

## THE EXECUTIVE

16 FEBRUARY 2010

### REPORT OF THE CORPORATE DIRECTOR OF FINANCE AND COMMERCIAL SERVICES

This report is submitted under Agenda Item 12. The Chair will be asked to decide if it can be considered at the meeting under the provisions of Section 100B(4)(b) of the Local Government Act 1972 as a matter of urgency in order to avoid any delay in the setting of Council Tax as part of the Council's overall budgetary framework for 2010/11.

<b>BUDGET AND COUNCIL TAX 2010/11</b>	<b>For Decision</b>
<p><b>Summary</b></p> <p>This report advises on the proposed revenue estimates for 2010/11 and the level of the Council Tax for 2010/11.</p> <p>In putting together the proposed budget, there has been a need to balance the pressures on the budget, the need to replenish reserves and investment in key services in accordance with the Council's priorities against the resources available and set a budget which is both deliverable and sustainable.</p> <p>The budget needs to be seen within the context of a three-year financial plan and the implications of the current proposal for the Council's service planning over the next three financial years. It is clear that the Council will continue to face very difficult choices when setting budgets in future years.</p> <p>To support the decisions that will need to be made a three-year medium term financial strategy covering the years 2010/11 to 2012/13 is included with the Council Plan as a concurrent report on this agenda.</p> <p><b>Wards Affected:</b> All wards</p>	
<p><b>Recommendations</b></p> <p>The Executive is asked to:</p> <ul style="list-style-type: none"><li>(i) Recommended the Assembly to approve:-<ul style="list-style-type: none"><li>a. A Council Tax increase of 0% for 2010/11, representing a freeze in Council Tax levels for the 2<sup>nd</sup> year in succession, as set out at Appendices A and B, subject to the final precept announcement for the Greater London Authority.</li><li>b. The budget options and budget as set out at Appendices C, D and E.</li><li>c. The position on reserves as set out in paragraph 2.6.</li></ul></li><li>(ii) Note the continuing need to identify relevant efficiency gains throughout the organisation (paragraph 9).</li><li>(iii) Delegate to the Corporate Director of Finance and Commercial Services the responsibility to allocate initial savings targets across all services for the 2011/2012 budget process to commence in April 2010.</li></ul>	

**Reason**

To assist the Council to achieve all of its Community priorities through the setting of a prudent budget and Council Tax level.

**Implications:****Financial:**

The setting of a robust budget and Council Tax for 2010/11 will enable the Council to provide and deliver required Council Services within its overall service and financial planning framework.

**Legal:**

For each financial year the Secretary of State is required to lay before Parliament a local government report which contains the funding for local authorities in the forthcoming year (s. 78A Local Government Finance Act 1988). That report consists of the total amount of revenue support grant and the proposed basis of distribution and the total amount and proposed distribution of the pooled non-domestic rate (business rates). Details of the formulae and amounts awarded to Barking and Dagenham appear in paragraph 2 of the report.

**Budget Setting**

Local authorities are required by law to set a balanced budget for each financial year. In particular section 32 Local Government Finance Act 1992 the local authority must calculate the aggregate of—

- (a) the expenditure which the authority estimates it will incur in the year in performing its functions and will charge to a revenue account for the year;
- (b) such allowance as the authority estimates will be appropriate for contingencies in relation to expenditure to be charged to a revenue account for the year;
- (c) the financial reserves which the authority estimates it will be appropriate to raise in the year for meeting its estimated future expenditure;
- (d) such financial reserves as are sufficient to meet so much of the amount estimated by the authority to be a revenue account deficit for any earlier financial year as has not already been provided for; and
- (e) any amounts which it estimates will be transferred from its general fund to its collection fund pursuant to a direction under subsection (5) of section 98 of the Local Government Finance Act 1988 Act and charged to a revenue account for the year, other than (in the case of an authority in England) any amounts which it estimates will be so transferred pursuant to a direction under that subsection relating to the difference between amounts in respect of community charges credited and charged to a revenue account for any earlier financial year

There are detailed rules in relation to how various headings are calculated.

Members will also wish to note efforts being made to deliver value for money and to realise efficiencies in service delivery as well as the feedback from consultation with relevant stakeholders which informed the budget setting exercise.

## **Council Tax**

The report also sets out proposed council tax for 2010/11. Section 30 Local Government Finance Act 1992 obliges local authorities to set the council tax for the forthcoming year. The amount of council tax is to be calculated by taking the aggregate of:

- (a) the amount which has been calculated for each category of dwelling by the authority as necessary for its own purposes (including any precept by a minor precepting authority) and
- (b) the amount which has been calculated for each category of dwelling by the major precepting authority as necessary for its own purposes, which has been issued to the billing authority

The council tax must be set before 11 March in the year preceding the one it relates to. Details of the council tax calculation are set out in the report.

Members will note that officers are recommending a council tax freeze for 2010/11 subject to the final precept announcement for the Greater London Authority (GLA). The GLA is a major precepting authority entitling it to levy a council tax to be collected by councils in London (s. 82 Greater London Authority Act 1999) in relation to services discharged by its 'functional bodies' namely the Metropolitan Police Authority (MPA), London Fire and Emergency Planning Authority (LFEPA), Transport for London (TfL) and the London Development Agency (LDA). The GLA is required to issue a precept to local authorities before 1st March of the preceding financial year by virtue of section 40 Local Government Finance Act 1992. The GLA goes through an extensive consultation process in first announcing, consulting and then determining its budget including the precept for a given financial year. At paragraph 1.4 officers confirm that the Mayor of London has proposed a freeze in the GLA precept at 2009/10 levels. If this proposal is accepted by the GLA then there will be no required adjustment to the council tax set for Barking and Dagenham council.

If the GLA changes its precept a verbal update and tabled relevant documents will be made at the Executive and Assembly meetings.

### **Contractual:**

There are no direct contractual implications arising from this report. Budget options recommended as part of this report may involve new or amended contracts. Further reports will be submitted to the Executive where changes require their approval.

### **Risk Management:**

In setting the overall budget consideration has been given to all Council services and corporate budgets and reserves. The process of identifying and validating budget options has involved the identification and mitigation of relevant risks.

### **Staffing:**

There are no direct staffing implications arising from this report. Budget options recommended as part of this report may involve staffing changes. The Council will follow the appropriate agreed HR protocols and processes in implementing these changes.

### **Customer Impact:**

The proposed budget and budget options have been considered with customers and residents in mind. The freezing of the council tax at last years level is designed to

minimise our financial impact on our residents. All budget options have been subject to an equality and diversity impact assessment to ensure that any adverse impacts on all customers and in particular on equality groups is minimised.

**Safeguarding Children:**

There are no direct safeguarding children implications arising from this report.

**Crime and Disorder:**

There are no direct crime and disorder implications arising from this report.

**Property/Assets:**

There are no direct property/asset implications arising from this report. Implementation of budget options may require changes to asset holdings or use of assets. Where required further reports will be brought to the Executive for approval.

**Options Appraisal:**

The budget process has considered various options around savings, pressures and invest to save and the final proposed options are included within this report.

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**1. Introduction and Background**

1.1 The purpose of this report is to propose a revenue budget and Council Tax for 2010/11, which will be referred to Assembly for consideration on 24 February 2010. This is a legal requirement.

1.2 The proposed budget has been set against the background of the Council Plan including the Medium Term Financial Strategy, and the Council's Community Priorities as set out in the Barking & Dagenham Community Strategy approved by Executive on 24 March 2009 and Assembly on 1 April 2009. The updated Council Plan and Medium Term Financial Strategy are also on this agenda for approval. The Community Priorities are:

- **Safe** - a safer borough where the problems of antisocial behaviour have been tackled and all young people have a positive role to play in the community;
- **Clean** - a clean, green and sustainable borough with far greater awareness of the actions needed to tackle climate change, with less pollution, waste, fly-tipping and graffiti;
- **Fair and respectful** - a stronger and more cohesive borough so that it is a place where all people get along, and of which residents feel proud;
- **Healthy** - a healthy borough, where health inequalities are reduced with greater knowledge of lifestyle impacts on health;
- **Prosperous** - an ambitious and prosperous borough that supports business, jobs and skills, attracting new business with economic, social and environmental resources harnessed for the good of all;

- **Inspired and successful** - a borough of opportunity for all young people so that they can play an active economic role for the good of all.

1.3 In setting the proposed budget, officers have assessed the budget, including the unavoidable pressures facing the Authority and the costs of continuing with existing policies and practices.

1.4 The proposal put to the London Assembly by the Mayor was for a freeze in the Greater London Authority precept at 2009/10 levels. The Mayor's proposal is to be considered by the London Assembly on 10 February 2010. A verbal update on the final precept agreed will be made at the meeting.

## 2. **Budget Considerations**

### 2.1 Overall Financial Context

2.1.1 The Council is operating in a very tight financial position. Reserves are at a low level, there are significant demand pressures on the councils existing budget and the recession is reducing national resources. Future settlements (2011/12 and onwards) are anticipated to be much tighter than in previous years. Therefore, the Council needs to position itself now to be able to continue to provide and improve its services, and improve value for money in an era of reducing resources. The medium term financial strategy indicates that average savings of approximately £14m p.a. will be required in the next 3 years. This comes on top of savings already included in the 2010/11 budget being proposed.

### 2.2 National Position and 2010/11 LBBB Settlement

2.2.1 Since 2006/07, the local government grant settlement has been allocated using what is known as the "four block model". This was a change in the methodology of grant allocation, replacing the Formula Spending Share (FSS).

The four block model grant allocations comprise the following components:

- A relative **needs** amount (e.g. to reflect differences in deprivation or other factors such as density and commuters) using Relative Needs Formulae (RNF);
- A reduction based on relative **resources** (the relative ability of authorities to raise council tax);
- A **central allocation** (basic amount) based on a per capita amount;
- An allocation to ensure a minimum increase in grant i.e. the damping amount required to fund the floor which is positive for floor authorities and negative for those above the floor. The floor is set at 1.5% for 2009/10 (2.0% for 2008/09).

In November 2009, the Department for Communities and Local Government issued their provisional formula grant allocations for the 2010/11. No indications of 2011/12 onwards have been provided. Nationally the 2010/11 Formula Grant for Local Authorities increased by 2.6% over 2009/10.

2.2.2 The component parts of this calculation for Barking and Dagenham is set out below. These have not changed from those first proposed by DCLG in January 2008 and were in the LBBB 2009/10 MTFS.

	2009/10 £m	2010/11 £m	Change £m	Change %age
Relative Needs Amount	83.05	85.60	2.55	3.1
Relative Resource Amount	(9.99)	(10.36)	(0.37)	(3.7)
Central Allocation	32.03	32.92	0.89	2.8
Floor Damping	(5.89)	(5.38)	0.51	8.7
<b>Total Formula Grant</b>	<b>99.20</b>	<b>102.78</b>	<b>3.58</b>	<b>3.6</b>

- 2.2.3 Within the formula grant system the Government operates a system of floors to ensure that all authorities receive a minimum increase in funding. LBBB contributes £5.38m in 2010/11 to the cost of the floor grant as its funding is above the floor.
- 2.2.4 Overall the council will receive a £3.58m increase (3.6% increase) on last years formula grant. For comparison purposes the average Outer London year on year increase in Formula Grant is 2.1% and for Inner London Boroughs 1.6%.
- 2.2.5 The Government has stated “...the average band D council tax increase this year (2009/10) was 3.0% - the Government expects to see it fall further next year while authorities protect and improve front line services. We expect the average Band D council tax increase in England to fall to a 16 year low in 2010-11. We remain prepared to take capping action against excessive increases set by individual authorities and requiring them to rebill for a lower council tax if necessary.”
- 2.2.6 Area Based Grant (ABG) is a pool of previously specific grants which are now non-ring-fenced and available for the Council to direct to its local priorities without condition. However for future years ABG could be reduced as it is not within the formula grant arrangements and so not subject to a floor. The 2010/11 ABG allocation from Central Government is £21.967m – the increase from 2009/10 of £5.9m is mainly due to the inclusion of Supporting People Grant in ABG this year. ABG is currently incorporated within the department’s gross expenditure budgets.
- 2.2.7 Dedicated Schools Grant (DSG) has been included in the gross expenditure and income analysis for the purposes of calculating the Council Tax. The current estimated value of this ring-fenced grant is £195.225m. Subject to later notifications by DCSF/DCLG this may change but will not affect the Council Tax. Executive will be informed of any changes through the monthly budget monitoring process.

## 2.3 Budget Setting Process

- 2.3.1 This report forms the final stage of the 2010/11 budget setting process. In Spring 2009 the indicative financial model was agreed including nil inflation on the 2009/10 base budget, and savings targets allocated to all departments. During the Summer 2009 budget options were worked up by departments to identify pressures, invest to save options and savings. These were subject to robust scrutiny through an officer Star Chamber process and by Members. Information on budget options includes a risk analysis and impact assessment from relevant services. For 2010/11, all budget options have been subject to an equalities and diversity impact assessment.
- 2.3.2 The existing capital programme has been subject to review. The proposals for investment are set out in a concurrent report on this agenda. The revenue effects

of these investment proposals (borrowing costs, additional and reduced operating costs, etc.) are fully included in the proposed 2010/11 budget, and the 2010/11-12/13 Medium Term Financial Strategy.

- 2.3.3 As a result of changes in financial reporting (International Financial Reporting Standards - IFRS) with effect from 2010/11 there is potential for an impact on the council's budget. Draft regulations issued by Department for Communities and Local Government indicate that these effects may be mitigated resulting in no effect on the Council Tax. However, at this stage it is not possible to confirm or quantify the potential effect. The contingency will be used to manage any effects which do impact on the council's budget.
- 2.3.4 The Council Tax Base was approved by the Executive on 22/12/09. Following the identification of a typographical error the Chief Executive approved a amendment to the Council Tax Base on 27 January 2010 to ensure statutory requirements were met. This urgent action is reported on this agenda.
- 2.3.5 As part of the process of ensuring that the Council's base budget is as robust as possible the Corporate Director of Finance and Commercial Services has begun a more fundamental review of the Council's higher risk budgets. The initial findings of this work is included in the proposals now being recommended. A sum has been included in the Council's contingency to address any further potential issues which may arise from this fundamental review.

## 2.4 Inflation

- 2.4.1 Given the prevailing price environment at the time of setting the budget strategy no general inflation has been added to the 2009/10 base budget. The 2009/10 base budget included 2.5% inflation for employee costs. The agreed pay award for 2009/10 was 1%. Therefore, in the rolled forward budget for 2010/11 there is a built in provision for an employee pay award of 1.5%. Once the pay award is settled the Corporate Director of Finance and Commercial Services will review this position.

If the fees and charges report on this agenda is approved the additional income is estimated to be £220,000. This additional anticipated income is included in departmental budgeted net expenditure figures.

In addition, as part of the Dedicated Schools Grant of £195.225m for schools the necessary inflation provision is provided within that sum.

## 2.5 Contingency

- 2.5.1 In assessing the budget an adequate level of contingency is required as well as appropriate levels of reserves and balances. Each year when assessing the level of contingency the following are examples of the factors that will be considered:-

- Projected pay awards (including London Weighting);
- In year budget pressures of volatile budgets (e.g. children's placements, transport for SEN children, homelessness, care packages,);
- Costs of new responsibilities, where estimates have been prepared with limited experience;
- Potential above inflationary price increases e.g. energy costs
- Unconfirmed grant funding regimes;

- Unexpected events;
- Variable interest rates;
- Budget risks.

2.5.2 The current level of contingency is £1.5m. Given the additional risks which the council is facing in respect of the recession, the delivery of future savings, and continued increases in demand for the services that the organisation provides the level of contingency is proposed to increase by £3.3m to £4.8m

2.5.3 A sensitivity analysis for a range of higher risk areas has been carried out. See paragraph 12.6 of the MTFS for the detail.

## 2.6 Reserves

2.6.1 The level of working reserves needs to be sufficient to provide financial stability to the Authority's finances, to allow for unforeseen fluctuations in spending and to provide enough flexibility for Members to respond to issues as they arise.

2.6.2 When reviewing the Medium Term Financial plans, Councils need to consider its level of reserves and the reasons for those reserves. There is also a requirement to undertake a review when the annual budget is set in February/ March each year.

2.6.3 The CIPFA guidance on Local Authority Reserves and Balances 2003 does not set any "level", but sets out the factors the Chief Financial Officer should use when assessing the level. The external auditors have been silent of specifying levels, tending to only comment on adequacy.

2.6.4 It is the responsibility of the section 151 officer to determine an appropriate and prudent level of reserves for the organisation. The target level of general reserves will be £10m. Provision has been made in the budget model to replenish reserves by an additional £2m in 2010/11 to ensure that this level is realised in 2010/11.

2.6.5 The current level of reserves is below the targeted level. This is due in the main to one-off adjustments required to be made during the closure of the 2008/09 accounts. This reduced the level of general reserves to £3.7m. Actions to ensure that such a situation does not recur include improved reconciliation processes and more regular in-year monitoring of balance sheet items.

2.6.6 The strict control of spend during 2009/10, a planned review of other ear-marked and specific reserves with a view to transfer their balances to the general reserve and the additional £2m referred to in paragraph 2.6.4 is anticipated to replenish the general reserve to the £10m target.

2.6.7 In addition to this sum, the Council will as usual also hold earmarked reserves for specific purposes.

2.6.8 The advice of the Director of Financial and Commercial Services is that the above figure (£10m) is the recommended level for working (general) reserves. Whilst this does not preclude the use of reserves in the short term for items Members regard as essential growth or vital projects, it is important that an adequate level is held.



## 2.7 Robustness of Budget

2.7.1 Under the provisions of the Local Government Act 2003 the Chief Finance Officer is also expected to state formally whether the budget is a “robust” one. It is the Director of Finance and Commercial Service’s view that the Council’s process for setting the 2010/11 budget has, so far, been robust. Further advice will be offered to the Council Assembly should this assessment change.

## 3. **Levies**

### 3.1 Levies

3.1.1 Certain bodies have the power to levy on the Council to meet their funding requirements and these levies count as Council spending for the purpose of the Council Tax. The proposed final levies for 2010/11 are as follows:

	<b>2009/10</b>	<b>2010/11</b>	<b>Change</b>	<b>Change</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>%age</b>
East London Waste Authority	7,128	7,458	330	4.6
Environment Agency – Flood Defences	104	104	0	0.0
London Pension Fund Authority	254	259	5	2.0
Lee Valley Regional Park Authority	160	163	3	2.0
<b>Total Levies</b>	<b>7,646</b>	<b>7,984</b>	<b>338</b>	<b>4.4</b>

3.1.2 In respect of the East London Waste Authority the increase of £330k which is 4.6%, relates to the apportionment between the four constituent boroughs based on the number of Council properties at Band D and the Council tonnage figures for collected household general refuse. The key reasons for the increase relates to the rising costs of waste disposal including the impact of landfill tax, reduced commercial waste income and increases in tonnage.

3.1.3 The increase in the London Pension Fund Authority and Lee Valley Regional Park levies has been assumed to be 2% and is subject to final confirmation from these bodies. Initial indication from the Environment Agency is that there will be no change in their levy.

## 4. **Executive Budget Proposals**

4.1 Appendix A shows the calculation of the 2010/11 Council Tax in total and for a band D property. The first section explains the movements either already agreed as part of the budget process (inflation and changes to payback of Invest to Save sums) or which are required as part of annual reviews e.g. capital charges and support costs. This provides the 2010/11 Base Budget.

4.2 The next section sets out the various budget options which are

- Member approved decisions e.g. corporate additional borrowing costs of capital investment, operating costs of Dagenham Library and One Stop Shop, temporary accommodation, etc. – see appendix C for detail of departmental items.
- Corporate pressures, e.g. increased employer pension contribution as part of the triennial review of the pension fund, increases in levies, reduction in interest earnings, provision for redundancy costs, replenishment of reserves, etc.
- Savings - departmental and corporate planned savings for 2010/11 – see Appendix C for details.
- Invest to save - £1m contribution to corporate pot to support future invest to save options.

## **5. Council Tax**

### **5.1 Collection Fund**

5.1.1 The Council is required to maintain a separate Collection Fund into which its Council Tax receipts are paid. Each year, any balance on the Collection Fund must be brought into the calculation of the Council Tax for the following year. Any available surplus on the fund must be used to reduce the Council Tax and any deficit must be met by increasing the Council Tax.

5.1.2 The latest estimate for 2009/10 is that a deficit will be made on the Collection Fund and that Barking and Dagenham's share will be £335,000. The main reason for this deficit is a result of increased exemptions. In addition, the final figures for 2008/09 need to be factored into this year's budget and this identified a final deficit of £156,000. Both sums have been accounted for in the proposed budget for 2010/11.

### **5.2. Greater London Authority Precept**

5.2.1 The Greater London Authority precept is set by the Mayor and Assembly for London and covers the budget requirement for the Mayor and Assembly and its four main constituent bodies, the Metropolitan Police Service, the London Fire and Emergency Planning Authority, Transport for London and the London Development Agency.

5.2.2 The Mayor's proposals submitted for consultation to authorities in December 2009 proposed a freeze in the precept at Band D for 2010/11 at the same level as for 2008/09 and 2009/10. This would result in a Band D precept for 2010/11 of £309.82, the same as in 2009/10.

5.2.3 The Mayor's budget can be amended by a two-thirds majority of the London Assembly, which is due to meet on the 10 February 2010. At this meeting the London Assembly will decide upon the Mayor's proposals of a freeze in the precept for 2010/11. A verbal update on the final decision will be made at the meeting.

### **5.3. Capping of Council Tax**

5.3.1 Each year when setting the Council Tax the Authority needs to have regard to announcements from Government in this area.

5.3.2 The capping criteria applied in 2009/10 were as follows: (as announced by the Local Government Minister, John Healey).

- a budget requirement increase of more than 4 per cent for 2009-10;
- and also a Band D council tax increase of more than 5 per cent.

The capping criteria to be applied in 2010/11 has not been announced yet, and will not be until after authorities set their budgets. However, an indication was given in the settlement documentation which stated “the government expects to see the average council tax increase – which this year was 3.0% - fall to a 16 year low next year while authorities protect and improve front line services. Ministers have confirmed that they are prepared to cap ‘excessive increases’, including requiring rebilling, as happened with two police authorities this year.”

5.3.3 The proposed budget requirement for 2010/11 is £154.8 million. The budget requirement, after adjustment for fundamental changes, shows a 2.4% increase on 2009/10 compared to a proposed freeze in the Council tax.

#### 5.4 Council Tax 2010/11

Appendix A sets out the impact on Council Tax of the budget proposals set out in this report. This reflects the estimated GLA precept to be decided on by the London Assembly.

### **6 Legal Implications**

- 6.1 The issue of the council’s reserve funds has been raised in previous reports to the Executive owing to the reserves being depleted beneath the targeted reserves of £7.5 m set in last year’s budget. In these circumstances the Chief Finance Officer is obliged both at the time such projections arise and when the following year’s budget is set to explain the reasons and any action considered necessary to prevent a repetition (section 27 Local Government Act 2003). This is covered at paragraph 2.6 of this report.
- 6.2 It is also the duty of the Chief Finance Officer under section 25 Local Government Act 2003 when (among other things) the budget is being set to report on the ‘robustness’ of the estimates made for the purposes of the budgetary calculations and the adequacy of the proposed financial reserves. In this regard the Chief Finance Officer confirms at paragraph 2.7 of this report that the budget for the council is indeed robust.
- 6.3 The Secretary of State has power under the 2003 Act to specify a minimum level of reserves but has not done so. Instead guidance issued by CIPFA (‘Local Authority Reserves and Balances 2003’) indicates that councils should set a minimum level having regard to risk. Members will note that the Chief Finance Officer has indicated a target level of £10m as appropriate for Barking and Dagenham council.
- 6.4 The overall budget for 2010/11 is detailed in the report. Further, the budget has been set in the wider context of the Medium Term Financial Strategy and members will wish to read the budget in that context and satisfy themselves that the criteria referred to have been addressed in setting the budget.

## **7. Medium Term Financial Strategy (MTFS)**

- 7.1 The Council agreed a three-year medium term financial strategy when setting last year's budget and Council Tax. This has now been fully updated to reflect a detailed view up to the financial year 2012/13, and with indicative figures through to 2019/20. To enable a fully linked process to the service planning of the organisation the MTFS proposed has been included within the new Council Plan. The Council Plan and MTFS is also a report on this agenda. The purpose of the three-year and longer strategy is to enable the budget to be set in a more strategic context and to pursue budget options over a longer time frame.
- 7.2 The decisions proposed in this report will have implications later in the three-year budget cycle and these are fully set out in the MTFS papers. Members should bear in mind the ongoing implications of proposals included in the 2010/11 budget, although these will not finally be approved until later budget years.
- 7.4 It will also be necessary to consider the use of capital resources, as capital expenditure plans over the next three years now require the Council to fund part of these through borrowing. Pressures to earmark Government funding for specific purposes, particularly in relation to Schools, are likely to be maintained.
- 7.5 In addition, the ongoing effect of Government changes to the local government finance system and the impact of Census data on grant allocations will have an impact on the Authority which cannot currently be assessed. Budget pressures exist as expected as a result of ongoing increased pension costs arising from the latest triennial valuation of the Pension Fund and additional statutory requirements.
- 7.6 It is therefore anticipated that pressure on the Authority's budget will remain unabated over the 3 years of the plan, and a further £18 million of potential budget pressures is currently forecast for 2011/12.
- 7.7 In order to plan for these ongoing pressures, it is important that the budget process for 2011/12, as with the 2010/11 process, starts early in the new financial year, and a strategic approach is adopted so that budget proposals are considered in terms of outcomes linked to priorities. This approach will also enable budget proposals (pressures & savings) with longer lead in times to be considered.
- 7.8 Reductions at the projected level of around £18 million for 2011/12 will need to be made across all Services apart from the Schools budget, which is funded by the ring fenced dedicated schools grant. Targets are to be set to allow the process for identifying savings to commence in April 2010. It is recommended that the Corporate Director of Finance and Commercial Services should provide the initial targets for savings across all services to enable this to happen.

## **8. Community priorities**

- 8.1 It is vital for the quality of services across the organisation that resources are aligned to key priorities, and that service and financial planning has been undertaken with relevant consideration of key priorities alongside available resources.

8.2 The Council's financial planning process is linked to the Council and service planning process, which enables us to take a high-level view in translating local and national priorities, into deliverable actions and positive outcomes for local people.

8.3 The Council's corporate priorities help to add focus to what we are trying to achieve and enable us to deliver against our wider objectives in the community. The budget process has identified a total of £14 million of savings for 2010/11, of which a substantial sum are efficiency savings, which can be re-directed. Some of these resources are directed to fund current cost pressures and re-establish reserves. Other resources are directed to fund developments in services across the organisation. The Council is also allocating £1 million from reserves to fund invest to save projects.

## 9. Efficiency

9.1 Realising efficiency gains is fundamental for the organisation in terms of its longer term financial sustainability and ability to continue to deliver services that are important to residents. Where efficiency gains are not realised (for example providing the same service for less cost, providing a better service for the same cost), the alternative is to cut back on services. It is therefore important that an efficiency programme delivers as much benefit as possible.

9.2 For 2010/11 and future years an efficiency programme will encompass the following:

- Better procurement;
- Asset rationalisation;
- Strategic Partnership - lean back office and transactional services;
- Service reviews; and
- 3% efficiency targets for all service heads for each of next 5 years.

9.3 The specific budget options at appendix C include a number which demonstrate the implementation of improved efficiencies.

9.4 The council operates a 'invest to save' fund. In 2010/11 an additional £1m is being ear-marked to provide support to services to implement efficiency measures or preventative work which will save costs in future years.

## 10 Value for Money

10.1 Achieving Value for Money (VFM) is an integral part of the Council's approach to delivering the Medium Term Financial Strategy (MTFS). The Council has developed a **VFM Strategy** to strengthen our strategic approach to improving VFM.

10.2 To deliver this strategy a **VFM Action Plan** has been developed to provide more detail on the work programme that will be undertaken to achieve better VFM and the key milestones. The key themes of the work programme are:

- **Understanding VFM** - Ensuring a shared understanding of the VFM provided by the Council and developing a culture of cost-consciousness

- **Embedding VFM** - Ensuring that Value for Money remains a clear and sustained focus for the Council and its key decision making and management processes
- **Delivering VFM** - Transforming the way services are commissioned and delivered to release savings to invest in the agreed priority areas

10.3 The 2010/11 budget includes £14m of savings to balance the budget as set out in **Appendix C**. These savings are risk assessed by Departments, and an impact assessment is done to ensure that the effect on frontline services is low. Savings (disinvestment) is targeted at areas where our benchmarked information on value for money suggests that improvements in cost effectiveness can be made. Examples of this are as follows (each of these services were identified as high cost services based on benchmarking data):

- Leisure £0.3m
- Passenger transport £0.25m
- Care placements £0.5m
- Quality and schools improvement £1.2m
- Revenues and benefits service £1.8m
- Human Resources £0.5m
- ICT £0.5m
- Finance £0.3m

## 11. Consultation

11.1 When considering its budget proposals, the Council is required to take into account the views of the local community about its budget.

11.2 The budget process is informed by consultation with residents on what services or issues are important to them and what services they feel are most in need of improving. IPSOS MORI conducts a bi-annual place survey that enables this data to be compiled, compared with previous data, and also compared across London. Data is available from 2003/04, 2006/07 and 2008/09. In 2009/10 the Council commissioned an interim place survey to inform decisions in respect of service and financial planning.

For 2009/10, the top issues that local residents felt were most important in making somewhere a good place to live were as follows:

- The level of crime;
- Clean streets;
- Health Services;
- Public transport;
- Affordable decent housing; and
- Education provision.

Our residents have consistently identified these areas as important. The Council and its partners have consistently therefore allocated our available resources to these priorities.

11.3 The survey also asks what things are most in need of improving, and they were as follows:

- The level of crime;
- Activities for teenagers;
- Clean streets;
- Road and pavement repairs;
- Job prospects;
- The level of traffic congestion; and
- Affordable decent housing.

11.4 As an organisation, we have ensured that investment has been targeted to these areas, with key examples as follows:

- We have invested in our partnership with the police to increase the number of officers on the streets;
- We have set up the Street Warden Service in the borough to stamp out environmental crime and work with the community to promote pride and respect for our streets and public spaces;
- We have set up the Street base initiative, which has been developed to promote activities for young people in the borough.
- £1m investment in apprenticeships per annum to improve job prospects and activities for young people;
- A major programme of £20m investment in road and pavement repairs across the 4 years from 2007/08 to 2010/11;
- We are building a Skills Centre in Barking to deliver against our overall aim of raising household incomes; and
- The re-prioritisation of £7m from the capital programme to fund a programme of new Council House building to increase the supply of affordable decent housing.

11.5 Consultation with the business sector took place on 8 February 2010. A verbal update on the relevant discussions will be available as necessary for this Executive meeting.

11.6 Public Accounts and Audit Select Committee (PAASC) met on 12 February 2010 to consider the proposed MTFs and budget options included in this report. A verbal update on the relevant discussions will be available as necessary for this Executive meeting.

## **12 Consultees**

The following have been consulted in the preparation of this report:

All Cabinet Members  
 Corporate Management Team  
 Departmental Management Teams  
 Corporate Financial Controller  
 Strategic Financial Controller  
 Group Managers – Corporate Finance

## **13 Background Papers Used in the Preparation of the Report:**

Information from Department of Communities and Local Government  
 Budget working papers

Reports to Member bodies  
2010/11 Medium Term Financial Strategy  
Oracle reports  
Working Papers  
Local Government Act 2003  
Benchmarking Information

## **14 Appendices**

**Appendix A** – Calculation of Proposed Council Tax 2010/11

**Appendix B** – Statutory budgetary determination 2010/11

**Appendix C** – Detailed savings and pressures options

**Appendix D** – Summary of Revenue Budget by Department 2009/10 and 2010/11

**Appendix E** – Summary of Revenue Budget - Analysis of Gross Expenditure and  
Income