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|--|----------------------------|---|-------------------|---------------------|
| <b>Committee:</b><br>Cabinet   | <b>Date:</b><br>6 May 2009 | <b>Classification:</b><br>Unrestricted  | <b>Report No:</b> | <b>Agenda Item:</b> |
| <b>Report of:</b><br><br>Chris Naylor, Corporate Director-Resources<br><br><b>Originating officer(s)</b><br><br>Alan Finch – Service Head, Corporate Finance |                            | <b>Title:</b><br><br><b>Budget Process 2010/11</b><br><br><b>Wards Affected:</b><br><br>All |                   |                     |

## 1. INTRODUCTION

- 1.1. Tower Hamlets set its first Three Year Budget in 2008, and 2010/11 will be the third year of that budget. A Government Spending Review is due in 2009 although it is now looking unlikely that it will go ahead; however, if there is a spending review, 2010/11 would be the first year of the next Three Year Settlement.
- 1.2. The Medium Term Financial Plan sets a balanced budget for 2010/11, but the external environment looks very different from the way it did when the Three Year Budget was originally set. The economic downturn has brought financial losses and uncertainty, which has been brought into account in setting reserves, but nevertheless represents enhanced risk. The financial settlement in 2009, followed by a probable Comprehensive Spending Review in 2010, will have to address the growing deficit in the public finances.
- 1.3. This paper broadly sets out the financial parameters for 2010/11, and outlines a proposed budget setting and strategic planning process to be undertaken during 2009/10. The proposed process has been developed in the context of the 2009/10 budget process just concluded and the financial forecast for 2010/11 and beyond.

## 2. RECOMMENDATIONS

The Cabinet is recommended to -

- 2.1. Note that the Corporate Director, Resources will undertake an exercise to review the financial outlook for the authority in terms of expenditure and income as set out in paragraph 5.5 of the report.
- 2.2. Agree that any additional committed growth put forward by Directorates as part of this process will need to be matched by the equivalent value in efficiency savings from that Directorate.
- 2.3. Agree the outline budget process (Section 5 of the report) and timetable (Section 6) for this exercise and the rest of the budget process.

- 2.4. Note that a further report will be submitted to the Cabinet in July setting out the parameters for the 2010/11 budget process and inviting Cabinet to agree a budget strategy.

### **3. BACKGROUND**

- 3.1. The Cabinet considered the budget for 2009/10 and Medium Term Financial Plan 2009-2012 at its meeting on 11<sup>th</sup> February. Subsequently, the Council agreed the budget for 2009/10 at the Budget Council meeting on 4<sup>th</sup> March 2009.
- 3.2. As set out in reports previously presented to Cabinet, Formula Grant funding is reducing in real terms each year, and there are similar pressures on the Housing Revenue Account Subsidy. The impact of the economic recession will put further pressure on the public finances which is bound to be reflected in the next Spending Review. At the same time, the economic downturn will put pressure on the Council's own budget.
- 3.3. Like other authorities, Tower Hamlets capacity to manage these pressures will be stretched. There is a growing consensus that we are moving into a period where there will be sustained reductions in public sector investment. It is likely that these reductions will last well into the coming decade and perhaps up until 2020.

### **4. THE 2009/10 BUDGET**

- 4.1. The 2009/10 budget setting has produced a deliverable, balanced budget that provided for investment and growth in the priority areas identified at the start of the budget process. Undoubtedly, the three year budget set at the beginning of 2008/09 assisted that process, enabling the authority to identify at an early stage that as long as the budget parameters for 2009/10 reflected in the three year budget were adhered to, there was capacity for growth. This enabled the budget process to focus on setting priorities for Service Improvement Growth and a review of Area Based Grant (ABG).
- 4.2. Risks materialised during the process, with the result that additional savings needed to be found to achieve a balanced budget. However this did not require a new savings exercise and a balanced budget was achieved by bringing forward efficiency measures initially planned for 2010/11 and 2011/12.
- 4.3. The process was assisted further by that fact that general reserves as at the 31<sup>st</sup> March 2009 were estimated to be at the upper end of the 5%-7.5% policy range at around 7.5%. Following the end of Housing Choice and the setting up of the ALMO, the General Fund Decent Homes Reserve was deemed already to be at a more than adequate level. It was therefore not necessary for the Council to make the budgeted contributions to reserves in 2009/10, which released funding for growth and to meet budget pressures. In addition to the savings identified in the Three Year Budget, the authority took the opportunity presented by the "unringfencing" of a number of specific grants and the establishment of ABG, and reprioritised expenditure to contribute a further £3.5m.
- 4.4. An economic downturn was predicted in the Three Year Budget, but the Autumn 2008 banking crisis, which has contributed to the onset of the recession, was not. The effect

of the crisis on interest rates has resulted in reduced income to the Council from investments, and it is predicted that, unless there is an increase in base rates later in the year (which seems increasingly unlikely), there will be a shortfall against budget of around £2m in 2009/10. This shortfall can be met from Council reserves if necessary. In addition, the Council has made provision for inflation in the 2009/10 budget at a level higher than now forecast by the Government and this provides the opportunity to fund additional pressures. If it is necessary to using this allocation for another purpose, a virement will be necessary and Cabinet approval of this will be sought for this at the appropriate time.

## **5. THE 2010/11- 2012/13 OUTLOOK & NEXT STEPS**

- 5.1. The Budget and Medium Term Financial Plan agreed by the Council in March is set out at **Appendix A**. The Committed Growth and Savings proposals planned for 2010/11 are set out at **Appendices B & C** respectively.
- 5.2. The assumptions underpinning the planning figures for 2010/11 and 2011/12 will need to be revisited as part of the forthcoming budget process for 2010/11, and a new 'year 3' projection for 2012/13 will need to be constructed. There are a number of significant factors which indicate that the financial position is more likely to worsen than improve;
  - \* The costs to services of the economic downturn, including any increased demand for services and losses of income, including the loss of investment income discussed above.
  - \* Increasing signals that the next financial settlement for local authorities will be harsher than previously anticipated in view of the need to fund a higher public sector deficit.
- 5.3. The Chancellor of the Exchequer's Budget on 22<sup>nd</sup> April confirmed that the Formula Grant settlement for 2010/11 will remain as previously announced. For Tower Hamlets, this is expected to mean that a 1.5% increase in grant will be forthcoming, which is of course below the current rate of inflation and the rate of population growth for the area, but is at the level reflected in the Medium Term Financial Plan. At the time of writing, it is not known whether the Chancellor's announcement regarding Formula Grant will also apply to specific grants and ABG, and it is likely that these decisions will be taken by individual Government Departments as they set their own budgets later in the year. In light of this, a review of risks around specific grants and ABG will need to be undertaken as part of the budget process. In the Budget, local government has also been asked to increase its efficiency savings target for 2010/11 from 3% to 4%, although these savings will be 'recycled to front line services'. For the period from 2011/12 onwards, the Chancellor has set an additional efficiency target for public services rising to £9bn by 2013-14. Local Government settlements are certain to be impacted by this additional target.
- 5.4. It is evident that, subject to the review discussed in the next paragraph, next year's budget process needs to go forward on the basis of no presumption of additional growth at this stage. Where growth is unavoidable this will mean finding additional efficiency savings to meet this growth, and in the interests of financial discipline it is

proposed that these should be found from within the Directorates identifying additional growth.

- 5.5. Ahead of the annual Budget Outlook report to Cabinet in July, officers will now conduct a review of Medium Term Financial Plan assumptions to ensure that they can still be delivered. It is proposed that this exercise should be undertaken with Members of the Cabinet, so that Members can be part of the challenge, risk judgement and the decision making from the outset. To ensure that the exercise can be undertaken thoroughly and without intolerable time pressures built into the summer months and early autumn, it is proposed that this exercise is fully completed before the end of June 2009 and reported to Cabinet in July.

#### Housing Revenue Account

- 5.6. The Housing Revenue Account has been balanced in the current financial year, but there is a concern that Housing Revenue Account Subsidy will diminish over the coming years. The HRA is also affected by changes in interest rates. Traditionally in Tower Hamlets, there has been a separate Housing Revenue Account budget process. Recently this dual process has become more difficult to sustain, at least partly because of the tightening financial position. It is therefore proposed that the budget process for the General Fund and the HRA needs to be a single process for 2010/11.

#### Capital

- 5.7 The Local Priorities Capital Programme is now based on the principle that funding will not be allocated to schemes until funding has been received, or is contractually bound to be received. The 2009/10 programme has allocated all capital receipts in hand and has supplemented this with the use of reserves. Planning for the capital programme will need to follow the same process as for revenue. Local Priority Programme funding will be reliant on further asset sales.

### **6. TIMETABLE**

- 6.1 The position set out above makes it clear that early discussions with Members are necessary, and an early start to the formal budget process to undertake due diligence is strongly advisable.
- 6.2 It is therefore proposed that the following timetable should apply for the 2010/11 budget process.

|   |                     |
|---|---------------------|
|   |                     |
| Cabinet Paper on Financial Forecast and commissioning of due diligence process  | 6 <sup>th</sup> May |
| Financial review exercise   | May-June 2009       |
| Identification of savings for 2010/11, additional proposals for 2011/12 and 2012/13                                   | June-September 2009 |
| Preparation of Capital bids   | June-September 2009 |
| Cabinet Report: Confirmation of savings targets following outcome of LAP SARP and informed by aspirations of Cabinet. | July Cabinet        |
| Scrutiny of savings proposals and capital bids and any other budget request made in July Cabinet report               | Sept-Oct 2009       |
| Local Government Finance Settlement   | November 2009       |
| Draft budget – Cabinet  | January 2010        |
| Final budget recommendation- Cabinet  | February 2010       |

## **7. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

The comments of the Chief Financial Officer are contained within the report, of which he is the author.

## **8. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)**

- 8.1 The report informs Cabinet of the current financial outlook and the proposal to review expenditure and income against the financial outlook. Cabinet's agreement is sought to the approach to any additional committed growth put forward following the review and to the proposed budget process.
- 8.2 It is within the responsibility of the Council's officer appointed under section 151 of the Local Government Act 1972 to administer the Council's financial affairs and, accordingly, it is appropriate for the Corporate Director Resources to carry out the proposed review and to bring forward this report to Cabinet.
- 8.3 The setting of the budget falls to the Full Council under the Council's Constitution, but this report is concerned with managing the budget and the budget process, which falls within Cabinet's responsibility.

## **9. ONE TOWER HAMLETS IMPLICATIONS**

The Strategic & Resources Planning process is the process by which the authority allocates resources to its priorities in order to deliver the Strategic Plan and Community Plan. A single process covers all services of the Council so that judgements can be made on resource allocation options and to ensure that resources are utilised in the most efficient and effective way across all the Council's activities. The proposal to bring the HRA into the process is a necessary part of this exercise.

## **10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

Actions to promote sustainable actions for a greener environment are among the activities that need to be taken into account in the Strategic & Resource Planning Process.

## **11. RISK MANAGEMENT IMPLICATIONS**

The report sets out a number of areas in which financial risk is increasing for the authority, as with all other local authorities. The Medium Term Financial Plan reflects risk by;

- Ensuring that unavoidable cost pressures are funded before decisions are made about improvement growth and tax levels.
- Ensuring that known risks to costs and income streams are provided for in plans.
- Ensuring that sufficient funding is held back in the form of reserves and contingencies to allow the consequences of unforeseen risks to be managed without resorting to unplanned actions.

Since the Council is not able to set deficit budgets, and cannot increase Council Tax or Housing Rents outside the framework set by the Government, the main risk of failing to plan the finances of the authority adequately for the next 3 years is the risk that service cuts may need to take place which affect service delivery or the longer term stability of the Council's operations.

## **12. EFFICIENCY STATEMENT**

The objective of the Strategic & Resource Planning process is to ensure as much as possible that the priorities of the authority can be delivered without cuts in services or unaffordable increases in Council Tax, rents or other charges. To achieve this, savings will need to be delivered through increased efficiency, which will become harder to deliver as savings targets increase and as 'quick win' opportunities dry up. Forward planning to identify and deliver efficiencies will be crucial to this, and this will include the need to monitor to ensure that efficiencies planned for are delivered in accordance with that plan.

## **APPENDICES**

|            |  |
|------------|--|
| Appendix A | Approved Medium Term Financial Plan 2009/10- 2011/12 |
| Appendix B | Committed Growth for 2010/11 reflected in the MTFP   |
| Appendix C | Savings for 2010/11 reflected in the MTFP            |

**Brief description of "background papers"**

**Tick if copy  
supplied  
for register**

**If not supplied,  
name and  
telephone number  
of holder**

Not applicable

## APPENDIX A

### MEDIUM TERM FINANCIAL PLAN 2009/10 - 2011/12

|   | 2008/09<br>£'000 | 2009/10<br>£'000 | 2010/11<br>£'000 | 2011/12<br>£'000 |
|---|------------------|------------------|------------------|------------------|
| <b>Initial Budget</b>                               |                  | 295,498          | 297,926          | 305,453          |
| <b>Inflation</b>                                    |                  | 6,222            | 6,494            | 7026             |
| <b>Committed Growth</b>                             |                  |                  |                  |                  |
| Approved In February 2008                           |                  | 3,618            | 2,479            |                  |
| Reported to January 2009 Cabinet                    |                  | 3,605            | -356             | 2919             |
| <b>Savings</b>                                      |                  |                  |                  |                  |
| Approved in February 2008                           |                  | -3,970           | -2,694           |                  |
| Reported to January 2009 Cabinet                    |                  | -1,704           | -702             | -195             |
| <b>Other Adjustments Required</b>                   |                  |                  |                  |                  |
| Facilities Management                               |                  | 2,950            |                  |                  |
| London Pensions Fund Authority Levy                 |                  | 411              | 353              | 235              |
| Concessionary Fares                                 |                  | -800             |                  |                  |
| Capital Financing and Investment                    |                  | -2,438           | 2,365            | 72               |
| Pensions Fund                                       |                  |                  |                  | 4,501            |
| One off spending in 2008/09                         |                  | -2,701           | -317             |                  |
| <b>Changes in Contributions to Reserves</b>         |                  |                  |                  |                  |
| Asset Management                                    |                  | -500             |                  |                  |
| Decent Homes  |                  | -1,978           |                  |                  |
| General Reserves                                    |                  | -1,200           |                  |                  |
| Changes in Contingency budget                       |                  | -194             |                  |                  |
| Additional contribution from Parking Control A/c    |                  | -90              | 90               |                  |
| <b>Other Funding</b>                                |                  |                  |                  |                  |
| Prioritisation of Area Based Grant                  |                  | -3,501           | -295             | 3796             |
| <b>Service Improvement Growth</b>                   |                  |                  |                  |                  |
| Service Improvement Growth approved during 2008/09  |                  | 1,600            |                  |                  |
| LAP Budgets   |                  | 2,380            |                  | -2,380           |
| London Living Wage                                  |                  | 260              |                  |                  |
| Tackling overcrowding                               |                  | 90               | 110              |                  |
| Enforcement Officers                                |                  | 368              |                  |                  |
| Savings target for 2011/12                          |                  |                  |                  | -9910            |
| <b>Budget Requirement</b>                           | 295,498          | 297,926          | 305,453          | 311,517          |
| Formula Grant                                       | -224,997         | -228,816         | 232,204          | 235,687          |
| Collection Fund Surplus / Deficit                   | -1,505           | 2,000            | 0                | 0                |
|   | <u>68,996</u>    | <u>71,110</u>    | <u>73,249</u>    | <u>75,830</u>    |
| <b>Projected Band D Council Tax - Tower Hamlets</b> | £865.64          | £885.52          | £907.67          | £930.35          |



**COMMITTED GROWTH 2010/11**

| <b>Directorate</b>                | <b>Description</b>                             | <b>Amount<br/>£000s</b> |
|-----------------------------------|--|-------------------------|
| Adults, Health & Wellbeing        | Learning Disabilities Commissioning            | 724                     |
| Children's Services               | Disabled Children (section 17)                 | 157                     |
|                                   | Primary School Transport                       | 160                     |
|                                   | Children's Fieldwork (fallout of growth)       | -186                    |
|                                   | School Meals (fallout of growth)               | -70                     |
|                                   | BSF client side (fallout of growth)            | -100                    |
| Development & Renewal             | Local Development Framework                    | 300                     |
|                                   | Barkantine heating system                      | 13                      |
| Communities, Localities & Culture | Transportation, treatment & disposal of waste  | 1,031                   |
|                                   | Waste collection                               | 44                      |
| Chief Executive                   | Best Value Satisfaction Survey                 | 60                      |
| Resources                         | Office accommodation costs (fallout of growth) | -620                    |
| Corporate                         | Employer contributions to Pensions Fund        | 600                     |
|                                   | <b>Total</b>                                   | <b>2,113</b>            |

## **SAVINGS 2010/11**

| <b>Directorate</b>                | <b>Description</b>  | <b>Amount<br/>£000s</b> |
|-----------------------------------|---|-------------------------|
| Adults, Health & Wellbeing        | Improved efficiency of procurement of supplies and services | 150                     |
|                                   | Business process reengineering                              | -34                     |
| Children's Services               | Staffing review   | 375                     |
|                                   | Unit costs analysis   | 228                     |
|                                   | Streamlining support for families in need                   | 56                      |
|                                   | Children's social care commissioning                        | 100                     |
|                                   | Organisational restructure of YPL                           | 40                      |
|                                   | Attendance Welfare Service – invest to save                 | 78                      |
|                                   | Non statutory support to schools                            | 25                      |
|                                   | Vendor managed service                                      | 30                      |
|                                   | Young people outside school                                 | 40                      |
|                                   | Review of statutory and non-statutory provision             | 250                     |
|                                   | Early Years Advisory Team                                   | 50                      |
|                                   | Streamlining of extended provisions                         | 70                      |
|                                   | Restructure of Quality & Audit team                         | 24                      |
|                                   | EYCL efficiencies   | 197                     |
| Communities, Localities & Culture | Reduce street light maintenance                             | 30                      |
|                                   | Re-provision of leisure facilities                          | 230                     |
|                                   | Parking revenue   | 332                     |
|                                   | Trade waste   | 200                     |
| Development & Renewal             | Technical support to Planning & Building Control            | 49                      |
|                                   | Review of Housing related employment initiatives            | 50                      |
|                                   | Horizontal savings  | 12                      |
|                                   | Corporate Match Funding                                     | 20                      |
|                                   | Digitisation Project  | 120                     |
| Chief Executive's                 | Reduction in communications expenditure                     | 81                      |
|                                   | Registration of Births, Marriages & Deaths                  | 20                      |
|                                   | Other   | 151                     |
| Resources                         | Procurement of agency staff                                 | 20                      |
|                                   | Efficiency in the administration of benefits                | 100                     |
|                                   | Other   | 302                     |
|                                   |   |                         |
| <b>TOTAL</b>                      |   | <b>3,396</b>            |