

<b>Committee:</b> Overview & Scrutiny Committee Cabinet Council (updated)	<b>Date:</b> 9 <sup>th</sup> February 2010 10 <sup>th</sup> February 2010 3 <sup>rd</sup> March 2010	<b>Classification:</b> Unrestricted	<b>Report No:</b> <b>CAB 113/090</b> (report updated following Cabinet)	<b>Agenda Item No:</b> <b>Cabinet: Item 10.1</b>
<b>Report of:</b> Corporate Director of Resources <b>Originating Officer(s)</b> Chris Naylor, Corporate Director-Resources & Alan Finch, Service Head – Corporate Finance		<b>Title:</b> <b>General Fund Revenue Budget and Council Tax 2010/11, and Medium Term Financial Plan 2010/2011- 2012/2013</b>		
		<b>Ward(s) Affected:</b> N/A		

## 1. SUMMARY

- 1.1. This report invites the Cabinet to submit its recommendation for the General Fund budget and Council Tax for 2010/11, and a Medium Term Financial Plan 2010/11- 2012/13 to Budget Council for consideration on 3<sup>rd</sup> March 2010.
- 1.2. On the 13<sup>th</sup> January, the Cabinet considered the General Fund revenue budget and referred initial budget proposals to Overview & Scrutiny Committee for consultation in accordance with the Budget & Policy Framework.
- 1.3. The Overview and Scrutiny Committee was due to meet to consider these matters last night (9th February) and any comments will be reported to your meeting this evening. This report also sets out the results of public consultation on the budget, with residents and business ratepayers.
- 1.4. The Government has announced the Council's final three-year Formula Grant settlement for 2009/10 to 2011/12. There is no variation from the provisional figure announced in December.
- 1.5. The Greater London Authority (GLA) is meeting to sets its precept today, 10<sup>th</sup> February, and the report sets out the latest available information on the Mayor's budget proposals at the time of writing and any update will be provided verbally at your meeting. The final GLA budget and precept will be reported to Council on 3rd March.
- 1.6. This report also includes final advice from the Corporate Director of Resources on the financial risks facing the authority and his statutory advice

on the robustness of the budget process. The report considers the impact of risk on the overall General Fund budget, and reviews the level and planned use of general and earmarked reserves. Cabinet is asked to consider a strategy in relation to maintaining reserves at a level consistent with known pressures on the Council's budget and unquantifiable future risk.

1.7. Four other reports on this agenda are also concerned with budgeting and forward financial planning for the next three year period and each will impact upon the General Fund. Appropriate cross-references are included in this report. These are;

- Housing Revenue Account budget 2010/11-2012/13
- Capital Programme 2010/11-2012/13.
- Prudential Indicators for 2010/11, which are concerned with setting affordable limits for borrowing and capital expenditure.
- The Council's Treasury Management Strategy, which is concerned with setting parameters for the management of the Council's borrowing and investments for the next financial year.

## **2. RECOMMENDATIONS**

**Overview & Scrutiny Committee** is recommended to consider the report and recommendations and pass any comments it may have to the Cabinet for consideration at its meeting on 10<sup>th</sup> February 2010.

**The Cabinet** is recommended to:-

### ***Budget Consultation***

- 2.1 Consider any comments or recommendations of the Overview and Scrutiny Committee.
- 2.2 Consider the outcome of the various consultations carried out in relation to this budget as set out in **Appendix A** and Section 4.

### ***Grant Funding***

- 2.3. Note the funding available for 2010/11 and the funding uncertainties relating to the forthcoming period (section 6);

### ***Directorate Base Budgets 2010/11***

- 2.4. Approve the base budgets for 2010/11 for each Directorate as set out at **Appendix C**.

### ***Approved Budget 2010/11***

- 2.5 Agree the growth and savings for 2010/11 as set out in Sections 8 and 10 and Appendices D and F1 and note the implications for later financial years.

### ***Medium Term Financial Plan 2010/11-2012/13***

- 2.6. Approve the medium term financial plan for 2010-2013 as set out at Section 12 and **Appendix H.**
- 2.7. Note the resulting savings and efficiency target for 2011/12 and 2012/13 and the actions being undertaken to address it.

### ***Financial Risks: Reserves & Contingencies***

- 2.8. Note the advice on strategic budget risks as set out in section 14 and **Appendix J**, in particular the considerable increase in risk that the Council is exposed to as a result of the economic downturn, the end of the three year settlement and the public sector budget deficit, and note the proposed response to managing this risk.

### ***Robustness of the Budget Process***

- 2.9. Note the advice of the Corporate Director- Resources in relation to the robustness of the budget process as set out at Section 16.

### ***Balances/Reserves***

- 2.10 Note the review of reserves as set out in section 15 and further detailed in **Appendices K and L.**

### ***Budget Requirement & Council Tax 2010/11***

- 2.11. Recommend to Budget Council a Budget Requirement of £310.369m and Council Tax at Band D of £885.52 for 2010/11. (Section 17)

### ***Commercial Waste fees and charges review***

- 2.12. Agree the revised pricing structure for commercial waste fees and charges operative from 1<sup>st</sup> April 2010, as detailed in Appendix M

## **3. BACKGROUND**

- 3.1. At its meeting on 13<sup>th</sup> January, the Cabinet received a report setting out budget proposals for 2010/11-2012/13. These proposals were the result of a lengthy planning process. Cabinet confirmed the base budget for 2010/11 and agreed initial proposals for committed growth and offsetting efficiency savings.

- 3.2. This report invites the Cabinet to set its final proposal for the General Fund Revenue Budget and Council Tax for 2010/11 and medium term financial plan to the end of 2012/13 and refer these for approval to Budget Council on 3<sup>rd</sup> March 2010.
- 3.3. This report should be considered in conjunction with the reports on the Capital Programme and the Housing Revenue Account, which are also on this agenda, and the Council's Strategic Plan. All of these plans and programmes have been developed as part of a single strategic resource and service planning process and enable the delivery of the Council's strategic aims and objectives. Together these reports ask Cabinet to consider a number of key strategic issues and to make decisions that will enable next year's budget to be formulated.
- 3.4. The budget proposals have been considered as part of a Strategic & Resource Planning (SARP) framework, which identifies how budget proposals contribute to the delivery of the Strategic Plan and Community Plan. In considering officers' proposals, leading Members have regarded them in the context of;
- \* the strategic direction for services,
  - \* the need to identify a medium term efficiency programme that takes account of the investment requirements necessary to deliver the magnitude of savings required to balance the medium term financial plan.
  - \* the relative costs and performance of existing services, and
  - \* budget planning which is at the heart of the Council's overall planning process.
- 3.5. During the financial year, additional funding has been allocated to accelerating delivery against the Cabinet's agreed budget priorities. In formulating its budget proposal, the Cabinet needs to consider the decisions made to date alongside the advice of officers on budget pressures and risk, consider contributions to budget contingencies, reserves and balances, and in so doing establish a balanced and robust budget for 2010/11 and a sustainable medium term financial strategy for the Council.
- 3.6. Budget decisions taken in setting the budget for any one financial year have an impact well into the future. In this context, the three year balanced budget strategy and maintenance of a Medium Term Financial Plan puts the Council in a strong position when making budgetary judgments in 2010/11.
- 3.7. The forthcoming period represents a period of challenge and uncertainty.
- \* The economic downturn has slowed the progress of growth and regeneration in the area and put pressure on certain sources of Council income, most notably investment income and capital receipts.
  - \* The Chancellor's Pre Budget Report on 9<sup>th</sup> December confirmed that the outlook for Government funding for public services is poor. Since the Government is pledged to continue to increase funding for some

services, particularly NHS spending on patient care and 'front-line' schools, independent analysts project that the outlook for other public services looks particularly serious.

- \* Now that the period of the three year settlement has expired, no grants have been announced for individual local authorities beyond 2010/11, which introduces a much greater level of risk into the budget process than has been the case in recent years.

In setting a budget for 2010/11, it is essential that Members have regard to the financial projections and risks set out in this report and in the Medium Term Financial Plan.

## **4. BUDGET CONSULTATION**

4.1 Formal budget consultation is taking a number of forms:-

- Consultation with the Overview and Scrutiny Committee under the Council's Budget and Policy Framework.
- Statutory consultation with the business community;
- Public consultation through a series of focus groups during the consultation period.

4.2. In addition to the traditional budget consultation, the Cabinet uses participatory budgeting to allocate funding within Local Area Partnership areas. This approach places Tower Hamlets at the forefront of participatory, locality led service and financial planning arrangements.

### Responses to Consultation

- 4.3. The Overview & Scrutiny Committee was due to consider the Cabinet's initial budget proposals at its meeting yesterday (9<sup>th</sup> February), after the preparation of this report. Any comments or recommendations made by Overview & Scrutiny Committee will be reported to you at this evening's meeting.
- 4.4. The results of public consultation are set out at **Appendix A**
- 4.5. The results of statutory consultation with the business community are not to hand at the time of preparing this report and will be reported at your meeting.
- 4.6. Cabinet should consider the results of these consultations in allocating resources and recommending the total budget requirement and Council Tax for 2010/11.

## **5 PROJECTED OUTTURN 2009/2010**

- 5.1. The projected outturn for the Council's General Fund for 2009/10 as at 31<sup>st</sup> December 2009 is £299.640m, which represents a projected over spend of £1.714mm. The over spend as at 30<sup>th</sup> September 2009, which is reflected elsewhere in this report and on which the proposed budget has been prepared, was £2.044m. The position has therefore improved slightly in the third quarter, but not sufficiently to affect officers' advice as to the funding available for 2010/11.
- 5.2. The reported position takes account of a £1.7m contingency resulting from a lower than expected Local Government pay award of 1% in 2009. The over spend is a matter of concern, but within the current year it is manageable within existing resources. In part the over spend is due to growth pressures arising in 2009/10, which are discussed in relation to 2010/11 budget pressures below.
- 5.3. The Council has a relatively strong financial position at present and General Fund balances are sufficient to absorb the projected over spend in 2009/10 without affecting the Council's financial strategy, should it be necessary to do so. However it is important that budgets are kept under control over the remainder of the current financial year and spending is brought back into line with budgets in order to avoid over spending continuing into future financial years. This would be an unsustainable financial position which would begin to weaken the Council's financial strength and make future investment more difficult.

## **6. PROVISIONAL FUNDING ANNOUNCEMENTS**

### **Formula Grant**

- 6.1. On 20<sup>th</sup> January 2010, the Parliamentary Under Secretary of State for Communities and Local Government announced the final local government finance settlement for 2010/11. This announcement confirmed the Formula Grant figure announced in the three year settlement at the end of 2007. The fact that the Government has confirmed this figure, despite the economic downturn, is welcome for the extra certainty it provides for local authority financial planning.
- 6.2. The Formula Grant comprises;
  - A 'Relative Needs Amount' (RNA) which allocates resources in accordance with the needs of the authority relative to others. Tower Hamlets continues to have one of the highest relative needs allocations in the country.
  - A 'Relative Resource Amount' which allocates resources in accordance with relative Council Tax base per head of population. This provides for the partial equalisation of resources between those authorities with a high

tax base and those with a relatively low tax base. Once again, Tower Hamlets receives a relatively high allocation in this block.

- A 'Central Allocation' which is a standard amount per head of population and does not vary significantly between authorities.
- A 'Floor Damping' amount which, for Tower Hamlets, adjusts the amount of Formula Grant to be received to the level of the minimum guaranteed increase, or floor.

6.3. Tower Hamlets' provisional allocations for the four blocks in 2010/11 are;

<b><u>Table 6.3 Formula Grant Provisional Settlement 2010/11</u></b>	<b>Formula Grant</b>	<b>Provisional Formula Grant</b>
Block	<b>2009/10</b>	<b>2010/11</b>
	<b>£m</b>	<b>£m</b>
Relative Needs Amount	206.982	212.847
Relative Resource Amount	(30.374)	(32.613)
Central Allocation	42.550	44.097
Floor Damping	9.657	7.872
<b>Total Formula Grant</b>	<b>228.816</b>	<b>232.204</b>
Percentage increase over previous year	1.7%	1.5%

6.4. There is as yet no announcement of funding beyond 2010/11. This will depend upon the next Comprehensive Spending Review which is scheduled to take place after the General Election and will clearly be heavily influenced by the state of the UK's public finances at that time. There has been a suggestion by some respected commentators that an incoming Government following the General Election may revisit the 2010/11 settlement in an emergency budget.

6.5. The 2007 review of the Formula Grant left Tower Hamlets with a settlement at the grant floor and the Council is unlikely to receive grant increases above the grant floor until around 2015/16. Until then, Tower Hamlets' grant increase is likely to be determined by the level set by the Government for the grant floor which is generally below inflation. While the floor applies, the authority will receive no additional Formula Grant funding for population growth, which is currently running at twice the national average, or capital expenditure funded by 'supported' borrowing

- 6.6. It is therefore possible for us to be fairly certain that the grant settlement for 2011/12 onwards will depend upon the level at which the Government sets the grant floor and will mean a further period of grant reductions in real terms. For the purposes of this Medium Term Financial Plan, it is assumed that the grant floor which will determine Tower Hamlets' settlement will be set at 0%, resulting in no cash increase in grant and a real terms reduction in terms of expected inflation and population growth. As the table shows, the amount of Formula Grant received per head of population has already been falling for two years and is likely to fall further by between 2-3% per year over the next few years.

<b><u>Table 6.6.</u></b> <b><u>Formula Grant per head of population (*)</u></b>	Formula Grant per head of population (£)	Change year on year
2007/08	937	
2008/09	957	2.2%
2009/10	946	-1.2%
2010/11	933	-1.3%
2011/12 (Projected)	899	-3.7%
2012/13 (Projected)	883	-2.8%

\* Based on Greater London authority estimates of Borough population

- 6.7. Forecasts of public spending, which will influence the local government settlement over the forthcoming period are heavily impacted by the current public spending deficit. The current deficit position in the public finances is unsustainable, and it seems highly likely that local government spending will be constrained for the foreseeable future. It is not infeasible that grant floors could be set at a negative level in future settlements, resulting in cash reductions in Formula Grant for a period.

### **Area Based Grants**

- 6.8. For 2008/09, the Government introduced a new arrangement for the distribution of a number of specific grants. Over 40 specific grants were brought together to form an Area Based Grant (ABG) pool. The use of grants in the ABG pool is not ring fenced in any way. ABG is distributed to local authorities in a variety of different ways depending upon the Government Department from which it derives, but the authority is not restricted as to how the grant can be applied.
- 6.9. ABG is a type of grant which is intermediate between Formula Grant and specific grants, as set out in the following table;



<b><u>Table 6.9</u></b> <b><u>Types of Revenue Grant</u></b>	<b>Formula Grant</b>	<b>Area Based Grants (ABG)</b>	<b>Specific Grants</b>
<b>Method of allocation to authorities</b>	Single distribution formula	Many different distribution methodologies	Individual for each grant
<b>Restrictions on usage</b>	Not ringfenced	Not ringfenced	Subject to individual grant rules – often ringfenced
<b>Three year settlement</b>	Yes	Yes	May not be announced more than one year ahead

- 6.10. The table below sets out the amount of ABG allocated to Tower Hamlets for 2010/11 compared with 2009/10. Supporting People grant will be included in the ABG pool in 2010/11.

<b>Table 6.10</b> <b>Area Based Grants</b>	<b>Amount allocated</b> <b>£m</b>
2009/10	31.204
2010/11	30.235
2010/11 including Supporting People Grant	45.620

- 6.11. During the budget process for 2009/10 the way these grants are used was reviewed to identify efficiencies in the way they are applied. The exercise covered both 2009/10 and 2010/11, and freed up £3.796m in 2010/11 which was allocated to priorities identified in the 2009/10 budget process and included in the Medium Term Financial Plan for 2010/11.
- 6.12. No announcement has been made of Area Based Grants for 2011/12 onwards and the Medium Term Plan projection assumes that the £3.796m will cease to be available in that year. However it also assumes that the remainder of ABG will continue to be available. The first call for any reduction in ABG announced

for 2011/12 will therefore be the £3.796m factored in to projections. However because of the risk that ABG may reduce by more than this amount, a further review of ABG for 2011/12 will be required as part of next year's budget exercise.

### **Specific Grants**

- 6.13. Specific Grants continue to form a major component of the resources that Government makes available to local authorities. National totals have been announced for many specific grants, although a number are still to be announced, and the detailed Directorate budgets to be reported at your February meeting will reflect these.
- 6.14. The details of the provisional Dedicated Schools Grant settlement for 2010/11 were announced by the Department for Children Schools and Families on 27<sup>th</sup> October 2009. For Tower Hamlets, the DSG for 2010/11 will be based on an allocation of £6,791.71 per pupil, which is a 4.1% increase on the equivalent figure for the current financial year. The average increase for all authorities is 4.3%. On the basis of projected pupil numbers for January 2010, the expected level of the 2010/11 DSG is £243.924m. The 2010/11 DSG will be updated for pupil number changes recorded in the annual survey of pupils in January 2010. For this reason, the final DSG figure for 2010/11 will not be known until May or June 2010. Under the DSG settlement, schools are guaranteed a minimum funding increase (the 'Minimum Funding Guarantee') of 2.1%.
- 6.15. The same risk applies to Specific Grants in the forthcoming period as to other sources of Government funding. In fact, arguably the risk to specific grants is greater because they are the instrument commonly used by Government Departments to fund central initiatives and are therefore more readily reduced than general grant funding. For this reason an exercise will need to take place during the budget process for 2011/12 to identify options for reducing spending against specific grants in the probable event that they are reduced in real terms in next year's settlement.
- 6.16. **Appendix B** sets out the known allocations of specific grants which are included within Directorate budgets for 2010/11.

### **COMMERCIAL WASTE FEES & CHARGES 2010/11**

- 6.17. The Corporate Director – Communities, Localities and Culture proposes increases to Commercial Waste Fees and Charges, as outlined in **Appendix M** to offset costs resulting from Landfill Tax increasing by £8 per tonne from April 2010, and contractual inflationary increases. The only exceptions to these increases are a freeze on the current sack charges to realign these with equivalent bin collection charges. These proposals are affordable within the CLC Directorate budget.

### **Council Tax**

- 6.18. In making the final settlement announcement, the Minister said that the Government expected to see the national average increase in Council Tax fall to

a 16 year low in 2010/11 'while authorities protect and improve public services'. This would imply an average increase nationally less than last year's 3% average increase, which was the lowest since 1994/95.

- 6.19 Cabinet is asked to note the details and impact of the provisional local government finance settlement and other grant allocations for 2010/11.

## **7. PROVISIONAL BUDGET TARGETS 2010/2011**

- 7.1. Budget decisions for 2010/11 will be based upon a provisional budget target, the starting point for which is the original approved budget for 2009/10 of £297,926,000.
- 7.2. **Appendix C** sets out how the original 2010/11 budget differs from the approved budget for 2009/10. This summarises the decisions made in setting the original 2010/11 budget in March, including the Service Improvement Growth and savings decisions made at that time. Details of the growth and savings agreed for 2010/11 as part of the Three Year Budget in February are set out in **Appendices D and F1**. After making these adjustments the proposed base budget for 2010/11 is £297,848,000.
- 7.3 Asset Rentals and Support Service Charges will be adjusted for, subsequent to this meeting. However, the impact on the General Fund budget is neutral.

## **8. COMMITTED GROWTH 2010/2011- 2012/2013**

- 8.1 Committed growth is additional spending that, for all practical purposes, is unavoidable. It includes new statutory requirements, responsibilities transferred from the Government and other bodies, new taxes and demand led growth (which arises when there is an increase in the number of clients requiring statutory services).
- 8.2 Since the Three Year Budget was set, budget pressures have been kept under review, with a view to mitigating the impact and remaining within the original budget parameters. All bids for committed growth have been reviewed collectively by the Chief Executive and Corporate Directors and the following working definition has been applied:-

"Where the Council has discretion over whether it incurs the expenditure, then this should not be regarded as committed growth, regardless of the impact on service performance."

A number of items have come forward which, for various reasons, it is not possible to contain within existing plans.

- 8.3. There is no additional committed growth over and above that reported previously to Cabinet and included in the summary listing at **Appendix D** and these items have already been approved by Cabinet at previous meetings.

8.4. Committed Growth forecast for 2011/12 and other future years will be subject to review and further scrutiny in subsequent budget rounds. For the purposes of the Medium Term Financial Plan, it represents a planning figure and not an allocation of funding to the Directorate in question.

8.5. London Pensions Fund Authority Levy

The Government has been undertaking a review of the way the costs of former GLC and ILEA pensions schemes are to be funded. As with most local authority pension schemes, both of these Funds are in deficit and employers' contributions need to increase to recover these deficits. The London Pensions Fund Authority (LPFA), as the administering body for these funds, receives its funding mainly from levies upon the London Boroughs and is considering passing these additional costs on to the local authorities which took over the responsibilities of the former providers and draft legislation has been prepared to enable this. Discussions are still continuing, but financial provision for the impact has been made in the Medium Term Financial Plan and it is recommended that this should be retained pending the outcome of the review.

	<b>2010/11 £000s</b>	<b>2011/12 £000s</b>
Estimated cost of supplemented LPFA levy	353	588

8.6. Capital Financing & Investments

During 2008/09, the economy entered a recession of which a key feature is a shortage of credit. Consequently, the Bank of England has been using interest rates as a macro-economic tool with the intention of stimulating the economy. Base rates have reduced from an average of 5.5% in 2007/08, to 0.5% in March 2009.

This reduction in interest rates has resulted in a shortfall in investment income in the current financial year. However, the prospects for interest rates over the forthcoming period are that they are unlikely to recover quickly from the current low, although they may start to edge up during 2010/11. The Medium Term Financial Plan therefore includes provision for an increase in the capital financing and investment budget, which is partly to set the budget at the correct level given current levels of interest rates, and partly to provide for the cost of supported borrowing to fund the mainstream Capital Programme.

Interest rates are highly likely to rise to historic levels eventually and when this takes place it should be possible to release savings back into the budget.

	2010/11 £000s	2011/12 £000s	2012/13 £000s
Capital Financing & Investments	2,365	72	0

## 9. **BUDGET PROVISIONS AND CONTINGENCIES**

- 9.1. The authority's budget needs to include financial provision for inflation and for other risks and uncertainties, especially those which are outside the Council's control.

### Inflation

- 9.2. In setting the provisional 2009/10 budget in February, Cabinet was advised that the estimated effect of pay and price increases in 2010/11 would be £6.494m.
- 9.3. At its July meeting, the Cabinet agreed that inflation should not be funded on non-pay inflation in 2010/11, and that any inflation impacting these budgets should be managed by officers within the Directorate affected.
- 9.4. A review of National Non Domestic Rates has taken place in 2009 and initial indications are that the cost of this to General Fund buildings other than schools could be as much as £675,000. It is therefore proposed that the contingency for 2010/11 should include an amount to cover this.
- 9.5. The Local Government pay award in 2009 was for 1% on most pay grades and there will be strong political pressure for a further increase below inflation in 2010. The Government has proposed 1% pay increases across the public sector in 2010/11 and in the Pre Budget Report, the Chancellor called for a 1% cap on pay uplifts across the public sector for 2011/12 and 2012/13.
- 9.6. Inflation in the economy has been low in 2009/10 as a result of the recession, and the immediate impact of interest rate reductions. However it is predicted inflation will start to rise as the economy starts to recover and the impact of measures to stimulate the banking sector feed through to the money supply. It will be necessary to keep inflation contingencies under review over the period of the Medium Term Financial Plan.

### Other Risks and Issues

- 9.7. As the report above points out, there are two issues within the current financial position of the Council which are not fully provided for within the Medium Term Financial Plan. These are;
- The current projected General Fund over spend in 2009/10, and the risk that this may not be adequately dealt with in the current financial year, and
  - The current uncertainty over levels of funding.

9.8. It is important for the authority to maintain managed progress on service improvement and to do so at affordable levels of Council Tax. This years 2010/11 budget allows £9.5m of investment in accelerated service delivery and an affordable Council Tax increase, but in achieving this it is important not to lose sight of;

- Risks and potential risks accumulating in the Council's budget
- The Medium Term Financial outlook, which is indicating substantial annual efficiency targets from 2011/12 onwards.
- The continuing imperative to sustain service improvement into the next cycle.

9.9. In addition to inflation, there are indeed a number of uncertainties facing the Council in the next twelve months which may require additional funding allocations to be made. These are set out in detail below.

9.10. Update on issues raised at July 2009 Cabinet.

At the July meeting, Cabinet was advised of a number of budget risks which were materialising over and above those provided for in the Medium Term Financial Plan. The strategy for 2010/11 therefore involved setting aside £2.2m as a contingency against these risks crystallising later in the year.

- Housing Benefit Subsidies

The Government has confirmed that Housing Benefits subsidy on housing costs for homeless people will be reduced from 2010/11 onwards in order to put pressure on landlords to reduce costs. Officers are currently re-tendering contracts to seek lower rents, but at present it is not clear whether this will be successful in reducing costs to offset the loss of subsidy. The potential cost of this was £986,000

- Office accommodation

The Council continues to hold properties which were not intended to be retained under the Office Accommodation Strategy and to bear the costs of these buildings. In the current economic climate a wholesale disposal of assets is not opportune. However the Medium Term Financial Plan assumes that these costs will be saved in 2009/10 and 2010/11. Officers have been working to find ways of reducing the costs of these buildings and to find alternative uses pending disposal, or to dispose of buildings where appropriate. However as yet there has been limited success. The cost is up to £1,780,000.

As neither of these issues has been resolved at this stage, it remains prudent to retain the contingency sum of £2.2m within the budget against these items in 2010/11.

9.11. Building Schools for the Future/ Schools PFI

Members will be aware that negotiating the interface between the BSF contract and the existing schools PFI contracts is an issue that remains to be resolved. In order

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.

#### 9.12. Child Protection

The Government's proposals on child protection are awaited, but are likely to have cost implications for local authorities. The 'Baby Peter' case has already put upward pressure on costs and part of the current year's projected overspend is attributable to the need to recruit and retain social workers. The costs of this are difficult to assess, but clearly once known will not be easy for any local authority to overlook. It is not known whether additional Government funding would be provided to help fund the proposals. This would be an ongoing financial commitment.

#### 9.13. Housing Revenue Account

An HRA overspend has been projected for 2009/10 and plans for rectifying this and for setting a balanced budget for 2010/11 were reported to the January Cabinet. As this report made clear, the financial outlook for the Housing Revenue Account is currently substantially even tighter than for the General Fund, and also much more uncertain. Direct subsidy between the General Fund and the HRA is not possible. However, corporate recharges to the HRA relate, for example, to the HRA's share of statutory functions undertaken for the governance of the Council and are a charge required to the HRA to reflect that it is an integral part of the Council's governance structure. The basis of these charges was established some years ago, since when, the housing service has reduced in size and governance arrangements have changed. It is therefore proposed to reflect in the budget a reduction in these charges by £500,000 in 2010/11, with a consequent cost to the General Fund budget and a saving to the HRA, which will more closely reflect the current governance arrangements and address part of the projected deficit in the HRA. A review of recharges will take place during the year to verify this figure.

#### 9.14. Land Charge Searches

An 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.

#### 9.15. Procurement of the Waste Strategy

Cabinet received a report in March which agreed the need for a revised Municipal Waste Strategy for the authority and identified the need to procure 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.

#### 9.16. Funding for Unavoidable Capital Commitments

In relation to investment in front-line service delivery, Members will recall that until further capital receipts are generated, the Council's capital programme is now entirely dependent upon Government grants and developer contributions, with all the restrictions normally applying to those.

#### 9.17. 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. To achieve 20% of an annual savings target of £18m a year by this means, therefore, would cost an average of £3.5m a year.

9.18 In light of these issues and risks, and the general uncertainty surrounding costs and funding in these unusual and difficult economic conditions, a budget contingency to cover inflation and other items of £6.06m is set aside in 2010/11 to ensure unbudgeted risks and pressures can be funded in the forthcoming period.

### **10. BUDGET SAVINGS & EFFICIENCIES**

10.1. The Financial Settlement confirms projections of a tightening financial position for the Council for 2010/11 and beyond. At the same time the Council will continue to face significant and largely unavoidable spending growth and inflation pressures.

10.2. Efficiency savings for 2010/11 agreed in previous budget rounds as part of the three year budget are included in the base budget as set out in Appendix C and are listed at **Appendix E**.

10.3. The additional budget pressures identified in the report to Cabinet in July, however, have led to the need to identify additional and offsetting efficiency savings in 2010/11 to ensure that the three year strategy is maintained. As decided by Cabinet in July, £3.3m of the target can be met by not increasing non-pay for inflation as



originally included in the Three Year Budget. Offsetting savings and efficiencies identified by each directorate are shown below. A more detailed summary is included as **Appendix F1** and the detail of each saving identified by Directors which has an impact in 2010/11 is provided in **Appendix F2**.

<b><u>Table 10.3</u></b>	<b>Savings &amp; Efficiencies Identified</b>		
	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Adults, Health & Wellbeing	97	97	97
Communities, Localities & Culture	684	264	264
Development & Renewal	122	122	122
Chief Executive's	98	98	98
Resources	143	143	143
<b>Total Savings</b>	<b>1144</b>	<b>724</b>	<b>724</b>

10.4. The Government has set an efficiency target for Local Government which equates to 4% cashable efficiencies for every local authority. There is no formal cash target for Tower Hamlets as an authority, but the measurement of efficiency savings is one of the new National Performance Indicators announced by the Government recently and the achievement of value for money targets remains an aspect of the Corporate Performance Assessments. The authority is required to publish its performance against this PI on the face of the Council Tax bill and as part of the Council Tax leaflet. However, the authority does not need to meet this target in 2010/11 in order to achieve a balanced budget.

## **11. ACCELERATING DELIVERY**

11.1. Proposals designed to accelerate delivery against its budget priorities and totalling £9.494m were approved at Cabinet in November. These are funded from one-off grant allocations and earmarked reserves and therefore do not affect the bottom line of the 2010/11 budget or the Medium Term Financial Plan. The agreed allocations are listed at **Appendix G**.

## **12. MEDIUM TERM FINANCIAL PLAN**

- 12.1. The development of the 2010/11 budget has taken place within the context of a longer term strategic and resource planning process. The Financial Outlook and Review reported to the Cabinet on 29th July identified the financial pressures facing the Council in the medium term and projected the level of resources that would be available to meet them.
- 12.2. The Council's future financial outlook will be more challenging over the next few years, principally as a consequence of constraints on public spending and associated tighter grant settlements. Cabinet was advised that meeting new cost pressures would require an increasingly rigorous approach to identifying efficiencies, productivity enhancements, and re-prioritisation within services. Members responded by asking officers to plan to meet any shortfall in funding from 2011/12 onwards through efficiencies where possible.
- 12.3. Whatever the constraints, it is important that resource allocation is seen in terms of the outputs and outcomes that are expected as a result of each financial decision. For example, a budgeted increase in spending should be matched by a comparable increase in output or performance in order to demonstrate value for money. The allocation of funding has been considered in the light of the Cabinet's Strategic & Resource Planning priorities and its impact on the delivery of targets, especially those included in the Local Area Agreement.
- 12.4. As part of the planning process, budget options have been considered in the context of current service performance and direction of travel of performance, and have been evaluated against financial and non-financial information. This approach is designed to ensure that:-
  - A forward looking financial forecast influences the development of service plans
  - Service plans identify the financial consequences of proposed actions, including the resource implications associated with achieving the objectives set out in the Strategic Plan.
  - Financial plans allocate resources to address changing community needs and priorities.
  - Resources are directly related to performance improvement in order to maximise value for money.
  - Different options for delivering policy outcomes are examined and taken into account.
  - Service and financial plans address key risks to budgets and performance.
- 12.5. The three year financial settlement has enabled opportunities to use resources flexibly over the three year period with much greater confidence. Proposals with ongoing financial implications can be considered in greater knowledge of how their

financial impact will shape later years. The fact that we have now reached the end of the three year settlement and there has not been any announcement for 2011/12 and beyond is an additional risk to the Council, and independent projections from Government spending announcements suggest that grants could fall in cash terms over the next three year cycle.

- 12.6 In addition to the funding issues described above, the Council's budget will continue to experience additional demands over the medium term from population growth. A triennial review of the Council's Pension Fund is also due in April 2011, and this will result in additional costs to the Council of funding the statutory pension scheme.
- 12.7 A detailed medium term financial projection for 2010/11-2012/13 is attached at **Appendix H**. The projection indicates a worsening financial situation emerging from 2011/12 onwards and the measures taken in this budget to manage financial risk will enhance the Council's financial resilience as we enter this period.

### **13. CAPITAL**

- 13.1 A report elsewhere on this agenda seeks approval for an initial capital programme proposal for 2010/11-2012/13.
- 13.2 The authority's revenue budget and its capital programme are closely linked. Both the revenue budget and capital programme are designed to support the delivery of key objectives. In financial terms, there are revenue implications associated with capital investment: part of the capital programme is directly funded by the revenue budget, while any borrowing undertaken by the authority impacts on revenue through the costs of interest and debt repayment.
- 13.3 The resources available to fund the capital programme have reduced over the last few years. Funding for the Council's own capital spending priorities (the Local Priorities Programme) is now heavily dependent upon a few large scale asset sales, but the downturn in the property market means that disposal of property at this time will not necessarily attract optimum prices and receipts from this source can therefore not be relied upon. In setting the capital programme for 2010/11 and beyond, the Council will therefore be restricted to sources of funding already available, including receipts from assets already disposed of or where sales have been arranged.
- 13.4 An option normally open to the Council is to provide more funding through the revenue budget, providing it is shown to be prudent and affordable. There are two ways in which this can be done;
- Where scope exists within any one year's revenue budget, or revenue reserves allow, direct contributions can be made to a fund capital works in that year or subsequent years.
  - Where revenue funding is available on a sustainable basis, the authority can consider prudential borrowing. Current Council policy is that prudential borrowing will be used to fund Invest to Save schemes where the cost of borrowing is funded by savings, and to provide temporary borrowing pending

the receipt of permanent capital funding, providing the receipts can be assured.

As this report and companion report on the HRA elsewhere on this agenda make clear, the very tight funding position of the Council's revenue budgets means that opportunities for funding capital from revenue budgets and reserves are very limited.

## **14. FINANCIAL RISKS: RESERVES & BALANCES**

14.1. A robust, transparent and sustainable annual budget and medium term financial strategy requires an assessment of the financial impact of the key risks identified through the Council's risk management process, and identification of the financial mechanisms for funding those risks should they materialise.

14.2 The Audit Committee and the Corporate Management Team receive quarterly reports on the key strategic and corporate risks impacting on the authority. Senior Finance Officers have evaluated these risks to assess their potential financial impact and identify how they should be reflected in the Council's financial planning. Three categories of financial risk are identified:

- Where the implications would be accommodated within existing financial provisions, such as directorate budgets or earmarked reserves.
- Where specific risk financing arrangements are in place, such as those covered by insurance.
- Those which need to be taken into account at a corporate level as part of the budget process.

14.3 Issues which fall into the final category include:-

- Business continuity issues, such as systems breakdowns, contractor failure or loss of a key administrative building.
- Risks associated with large-scale projects.
- Risks associated with the implementation of legislation and guidelines.
- Strategic financial risks, including changes in budgetary assumptions, overspends and major financial control failures

14.4 **Appendix J** sets out those strategic and corporate risks (drawn from the Council's risk register) which would be likely to have a financial impact if they were to materialise, together with the key risk areas in service/Directorate budgets and associated mitigating measures.

14.5 There are three ways in which risks can be dealt with within the budget;

- By having regard to risks in setting levels of general balances and earmarked reserves
- Through setting aside specific contingencies within the budget for allocation during the year as and when required (see Section 9 above).
- By funding specific risk mitigation programmes with the aim of reducing the potential financial impact on the Council in the future.

14.6. These approaches can be thought of in a hierarchy:-

- General balances are used in the main to cover unknown and unforeseen eventualities.
- Earmarked reserves are set aside for specific issues that are more likely to occur, but where the financial impact and the timing is uncertain.
- Contingencies are used for risks that, if they arise, are almost certain to materialise during the next budget year.
- Funding of risk mitigation measures is appropriate for large and relatively certain risks, where it can be shown that allocating funding is likely to prevent larger risks from developing later.

14.7 There are a number of aspects of the budget where information is still awaited or where the impact of changes is not yet sufficiently clear to provide budget certainty. A level of uncertainty and risk is inherent in any budget setting process.

Areas of uncertainty include:-

- Allocations of grants and other funding decisions by Government.
- The announcement of levies by the Environment Agency, the London Pensions Funds Authority and the Lea Valley Regional Park Authority.

## **15. BALANCES/RESERVES**

15.1. Where financial risks cannot be dealt with in other ways, it is essential that the authority provides adequate financial cover in the form of reserves or balances. This includes cover for eventualities which are outside the Council's control.

15.2. Financial risks which can be identified to particular causes are normally dealt with through 'earmarked' reserves. Unforeseen eventualities are covered through general reserves, otherwise known as 'balances'. Reserves and balances must be set at an appropriate level, neither too low (which would put the authority at financial risk) nor too high (which would tie up resources that could be used to deliver Council priorities).

15.3. The consequence of setting balances too low is that unforeseen circumstances could lead to overspends which cannot be met from Council resources. In these circumstances, authorities have no option but to take rapid action to reduce costs,

which can have unplanned and unwanted consequences for service delivery. It is the responsibility of an authority not just to meet the current overspend, but also to find sufficient resources to rebuild balances to an appropriate level. This is a situation which a handful of authorities find themselves in each year, despite their best efforts.

### General Reserves

- 15.4. Statute requires local authorities to set a balanced budget and places responsibilities and powers with the chief finance officer (CFO) should serious problems arise (including in relation to reserves). External auditors are responsible for reviewing and reporting on financial standing but are not responsible for setting a minimum level of reserves.
- 15.5. The level and use of reserves must be determined by the Council, informed by the judgement and advice of the CFO. When calculating the budget requirement, the CFO must report to Members on the adequacy of reserves. The Secretary of State has powers if necessary to set a minimum level of reserves.
- 15.6. The Council needs to consider the level of its reserves as an integral part of its medium term financial planning. Advice set out at **Appendix K** outlines the reasons for keeping adequate reserves and some of the issues that need to be taken into account in judging whether or not reserves are adequate.
- 15.7. In outline, in order to assess the adequacy of general reserves, the strategic, operational and financial risks facing the authority need to be taken into account. Financial reserves have an important part to play in the overall management of risk in the Council. Authorities with adequate reserves and sound financial health can embark on more innovative programmes or approaches to service delivery, knowing that the Council has sufficient financial capacity to manage any associated risks.
- 15.8. There is therefore no 'correct' level of reserves, and a particular level of reserves is not a reliable guide to the Council's financial health. The Audit Commission no longer assesses reserves against a specific, numerical guideline. However the external auditor will normally comment on the adequacy of reserves in his Annual Audit Letter.
- 15.9. The Council continues to face a range of uncertainties, which carry attendant financial risks. It remains highly dependent upon Government grant and therefore has a high exposure to the general tightening of the public finances. Population growth can be expected to continue, but without the increases in funding required to sustain it without substantial change management. The risk of not achieving savings and efficiencies at a time of financial stringency must be taken into account. These factors point to the need to retain a solid financial position to underpin the risks involved. The Council also has an ambitious improvement and efficiency programme, and a number of major and interdependent projects, with significant financial implications, which will come to fruition in similar timescales over the next three years. As part of this budget, therefore, an additional one-off contribution of £2.9m is made to the Efficiency Reserve which will be available to pump prime innovative measures to deliver efficiencies from 2011/12 onwards.

- 15.10. At the time of the last corporate budget monitoring report, an over spend of just over £2.0m is projected for the current financial year, and if this persists until the end of the financial year, this will need to be funded from general reserves.
- 15.11. Having regard to the potential for volatility in the medium term financial outlook, the time-limited nature of the Collection Fund surplus (paragraph 17.3), and the strategic financial risks highlighted in this report, it is recommended that Cabinet seeks to maintain general reserves at between 5% and 7.5% of budget requirement. This broadly equates to a target range of £15m to £23m.
- 15.12. A projection of the level of general reserves anticipated as at 31st March 2010 is shown at **Appendix L** and indicates that reserves are currently expected to stand at £24.5m as at 31<sup>st</sup> March 2010, which is slightly above the high end of the recommended range.
- 15.13. The fact that reserves are projected to stand at the top end of the range mitigates the risk of the budget uncertainties highlighted earlier in this report, while allowing for the allocation of funding from reserves for on-off priorities and unavoidable costs during 2009/10. In view of this, and the other measures in relation to contingencies and reserves set out in this report, it does not seem to be necessary to allocate further contributions to general reserves in 2010/11. This position will be kept under review and may be revised if the overall risk profile changes further.

## **16. ROBUSTNESS OF THE BUDGET PROCESS**

- 16.1 Under Section 25 of the Local Government Act 2003 it is a requirement for the chief finance officer to report on the robustness of the estimates and the budget process.
- 16.2 The following table sets out the key strategic budget risks and the principal mitigating measures; the principal mitigating measures:-

<b>Strategic Budget Risk</b>	<b>Principal Mitigating Measures</b>
The allocation of resources does not reflect the Council's priorities as set out in the Strategic Plan.	<p>The Council's budget and service planning processes are aligned.</p> <p>Financial plans are developed concurrently with service plans and reviewed against a 'stock take' that consolidates information on performance and inspection; cost, procurement and value for money; user consultation and feedback; and policy developments and other pressures for change.</p> <p>Annual budget decisions are set in the context of a longer term financial outlook which identifies the resource implications of achieving the objectives set out in the Strategic Plan.</p> <p>The revenue and capital budget processes are conducted concurrently, and cross-referenced, to ensure that the Council's priorities are addressed in the most appropriate way.</p> <p>All growth and savings options are evaluated for their impact on</p>

	the Council's key priorities and the Tower Hamlets Index.
Resource and spending projections prove optimistic or otherwise inaccurate	<p>2010/11 is the third year of the three year budget and has been subjected to a rigorous review process to identify additional growth, savings and risks.</p> <p>Savings targets are set to achieve a balanced budget in the event of a realistic settlement scenario. Reserves and balances are maintained to ensure that a worst case scenario can be managed. Budget assumptions are subjected to sensitivity analysis to ensure the risks are recognised. Committed growth bids are challenged to ensure that they met the strict criteria of the definition and were truly unavoidable. Government announcements are followed to ensure that signals are reflected in plans.</p> <p>Spending projections built into the Medium Term Financial Plan for 2011/12 and 2012/13 are more speculative in the absence of information on funding settlements. The assumptions built into the MTFP have used the best forecast data from respected sources such as the Institute for Fiscal Studies and official Treasury forecasts. They have also been subjected to sensitivity analysis.</p> <p>The Reserves strategy has been monitored in the light of the economic instability that has set in during 2008 and the level of uncertainty and therefore enhanced risk that now pertains. The detailed advice on reserves and balances is included in the budget report.</p>
Net spending exceeds the approved budget.	<p>There are both service level and corporate budget monitoring procedures in place. Responsibility for monitoring budgets and meeting budget targets is clearly allocated in Financial Regulations to Corporate Directors and Service Heads.</p> <p>Regular reports and timetabled and made to the Cabinet.</p> <p>In addition to reserves, provision has been made in budgets for 2010/11 for contingencies against identified budget risks and for the costs of implementing the Medium Term Financial Plan.</p>
The risks of individual budget options are insufficiently explained	<p>All budget options and proposals are set out in pro-forma style, including the risk implications at corporate and service level, and attached as appendices to the budget agenda.</p> <p>Members have received advice from officers about the submission of supplementary proposals at any stage of the budget process that they must all be subject to comments from the relevant senior officer and the Chief Finance Officer.</p>
Core assumptions on pay and price inflation are unrealistic.	<p>Corporate budget preparation guidelines are issued during the summer providing common assumptions about pay and price inflation to ensure consistency between service budgets and between the General Fund and the HRA.</p> <p>The assumptions are reviewed and agreed at a Corporate Financial Services Managers' forum. Levels of inflation and economic forecasts are kept under review throughout the budget process. A sensitivity analysis is carried out to ensure that where projections are inaccurate, the budgetary impact is manageable.</p> <p>Directorate budgets are cash limited.</p>
The budget does not incorporate unavoidable cost pressures and known	The medium term financial planning process is now embedded in the Council's strategic management framework and the budget for 2010/2011 and Medium Term Plan has been substantially derived from the Financial Outlook and Review. The opportunity exists to



developments.	<p>bring forward cost pressures that were not known about earlier in the process.</p> <p>The Capital Strategy ensures that the revenue impact of capital investment is identified and incorporated in financial plans.</p> <p>There are both service level and corporate budget monitoring procedures. Budget variances in the current year arising from unavoidable cost pressures have fed into the 2010/2011 budget process in the form of committed growth bids.</p>
Savings are not achieved and/or budget growth does not deliver the intended service benefits.	<p>The Council has a process of review of budget options firstly by directorate finance managers and secondly by peers overseen by the Corporate Management Team. In addition, Lead Members have individually and collectively performed a rigorous review role.</p> <p>Savings options are reviewed for eligibility and achievability. The service impact of agreed growth will be monitored as part of the 2010/11 Strategic Plan.</p> <p>The MTFP identifies a large savings target for 2011/12 and 2012/13. The Council's new governance framework involving the officer-led Transformation Board, Competition Board and Capital Strategy &amp; Asset Management Board is charged with identifying opportunities for identifying savings which will meet these targets with minimum impact on services and work is progressing in these areas.</p>

16.3 An assessment of key risk areas relating to individual service budgets has also been undertaken (set out at **Appendix J**) allied to Directorate specific statements of assurance. Taking account of those measures, the Corporate Director (Resources) is satisfied that the budget process to date has been sufficiently robust to enable Members to deliver a balanced, sustainable budget.

## **17. COUNCIL TAX 2010/2011**

- 17.1. As part of its decision making this evening, the Council needs to recommend a Council Tax for 2010/11. The Band D Council Tax implied by the decisions taken ahead of this meeting and the recommendations included in the report is for a Band D Council Tax of £885.52, which is no increase over the Council Tax for 2009/10.
- 17.2. Tower Hamlets' Council Tax is 11% below the average Band D Council Tax for London Boroughs in 2009/10, and the sixth lowest Band D Council Tax in London.
- 17.3. The Council collects Council Tax on behalf of itself and the Greater London Authority and pays the resulting income into a Collection Fund for distribution. Any deficit on the Collection Fund at the end of the financial year must be recovered in the following year and the impact is split between the preceptors (the Council and the GLA) in proportion to their Band D Council Tax. Similarly any surplus must be redistributed in the same way. It is estimated that the Collection Fund will have a surplus as at 31<sup>st</sup> March 2010 and £3.478m will be allocated by the Council in its budget as its share of this surplus.

The following table shows examples of the total budget associated with different levels of Council Tax.

<b><u>Table 16.3 – Council Tax Examples</u></b>	<b>Budget £M</b>	<b>Council Tax £/Band D</b>	<b>Change %</b>
<b>2009/2010</b>	297.9	885.52	-
<b>2010/2011</b>			
◆ No Council Tax increase	310.4	885.52	NIL
◆ Council Tax increase of 0.3%- current rate of inflation (RPI)	310.6	888.18	0.3%
◆ Council Tax increase of 2.5% - likely long term inflation level	312.2	907.66	2.5%

- 17.4. These examples are for illustration only and they may need to be amended to take account of the final Formula Grant announcement (due in late January/ early February) and the surplus on the Collection Fund (see 17.3 above) will need to be reassessed in the final stages of the budget process in accordance with statutory requirements.

#### Greater London Authority Precept

- 17.5. The GLA precept needs to be added on to Tower Hamlets' Council Tax. The statutory deadline for this announcement is 1<sup>st</sup> March. The Mayor is currently consulting on a draft budget which would set the GLA's Council Tax for 2010/11 at the same level as for 2009/10. The GLA does not plan to consider and approve its budget until today, 10<sup>th</sup> February 2010. Tower Hamlets Council is not able to reject the GLA's budget; the Local Government Finance Act 1992 requires only that the Council adds the GLA's Council Tax to its own in order to calculate the total tax liability for residents of the borough.

#### Council Tax Base

- 17.6. The estimated Council Tax Base for the authority for 2010/11 as agreed by Cabinet in January is 84,343.

#### Budget Capping

- 17.7. Legislation enables the Secretary of State to cap local authority budgets which he deems to be excessive. There are two options open to Ministers; either they can require an authority to recalculate its budget for the year ahead, or they can place an authority on notice that its budget will be capped unless it restrains its budget in the following financial year.

In making the final settlement announcement, the Minister stated that the Government was prepared to use capping powers against 'excessive increases' by individual authorities. There was no specific guidance on what would be considered an 'excessive increase' but the Minister announced that the Government was expecting the lowest average Council Tax increase nationally for 16 years. Any increase below 3% would meet this criterion.

## **18. BUDGET SETTING TIMETABLE**

- 18.1. Following this evening's meeting, a recommended budget requirement and Council Tax will be referred for consideration by the Full Council at its special budget meeting on 4<sup>th</sup> March. The setting of Council Tax is a matter reserved to the Full Council by legislation.
- 18.2. The Greater London Authority is also meeting today to consider the Mayor's budget proposal for the GLA.
- 18.3. The authority is legally required to set a Council Tax before 11<sup>th</sup> March in any financial year. Notwithstanding this, the Council's local billing arrangements are dependent upon the Council Tax being set in accordance with the Council's established calendar.

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

- 19.1 The comments of the chief financial officer have been incorporated into this report, of which he is the author.

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

- 20.1. The Council is required each year to set an amount of council tax. The obligation arises under section 30 of the Local Government Finance Act 1992 ("the 1992 Act") and must be done by 11 March each year for the following year. In order to set council tax, 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.
- 20.2. Both the setting of council tax for a financial year and calculation of the budget requirement are matters that may only be discharged by the full council. This is specified in section 67 of the 1992 Act and the Council's Constitution reflects the statutory requirement.
- 20.3. Before calculating the budget requirement, the Council is required by section 65 of the 1992 Act to consult with persons or bodies who the Council considers representative of persons who are required to pay non-domestic rates under the Local Government Finance Act 1988.

- 20.4. In circumstances where the Council is calculating the budget requirement, the chief finance officer (the Director of Resources) is required by section 25 of the Local Government Act 2003 to report on the following matters: the robustness of the estimates made for the purposes of the calculations; and the adequacy of the proposed financial reserves. The Council is required to have regard to the chief finance officer's report before calculating the budget requirement.
- 20.5. The report appropriately brings forward relevant financial information concerning the setting of council tax and calculation of the budget requirement. It sets out the results of consultation with payers of non-domestic rates and other consultation. It sets out the chief finance officer's views the robustness of estimates and the adequacy of reserves. It is open to Cabinet to agree the base budget, growth and savings figures that form part of the calculation and to recommend to the full council the budget requirement and council tax as proposed.
- 20.6. The report otherwise recommends that Cabinet agree the medium term financial plan. This is a matter that informs the budget process and may be viewed as a related function. It is, in any event, consistent with sound financial management and is a matter that is open to the Cabinet.

## **21. ONE TOWER HAMLETS**

- 21.1 The setting of the Council's budget is a complex and lengthy process which involves consultation with the general public, businesses and Members of the Council through the Budget and Policy Framework. The budget is set in the context of the Community Plan, which takes account of the needs of all sections of the community living, working in Tower Hamlets and visitors.
- 21.2. All proposals brought forward in this budget have been considered by officers in relation to their impact on equalities, including fair access to services. Specific comments on workforce to reflect the community, equalities and social inclusion are included in the detailed budget options included with this report.
- 21.3 Specific comments on social inclusion and economic impact are included in the detailed budget options included with this report.

## **22. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT IMPLICATIONS (SAGE)**

Specific SAGE implications are included in the detailed budget options included with this report.

## **23. RISK MANAGEMENT IMPLICATIONS**

- 23.1 Managing financial risk is of critical importance to the Council and maintaining financial health is essential for sustaining and improving service performance. Setting a balanced and realistic budget is a key element in this process. Specific budget risks are set out in Section 10 of this report.

## **24. EFFICIENCY STATEMENT**

- 24.1 Notwithstanding the need to identify savings in order to set a balanced budget, the Government has set an annual efficiency target for local government as a whole of 4% a year for the next three years. No target has been set for individual authorities, but working on the basis of targets set for the purposes of Government scrutiny, this would equate to around £12m across all Council budgets, including the Housing Revenue Account. The authority is likely to be able to balance its budget overall without achieving this target.
- 24.2 The Council is required to consider the value for money implications of its decisions and to secure best value in the provision of all its services. It is important that, in considering the budget, Members satisfy themselves that resources are allocated in accordance with priorities and that full value is achieved. The information provided by officers on committed growth and budget options assists Members in these judgments.

## **25. INDEX OF APPENDICES**

<b>Appendix</b>	<b>Title</b>
Appendix A	Results of Public Consultation
Appendix B	Specific Grants included in Directorate budgets 2010/11
Appendix C	Provisional General Fund targets for Directorates 2010/11
Appendix D	Growth (as agreed by Cabinet up to and including July 2009)
Appendix E	Efficiency Savings (as agreed by Cabinet up to and including July 2009)
Appendix F1	Savings for 2010/11 – 2012/13 summary
Appendix F2	Savings for 2010/11 – 2012/13 details
Appendix G	Accelerated Delivery Programme
Appendix H	Medium Term Financial Plan 2010/11-2012/13
Appendix I	Summary of Proposed Budget and Council Tax for 2010/11
Appendix J	Strategic and corporate risks
Appendix K	Reserves and balances
Appendix L	General reserves
Appendix M	Commercial Waste Charges April 2010 -11

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**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

Budget files held in Corporate Finance, 4<sup>th</sup> floor, Mulberry Place

Oladapo Shonola  
020-7364-4733