inflation (Non-staffing budgets)		3,356	3,311	3,165
Committed Growth				
Approved to date	3,691	3,004	1,641	0
Growth 2011-12 onwards- -assume can be met from existing contingencies in 11/12		0	4,500	3,500
Savings				
Approved to date	-4,520	-180		
2010/11 savings target (Cabinet 7.7.2010)				
Reduction in Specific Grants	4,125			
One-off savings towards 2010/11 target	-545	545		
Ongoing savings towards 2010/11 target	-7,085			
Increase in budget contingency	3,505	-545		
Other Adjustments Required				
London Pensions Fund Authority Levy	353	235		
Capital Financing and Investment	2,365	777	-827	134
Pensions Fund (Estimate pending Valuation)		2,500	800	800
One off savings in previous years		419		
One off spending in 2008/09	-317			
Other Funding				
Prioritisation of Area Based Grant	-295	3,796		
Service Improvement Growth				
LAP Budgets		-2,380		
Contribution to Investment Reserve	2,900	-2,900		
Annual savings target		-18,753	-20,787	-17,992
Budget Requirement	310,369	300,957	290,309	282,557
Formula Grant (25% real terms reduction over 4 years)	-232,204	-221,523	-211,337	-201,611
Collection Fund Surplus / Deficit	-3,478	-2,011		
	<u>74,687</u>	<u>77,423</u>	<u>78,972</u>	<u>80,946</u>
Council Tax Base	84,343	87,432	89,181	91,410
Recommended Band D Council Tax - Tower Hamlets	£885.52	£885.52	£885.52	£885.52
Change in Council Tax (planning figure only)	0.00%	0.00%	0.00%	0.00%
Cumulative savings target (Three Year Budget)				-57,532

NB Forecasts are incremental year on year, not cumulative

This page is intentionally left blank

Summary of Budget and Council Tax for 2010/11

	<i>2010/11</i>
	£
Adults Health & Wellbeing	90,217,000
Children's Services	93,896,000
Development and Renewal	12,424,000
Communities, Localities and Culture	74,911,000
Resources	18,363,000
Chief Executive's	13,368,000
Corporate/Capital	17,748,000
	320,927,000
Corporate Contingency	7,763,000
Provision for Future Growth	2,200,000
Contribution to Investment Reserve	2,900,000
Local Public Service Agreement	(700,000)
Parking Control Account	(3,310,000)
Efficiency Reserve	689,000
Funding for Accelerated Delivery Programme	(1,802,000)
Insurance Fund	500,000
Area Based Grant income	(18,798,000)
	310,369,000
Council Net Budget	310,369,000
Formula Grant	(232,203,778)
Council Net Budget After Formula Grant	78,165,222
Collection Fund Surplus/Deficit	(3,478,000)
Net Budget Requirement	74,687,222
Council Tax Base	84,343
COUNCIL TAX AT BAND D	£885.52

This page is intentionally left blank

Ref	Description	2011/12	2012/13
		£000	£000

1- GROWTH

ADULTS HEALTH & WELLBEING

GRO/AHWB/01(09)	Demographic Growth Pressures - Older People with Dementia	Older People's Commissioning	2,145	715
GRO/AHWB/02 (09)	Learning Disabilities Commissioning Budget	Commissioning - Learning Disabilities	546	746
TOTAL - Adults Health & Wellbeing			2,691	1,461

CHILDREN, SCHOOLS AND FAMILIES

GRO/CS/01(08)	Children's Fieldwork Budget		-187	0
TOTAL - Children, Schools and Families			-187	0

COMMUNITIES, LOCALITIES & CULTURE

GRO/CLC/01 (08)	Transportation, treatment & disposal of waste	Street Management	320	0
GRO/CLC/02 (09)	Parks Maintenance Contracts	Public Realm	180	180
TOTAL - Communities, Localities & Culture			500	180
TOTAL APPROVED COMMITTED GROWTH			3,004	1,641
TOTAL GROWTH FOR TWO YEARS				4,645

Ref	Description	2011/12	2012/13
		£000	£000

2 - SAVINGS

Ref	Description	2011/12	2012/13
		£000	Increment £000

CHILDREN, SCHOOLS AND FAMILIES

SAV/CS/01 (09)	Staffing review	180	-
TOTAL - Children, Schools and Families		180	0
TOTAL SAVINGS AGREED IN PREVIOUS FINANCIAL YEARS		180	0
TOTAL SAVINGS FOR TWO YEARS			180

SERVICE OPTIONS REVIEW – INITIAL OUTCOMES

In February 2010 officers instituted a Service Options Review exercise, currently on-going which is looking into the costs of Council services in detail and identifying opportunities for savings. The full results of this exercise will be available to feed into the budget process for 2011/12 – 2013/14.

Some initial outcomes from this exercise indicate that there substantial efficiencies to be un-locked from the following thematic areas:

Better Procurement::

This theme relates to the significant efficiencies that can be realised from a closer management of the Council's third party spend. In recent years, the Council has made significant savings in this area. Further efficiencies can be delivered through the application of the following techniques across all areas third: consolidating suppliers in areas of common expenditure; contract renegotiation; and through reduced goods ordering and payment processes enabled through the Council's requisition to pay system

Lean:

This theme relates to efficiencies that can be delivered through the simplification of management arrangements across the Council. Initial analysis has shown that significant opportunities exist to streamline management structures and spans of management control and accordingly release resources to protect service delivery Opportunities also exist to deliver savings through the consolidation of common management operations across the Council – such HR, Policy and Performance and Communications activity.

Smarter Working:

This theme relates to the efficiencies that can be delivered by enabling a more mobile and flexible workforce. A primary goal of this our smarter working activity will be the decant of anchorage house when the lease can be released in 2013. More flexible working practices will also enable a significant reduction in our reliance on agency and other temporary staff.

Strategic partnerships:

This theme relates to the opportunities to deliver savings and efficiencies that arise from greater working with other public sector organisations and the third and private sectors.

Managing Information and channel transfer:

This theme relates to the savings and efficiencies that can be delivered through an improved application of information and the opportunities that consequently arise to improve council operations and services to the public.

Income Collection:

This theme relates to the reductions in the overall levels lost income to the Council that arise from the consolidation of our debt management teams.

Asset Management:

This theme relates to the revenue savings that the Council can achieve through the better management of its asset base.

CAPITAL PROGRAMME 2011/12- 2013/14

1. The Capital Programme is concerned with planning for investment in assets and infrastructure necessary to deliver high quality services to residents. Expenditure on services comprises a recurring, revenue element (eg. staff salaries, running costs, contract payments etc) and planned capital investment in assets and infrastructure (e.g. buildings, vehicles etc). Effective service delivery requires these resource elements to be considered together.
2. The Capital Programme agreed by the Council invariably has revenue cost implications.
 - Capital financing may be charged to revenue accounts either in the form of direct contributions to capital expenditure, or as costs of borrowing or other credit arrangements to finance capital expenditure.
 - Building schemes normally carry with them ongoing running costs which in some circumstances cannot be met from existing resources.

It is therefore not possible to consider the Capital Programme and revenue plans in isolation from each other.

3. Tower Hamlets Capital Programme has traditionally been divided into two elements;
 - Mainstream Programme- which is funded largely from resources allocated by the Government and other funding bodies, and which follows the priorities of those funding bodies, although often with a high level of congruence with local priorities.
 - Local Priorities Programme- which is funded from resources generated by the authority itself, from capital receipts, revenue contributions to capital budgets and prudential borrowing, and is allocated to the Council's own priorities.

4. Issues for the Mainstream Programme

- 4.1 Government support to the capital programme is subject to annual announcements of funding. Indications are that capital budgets will be under similar pressure to revenue allocations, and this is likely to impact upon the resources available for mainstream programmes.
- 4.2 In his speech for the emergency Budget, the Chancellor said, "There will be no further reductions in capital spending totals in this Budget. But we will still make careful choices about how that capital is spent. The absolute priority will be projects

with a significant economic return to the country". Whilst the decision not to cut capital budgets is encouraging, the second part of the Chancellor's statement suggests that large scale infrastructure projects of national or regional importance may be given precedence over local schemes. It remains to be seen following the Spending Review.

- 4.3. Some Government funding is allocated in the form of supported borrowing. In previous years, this has resulted in the allocation of additional Formula Grant to fund the borrowing cost. The fact that Tower Hamlets is now at the grant floor, however, means that it will not receive additional funding for supported borrowing. When it comes to setting the capital programme for future years, Members will need to consider whether the authority can afford to borrow this money. In the meantime, General Fund revenue forecasts assume a provision for the estimated cost of supported borrowing.
- 4.4. The Government's policy remains to "un-ringfence" funding to local authorities as much as possible so it can be allocated to local priorities rather than those set by Government Departments. This applies as much to capital funding as to revenue grants. The authority's past practice has been to allocate mainstream resources to the services for which they were intended. As part of the review of the capital programme, it will be necessary to consider whether capital funding that is unringfenced by the Government should continue to be applied in accordance with its primary purpose or should be reallocated to local priority schemes.

5. Local Priorities Programme

- 5.1. The Local Priorities Programme is that part of the Capital Programme which is funded through resources generated locally; capital receipts, revenue contributions, section 106 contributions and grants applied for from external bodies such as the National Lottery.
- 5.2. The level of the capital programme has been sustained at a high level until now largely through the planned realisation of major capital receipts and the use of reserves, but this approach cannot be relied upon in future years and carries a degree of risk.
- 5.3. Further funding may be available in receipts over the next three years from asset sales listed in the approved Asset Management Plan. This includes Right to Buy income from the sale of Council houses, and the disposal of further sites which have been identified in the Asset Management Plan but have not yet been formally sanctioned by Cabinet. Right to Buy receipts are assumed to continue at recent levels, although there are signs that this is being impacted by the current slow down in housing markets. Further capital receipts are contingent upon other decisions and successful.

6. Other Potential Sources of Funding

6.1 Prudential Borrowing

The Council is empowered to set its own level of borrowing and other credit arrangements to fund capital expenditure, providing that level is affordable,

sustainable and prudent. The benefit of prudential borrowing is that it enables an authority to come to its own view as to the appropriate balance between revenue and capital spending, to undertake options appraisal for revenue-intensive and capital-intensive options on a consistent basis, and to borrow for capital purposes as needs arise instead of when Government gives its approval. The Council may decide to fund additional capital expenditure through prudential borrowing where the tests of affordability, sustainability and prudence are met, and where it appears to offer value for money to do so.

Prudential borrowing is only affordable if borrowing costs can be met from revenue funding in the long term. With large scale revenue savings likely to be necessary over the next few years, the capacity for additional borrowing will inevitably be restricted.

Nevertheless, prudential borrowing can be useful in providing finance for schemes and projects which will deliver revenue cost in the medium term. Current policy is that prudential borrowing is restricted to invest to save schemes where ongoing savings are sufficient to fund borrowing costs. In future the pressure will be to restrict prudential borrowing to those projects that offer savings over and above the costs of borrowing.

6.2 Revenue Contributions to Capital Expenditure

The opportunity to use revenue funding in this way is clearly dependent upon the availability of revenue funding. HRA reserves have been used in recent years to fund priority capital projects such as the Overcrowding Strategy, but HRA reserves are now at a level at which further allocations cannot be recommended. Reward grants have also been used, but as part of its measures for grant cuts for 2010/11, Government announced that Local Area Agreement Reward Grants, Local Authorities Business Growth Incentive (LBAGI) and Housing & Planning Delivery Grant allocations would be curtailed in the immediate future.

This page is intentionally left blank

LONDON BOROUGH OF TOWER HAMLETS
HOUSING REVENUE ACCOUNT
MEDIUM TERM FINANCIAL STRATEGY - 2011/2014

2009/10 Provisional Outturn £'000	HEADING	2010/11 Budget £'000	2011/12 Budget £'000	2012/13 Budget £'000	2013/14 Budget £'000
(91,788)	HRA Income				
	Base Budget (2010/11 only)	(90,477)			
	Base Budget - previous year		(90,477)	(89,002)	(89,634)
	Inflation		(1,903)	(1,913)	(1,974)
102,111	HRA Expenditure				
	Base Budget (2010/11 only)	90,323			
	Base Budget - previous year		90,323	91,491	92,617
	Inflation		1,532	1,564	1,601
10,323	Initial Base HRA Budget	(154)	(525)	2,140	2,610
	Committed Growth				
	Overcrowding Strategy / Other Capital Requirements	4,450			
	Building Britain's Future - Housing New Build		60	60	60
10,323		4,296	(465)	2,200	2,670
	Approved Savings & Other Adjustments to Base Budget B/F				
	Prior year approved cumulative budget savings			(1,915)	(3,208)
	Net Loss of Subsidy		1,879	1,781	2,018
	Adjustment to Capital Financing Charges and Depreciation		(121)	(345)	148
	Stock Related Adjustments		1,500	150	150
	Reduction in ICT recharge to the HRA		(243)	(243)	
	Contribution from Major Repairs Reserve	(618)	(335)	(335)	(335)
	Savings Required to Maintain Balances and a Balanced Budget		(1,915)	(1,293)	(1,443)
10,323	Balanced Budget	3,678	300	0	0
	HRA Balances				
	General Balances				
12,120	Balances at beginning of year	5,978	5,300	5,000	5,000
5,978	Balances at end of year	5,300	5,000	5,000	5,000
	Housing Choice Reserve				
11,181	Balances at beginning of year	7,000	4,000	4,000	4,000
7,000	Balances at end of year	4,000	4,000	4,000	4,000
12,978	Total Reserves Available to the HRA	9,300	9,000	9,000	9,000

This page is intentionally left blank

APPENDIX G

BUDGET SETTING TIMETABLE FOR 2011/12- 2013/14

Financial Outlook report for 2011/12-2013/14 to Cabinet Budget priorities and parameters for 2011/12 set	4 th August 2010
Identification by officers of efficiency savings for 2011/12-2013/14 within the identified themes.	August-October 2010
Spending Review outcome announced by the Government	20 th October 2010
Scrutiny by leading Members of savings proposals and unavoidable growth bids and any other budget request made in August Cabinet report.	Sept-November 2010
Anticipated Local Government Finance Settlement	Late November-early December 2010
Draft budget submitted to Cabinet	12th January 2011
Overview & Scrutiny Committee consideration of budget	8 th February 2011
Final budget recommendation to Council made by Cabinet	9 th February 2011
BUDGET COUNCIL	2 nd March 2011

This page is intentionally left blank