

Meeting of the

CABINET

Wednesday, 1 December 2010 at 5.30 p.m.

SUPPLEMENTAL AGENDA – SECTION ONE

VENUE

Committee Room, 1st Floor, Town Hall, Mulberry Place, 5 Clove
Crescent, London, E14 2BG

Members:

| | |
|-----------------------------|--|
| Mayor Lutfur Rahman | – (Mayor) |
| Councillor Ohid Ahmed | – (Deputy Mayor) |
| Councillor Alibor Choudhury | – (Cabinet Member for Resources) |
| Councillor Rabina Khan | – (Cabinet Member for Housing) |
| Councillor Rania Khan | – (Cabinet Member for Regeneration) |
| Councillor Oliur Rahman | – (Cabinet Member for Children's Services) |

[Note: The quorum for this body is 3 Members].

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:

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LONDON BOROUGH OF TOWER HAMLETS

CABINET

WEDNESDAY, 1 DECEMBER 2010

5.30 p.m.

10 .2 Budget 2011/12 - 2013/14 (CAB 064/101) - To Follow (Pages 1 - 12)

Agenda Item 10.2

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|--|---------------------------------|--|----------------------------------|
| Committee/Meeting: Cabinet | Date: 1st December | Classification: Unrestricted | Report No: CAB 064/101 |
| Report of: Corporate Director of Resources Originating officer(s) Alan Finch, Service Head Corporate Finance | | Title: General Fund Budget 2011/12 – 2013/14 Wards Affected: All | |

| | |
|-----------------------------|--|
| Lead Member | Alibor Choudhury, Cabinet member for Resources |
| Community Plan Theme | All |
| Strategic Priority | All |

Special Circumstances and Reasons for Urgency;

This report provides information to the Cabinet on the outcome of the Government's Comprehensive Spending Review ("CSR") and sets out proposals to facilitate delivery of the resulting savings targets in 2011/12, having regard also to medium term financial planning. The report makes clear that, as expected, local government was particularly affected by the CSR, with significant cuts over the three years 2011/12 to 2013/14. The cuts proposed for local government are more heavily weighted to 2011/2012, the first year of the cycle, than was expected. The Government also appears to have abolished or redirected a number of specific grants, in relation to which the position is not yet clear. In order to make the necessary savings the Council will be required to dismiss staff by reason of redundancy. The numbers will be such as to necessitate consultation with unions and a notice has been given to this effect pursuant to section 188 of the Trade Union and Labour Relations (Consolidation) Act 1992. This report was held for as long as possible before being finalised and released in case of a clarifying announcement by the Government on the distribution of Council funding for 2011/12. No such announcement has yet been made. As a consequence of prudent delay in bringing forward the report, it was not possible for the report to be published with the agenda. It is, however, essential that Cabinet consider this report on 1 December 2010, to enable work to progress to deliver savings for the 2011/2012 budget. This work will in turn be required to enable the statutory consultation with unions to proceed.

1. **SUMMARY**

- 1.1 This report provides information to the Cabinet on the outcome of the Government's Spending Review and recommends a number of actions to

facilitate the delivery of the resulting savings target while minimising the impact on front-line services.

- 1.2. In August 2010, the Cabinet requested the Corporate Management Team to prepare savings proposals in accordance with a target of £70.2m over the three years 2011/12- 2013/14. The Cabinet agreed seven savings themes with a view to prioritising the protection of front-line services.
- 1.3. The outcome of the Spending Review was announced on 20th October, and as widely predicted local government was one of the areas that was hit particularly hard. Details of the impact on Tower Hamlets have yet to be announced, and this includes the allocation of individual grants, which are expected to be known over the next two weeks.
- 1.4. The headline from the Spending Review is that local government as a whole will see its grant funding from the Government reduce by 28% in real terms over the next four years, 2011/12 -2014/15. This equates to a reduction in cash funding of about one-fifth. In addition to this the Government appears to have abolished or redirected a number of specific grants, and the position in relation to these is not clear.
- 1.5. The local government grant cuts are heavily weighted towards the first year in the cycle, with about 40% of the cuts at a national level falling to be met in 2011/12. This makes it considerably more challenging for local authorities to make savings through organisational change and increases the risk that front-line services will be affected by the cuts.
- 1.6. This report sets out some initial proposals which will enable officers to progress efficiency proposals in 2010/11 which will significantly improve the prospects of delivering savings in 2011/12 whilst protecting frontline service outcomes.

2. **DECISIONS REQUIRED**

Cabinet is recommended to:-

- 2.1. Note the outcome of the Spending Review for local government and the expected impact on Tower Hamlets, and that the detailed allocation of grants to the authority will be announced by the Government shortly.
- 2.2. Agree to set aside £8m from contingencies and reserves as set out at paragraph 6.15 of the report in order to progress measures to implement savings for 2011/12. .
- 2.3. Note that a report will be submitted at the next meeting in January asking Cabinet to set a draft budget for 2011/12- 2013/14.

3. **REASONS FOR THE DECISIONS**

- 3.1 The Council must start meaningful consultation with recognised trade unions as soon as it is known changes affecting staff are proposed. The decision is required in order to progress matters concerned with the delivery of savings required to set a balanced budget for 2011/12 following the Government's Spending Review announcement on 20th October 2010.

4. ALTERNATIVE OPTIONS

- 4.1 Alternative options are limited by the scale of the spending cuts likely to be required following the Government's Spending review announcement. The full scale of these cuts will not be known until the grant distribution announcement is made over the next few weeks. Acting on the instructions of the Mayor, officers have devised a response which sets out to protect as far as possible front-line service delivery. Alternative spending proposals would be likely either to impact adversely on service delivery or to lead to delay, which would not enable the Council to set a balanced budget for 2011/12.

5. BACKGROUND

- 5.1 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.
- 5.2 The Council operates a robust resource allocation process underpinned by an integrated strategic and resource planning framework. Processes are designed to ensure that:-
- 5.2.1 Service plans are developed against the background of forward looking financial forecasts
- 5.2.2 The financial consequences of proposed actions are identified and are seen as an integral part of service planning
- 5.2.3 Financial plans allocate resources to address changing community needs and priorities.
- 5.3 Under current circumstances, with public spending due to be reduced in real terms over the period of the current Parliament, the medium term financial planning process becomes particularly important in ensuring that the Council's available resources are allocated to those services of the greatest priority and that actions to address anticipated funding cuts are put in place in a timely way to minimise the impact on those priority services.
- 5.4 The outcome of a fundamental Spending Review was announced by the Coalition Government on 20th October. The Spending Review confirmed that local government is one of the areas of Government spending which will be

particularly affected by spending cuts. Moreover, the cuts proposed for local government are heavily weighted towards the first year of the cycle, 2011/12.

- 5.5 The report is intended to provide the context for the development of the detailed budget proposals to be submitted to Cabinet in January. However in light of the particularly difficult settlement and the work that has been undertaken by officers to develop proposals that have the best chance of protecting front-line services, some initial actions are recommended.

6 BODY OF THE REPORT

OUTCOME OF THE SPENDING REVIEW

- 6.1 The Spending Review announced on 20th October confirms that significant cuts in public spending will be expected over the next four years. Across the public sector, spending on public services, excluding the health service which has been protected, will reduce by 19% in real terms. Local Government spending, however, will reduce by 28% in real terms over the four year period of the review, which is one of the highest areas for savings.
- 6.2 The impact upon Tower Hamlets is still unclear because the announcement of some grants and the distribution between authorities is not expected to be known until early December. In particular, the distribution of Formula Grant, which is the largest non-ringfenced grant the authority receives, has been subject to a review this year and a number of the proposals would be highly detrimental to Tower Hamlets. The last Government was using grant distribution to move funding gradually from the South of the country to the North, which was detrimental to London. It is believed that the new Government may be looking to move funding away from cities and larger towns into rural and coastal areas, and if this happens London would again be disadvantaged.
- 6.3 The figures announced by the Government indicate that grant cuts will be heavily weighted towards the early years of the Spending Review period and especially in 2011/12. The profile of cuts to Formula Grant in cash terms is set out below.

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---|---------|---------|---------|---------|
| Percentage change in Formula Grant (cumulative) | -12.5% | -18.7% | -18.8% | -23.6% |

Although it was anticipated that the Government would seek to weight the cuts towards the earlier years of the Spending Review, the extent of the front-end weighting is greater than expected. It is a particular challenge because the kind of change required to deliver transformation in services without affecting the front-line is more likely to be successful if it is managed over a longer period. The profile of savings required is likely to make it more expensive to bring about change and the risk that front-line services cannot be protected is greater.

6.4. The Spending Review has also indicated that capital grants to local authorities will reduce by 45% over the four years of the settlement. This could put additional pressure on Tower Hamlets in particular as it could restrict the funding available for investment in assets necessary to deliver services to the Borough's growing population. As with revenue grants, it is not yet known what the precise impact will be and capital grants will be announced over the next few weeks. The Government also announced that the cost of borrowing from the Public Works Loans Board would increase by around 20%.

6.5 The Government has announced that a Council Tax Freeze Grant will be provided for four years to any authority which sets a 0% Council Tax increase in 2011/12. For Tower Hamlets this would be worth £1.961m.

6.6 A number of other financial announcements were made, most of which require further detail before their impact on Tower Hamlets can be determined. These are set out below.

6.6.1. Carbon Reduction Credits

The Government has reviewed the Carbon Reduction Credits scheme and has decided that instead of being a cost neutral scheme in which credits are returned to those organisations that perform best in reducing their carbon usage, the revenue raised from the purchase of credits should go to the Treasury. This is likely to the cost the authority around £350,000 with effect from 2012/13.

6.6.2. Council Tax Benefit

It is the Government's intention to 'localise' Council Tax Benefit with effect from 2013/14, and to reduce the cost by around 10%. Local authorities will be required to set their own local scheme of Council Tax Benefit, likely to be funded by a Government subsidy reduced by 10%.

6.6.3. New Homes Bonus/ Tax Increment Finance

The Government has published a White Paper setting out its intention to introduce two schemes financially to incentivise authorities to promote economic growth and regeneration. The New Home Bonus would incentivise house-building by match funding additional Council Tax raised from new homes and properties brought back into use for a period of six years. The Tax Increment Finance Scheme would allow local authorities to retain business rates generated from development and borrow against these future revenues raised to promote the development. Neither scheme has been announced in detail and so cannot be relied upon for budget planning at this stage.

6.7 The Government has made a number of complicated changes to grants as part of the Spending Review. The main changes are;

- Some £25.9m worth of Tower Hamlets grants, including a large proportion of Area Based Grant (ABG) have been transferred into

Formula Grant. The basis on which this will be done is currently unclear.

- A number of Children's Services specific grants have been abolished and a new Early Intervention Grant has been created which is expected to accumulate and redistribute many of the deleted grants.
- The Government has said that additional money is being allocated through Formula Grant and via PCTs for Social Care, although in the context of major funding cuts, the true additionality of this is doubtful.
- No information has yet been provided on a number of other specific grants and elements of ABG, some of which are expected to be abolished.

6.8. Planning figures assume at this stage that the Council will not be adversely affected by decisions taken by the Government when distributing grants between authorities. It also assumes that specific grants will either continue at current levels or that savings can be found in services funded by specific grants to compensate for any reduction in grants. At the moment it is very difficult to know what the scale and scope of this impact may be. A savings target starting at £38m is likely to be necessary next year as part of a three year target of £78m, although as the report indicates, this could go higher. .

RESPONSE TO THE FUNDING DEFICIT

6.9 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. Whilst the scale of the financial challenges ahead are unprecedented, they can be addressed in the context of this robust, well-embedded approach.

6.10 The savings target indicated for the forthcoming period far exceeds any target necessary in recent years. The savings target for 2011/12 of £38m is about six times the level of savings delivered in any recent financial year and on the basis of the Spending Review further large savings targets will be required in each of the next three years at least.

6.11 The scale of the issue points to the need for a radically different approach to finding savings. In response to this, in February officers instituted a review exercise which identified opportunities for savings. In addition, Directorates were challenged to review their services and identify ways in which these can be delivered more efficiently and effectively.

- 6.12 Subsequently, the Cabinet in August was advised of the outcomes of this process and asked officers to proceed with developing proposals in seven efficiency themes;
- Lean
 - Smarter Working
 - Better Procurement
 - Strategic Partnerships
 - Managing Information
 - Income Collection
 - Asset Management
- 6.13 In addition Directorates were challenged to review their services and identify ways in which these could be delivered more efficiently. The details of these proposals have been discussed with the Mayor and leading Members and will be brought forward to the Cabinet for detailed consideration in January.
- 6.14 Officers have been pressing ahead with developing business plans in relation to the programme theme areas. In most cases, these will be brought forward for detailed consideration in January. However, in order to maximise the benefits in relation to two areas of work, it is considered important that Members agree to proceed in principle with them as soon as possible.
- 6.15 The **Lean** programme seeks to simplify staffing structures and management arrangements across the Council as a means of delivering substantial savings without affecting the delivery of front-line services. Specific opportunities have been identified involving the consolidation of common management operations across the Council, such as HR, policy development and performance management, and in fact the newly designed HR service went live on 1st November. The 'Lean' programme will, however, lead to substantial post reductions across the Council, and although these will initially be managed as much as possible through vacancies, natural wastage and reducing agency staff, some redundancies will also need to take place. Officers need to act now, in accordance with their delegated powers to prepare organisational change proposals that deliver savings before the end of the financial year and into the early months of 2011/12 Members are asked to approve the allocation of £4 million from the 2010/11 budgeted contingency and a further £4million from general reserves to create an £8 million fund to meet the potential severance and early retirement costs arising from these re-organisations currently in development. .
- 6.16 The allocation from General Reserves can be justified because the present level of reserves is £27.1m, which is 8.7% of the Council's Budget Requirement, and this is above the Council's policy guideline of between 5-7.5% for the level of General Reserves. The projected overspend in the General Fund is just under £1.1m. This together with the £4m allocation

towards the cost of redundancies would reduce General Balances to £22.0m, which is 7.1% of Budget Requirement.

- 6.17 The **Smarter Working** programme is closely related to the Lean programme, as it involves vacating the Council's accommodation in Anchorage House on the East India Dock Estate when the lease expires in 2013. This will be made possible by reducing the number of staff requiring office space through the Lean programme, but also by extending mobile working, thus improving customer service, and homeworking, which will improve the work-life balance of staff. Some staff can also be accommodated in Mulberry Place and other existing office buildings. In addition, the Smarter Working programme will introduce a cheaper and greener 'virtual desktop' computing solution. In view of the links to Lean, Members are asked to note the preparations officers are making to deliver this programme so that savings can be brought forward as part of the Council's budget process in the new year.
- 6.18 These two programmes together are targeted to contribute significantly to the savings required for 2011/12 and later years.

| | 2011/12 £000s | 2012/13 £000s | 2013/14 £000s |
|------------------------------|--------------------------|--------------------------|--------------------------|
| Lean | 10,505 | 2,841 | 2,062 |
| Smarter Working | | | 2,340 |
| Total savings in year | 10,505 | 2,841 | 4,402 |
| Cumulative savings | 10,505 | 13,346 | 17,748 |

This table does not include the savings accruing from the virtual desktop proposal, which are to be determined.

NEXT STEPS

6.19 Budget Timetable

Following today's meeting, it is anticipated that further Government funding announcements will follow over the next few days and the Cabinet will receive a further report at its next meeting in January inviting it to set a draft budget and medium term financial plan for the period 2011/12- 2013/14.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

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

- 8.1. The report provides information and proposals consequent upon the Government's Comprehensive Spending Review ("CSR").

- 8.2. It is clear that significant savings will need to be made by reason of the CSR and that urgent action needs to be taken to ensure that the budget process may be completed on time. The Council is required, pursuant to section 30 of the Local Government Finance Act 1992 ("the 1992 Act"), to set an amount of council tax by 11 March 2011. In order to do this, the Council must calculate the budget requirement in accordance with section 32 of the 1992 Act. This requires consideration of estimated revenue expenditure in carrying out Council functions, estimated payments into the general fund, allowances for contingencies and required financial reserves, amongst other things. Before calculating the budget requirement, the Council is required to: (1) consult with representatives of persons who pay non-domestic rates; and have regard to a report of the chief finance officer (the Director of Resources) pursuant to section 25 of the Local Government Act 2003 on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.
- 8.3. The significance of savings required consequent upon the CSR is that there will likely be dismissals by reason of redundancy. In the circumstances, there is a requirement under section 188 of the Trade Union and Labour Relations (Consolidation) Act 1992 for the Council to consult with employee representatives about the proposed dismissals. A notice has been given to commence this process. The full extent of such dismissals may depend upon further Government announcements, expected in December 2010, but it is also necessary to proceed urgently with the work outlined in the report consequent on the CSR.
- 8.4. In the circumstances, it is consistent with good administration and the Council's statutory responsibilities for Cabinet to take the decisions recommended in the report.

9. ONE TOWER HAMLETS CONSIDERATIONS

- 9.1 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. Officers will consider equalities impacts in the development of savings proposals so that these are properly taken into account when staff and budget decisions are taken.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 10.1 SAGE considerations have been taken into account in the forecasts

11. RISK MANAGEMENT IMPLICATIONS

- 11.1 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.

- 11.2 This report, and its subsequent development, is intended to substantially address those risks.
- 11.3 The timetable includes provision to consider specific financial risks as part of the budget making process. The Director of Resources will report further to Members throughout the budget process.
- 11.4 At the time of writing, the distribution of grants between authorities has not been announced by the Government and there will be little time to respond once the announcement is made before the budget report to Cabinet in January is finalised. The Council is addressing this by setting realistic but prudent savings targets and considering the fallback position if the grant distribution is worse than allowed for in the Medium Term Financial Plan.
- 11.5 The Government Spending review has front-end loaded the savings required over the next four years and the main part of those savings will now fall to be met in 2011/12. This increases the risks surrounding the projects and programmes designed to deliver these savings, as any significant delay will jeopardise the Council's budget position. Robust project and programme management will be necessary and urgent decisions may need to be taken from time to time to keep delivery on track. The Government bringing forward the savings in this way will also increase the cost of delivering them and the Council will need to manage its reserves and contingencies carefully to ensure that the financial stability of the authority is not unduly jeopardised. If the Council becomes financially unstable, or there is a substantial risk that it will do so, emergency budget savings might need to be agreed and the aim must be to avoid this.

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 12.1 There are no direct crime and disorder implications.

13. EFFICIENCY STATEMENT

- 13.1 The savings targets likely to be required to balance the Council's budget over the next few years are substantial. Nevertheless, it is important that the Council begins by optimising those opportunities for efficiency that exist rather than looking at cuts to front-line services. The approach set out in this report aims to do that, although the prospect further savings cannot be ruled out.

14. APPENDICES

There are no appendices

Local Government Act, 1972 Section 100D (As amended)
List of “Background Papers” used in the preparation of this report

Brief description of “background papers” Name and telephone number of holder
and address where open to inspection.

Cabinet report August 2010

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