

THE EXECUTIVE

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Open Report

Agenda Item 7. Council Tax 2004 / 2005 and Medium Term Financial Strategy (Pages 1 - 47)

Appendix D - Medium Term Financial Strategy

Private and Confidential Reports

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Concerns a Contractual Matter (paragraphs 7 and 9)

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APPENDIX D

MEDIUM TERM FINANCIAL STRATEGY

2004/05 TO 2006/07

MEDIUM TERM FINANCIAL STRATEGY
2004/05 TO 2006/07

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MEDIUM TERM FINANCIAL STRATEGY
2004/05 TO 2006/07

DRAFT FOR APPROVAL

1 Introduction

- 1.1. This document sets out a framework for using the Council Finances to deliver the Community Priorities over the next three years. It is not possible to accurately set out future years' expenditure plans because of the annual national funding announcements, but it is now possible to predict the broad parameters of Council expenditure for three years with a joint degree of accuracy.
- 1.2. The London Borough of Barking and Dagenham has the advantage, at present, of being debt free, which enables us to plan and predict our capital programme with a greater degree of confidence than other Councils. This should be reflected, in turn, through the revenue budgets.
- 1.3. Our Medium Term Financial Strategy (MTFS) is driven by the Council's desire to maximise its impact in addressing the needs of local people, delivering against the Community Priorities, and working with the local community wherever possible. There will be points of contention and disagreement about the actions that are needed, but these will be addressed through consultation and information sharing. Where contention arises, we will use the Community Priorities as a guide to finding the best solution for our Community, within the overall financial framework.
- 1.4. The Medium Term Financial Strategy covers the three years 2004/05 to 2006/07, that relating to 2004/05 is based on the budget and plans agreed in 2003 and further developed in February 2004. It will be a rolling strategy that is updated annually and informed by the capital plan. It is envisaged that this strategy will be:
 - a) Adopted as part of the 2004/05 budget process
 - b) Updated in July of each year to assist budget planning for future years
 - c) Reviewed in February each year when the annual budget is set.Steps b) and c) will then become part of the regular financial planning process.
- 1.5. This strategy aims to look beyond the immediate future in terms of service and financial planning. It takes account of the community priorities linking those priorities with a financial strategy for delivering them. It joins together the revenue and capital planning and provides a framework for using the Council's resources alongside other Public Sector funding.

2. Community Priorities

- 2.1. The Community priorities which the Medium Term Financial Strategy will help to deliver are:
- a) Promoting Equal Opportunities and Celebrating Diversity
 - b) Better education and learning for all
 - c) Developing rights and responsibilities with the Local Community
 - d) Improving health, housing and social care
 - e) Making Barking and Dagenham cleaner, greener and safer
 - f) Raising general pride in the Borough
 - g) Regenerating the Local Economy

3. Council Performance

Strategies, Plans and Performance Management

- 3.1. The Council produces a range of published strategies and plans (a full list of plans is set out in Annex 1). All have financial implications, most beyond the three year period anticipated by a Medium Term Financial Strategy. The Strategy provides a resource plan to underpin the delivery of these local strategies and plans.
- 3.2. Operational Plans are measured with a series of Balanced Service Scorecards that set out the expected criteria for success and targets for achievement. Services have indicated how they will deliver to target over the next three years. Some of the financial implications within these scorecards need to be further explored as part of the future budget-setting process, to further strengthen the link between resource requirements and the areas where performance improvements are required.

Local Public Service Agreement

- 3.3. The Council signed its Local Public Service Agreement on 21st July 2003. A Summary of which is attached as Annex 2.

The pump priming performance grant of £914k will be received in 2003/04 and allocated as Annex 2, this will be supplemented by the redirection of Council expenditure of £158k. The performance reward grant of up to £4.7m is expected to be received in two equal instalments in 2006/07 and 2007/08 after our targets are achieved at 31st March 2006.

Comprehensive Performance Assessment (CPA)

- 3.4. The Council was informed in December 2003 that it has retained its "fair" status under the Comprehensive Performance Assessment (CPA) process. Further work is required to improve on this overall rating and the Medium Term Financial Strategy can assist in supporting the Council to achieve a higher rating.

- 3.5. Alongside the CPA process there is the usual Government inspection process particularly around Education (Ofsted), Social Services (Social Service Inspectorate), Housing (Housing Inspectorate) and Benefits (Benefits Fraud Inspectorate). The outcomes from these inspections need to be incorporated into delivery plans which need a clear link to the Medium Term Financial Strategy.

4. Budget Strategy

Council Tax Strategy 2003/04 – 2005/06

- 4.1. In February 2003 the Council set a Council Tax strategy for 2003/04-2005/06. The key elements were:

- a) Education budget set at least as high as FSS (Formula Spending Share)
- b) Social Services budget set at least as high as FSS
- c) Highways Budget set at FSS
- d) A Council Tax increase of 15% for 2003/04 (11.7% for LBBB, 29% for the GLA) with further projected increases of:-

2004/05 15.7% (11.4% LBBB, 20% for the GLA)
2005/06 12.5% (8% LBBB, 20% for the GLA)
- e) Savings of £2.2m in 2003/04 with further savings required of £2.5m in 2004/05 and £250k in 2005/06. These savings were set out in the strategy. The savings concentrated on areas within the EPCS block but protection was given to service provision that delivers the cleaner, greener, safer Council priority.
- f) There would be no planned use of reserves for ongoing expenditure beyond 2003/04.
- g) A 5 year capital plan totalling £400m, with £200m of the programme funded from external funding or revenue
- h) A Capital Programme dependent on £52m of sale proceeds from land disposals.
- i) Remaining debt free for the 3 year period, with the proceeds from interest on balances reducing as accumulated capital receipts are used to fund the capital programme.
- j) The consequence of the strategy was that the Council would be directing resources to Education and Social Services and away from those in the EPCS block. This would be achieved by reconfiguring services funded from within EPCS and, wherever possible, protecting front-line environmental services.

Budget Strategy 2004/05 onwards

4.2. For 2004/05 the key elements of the strategy set in 2003/04 have been built on and the budget has been based on:-

- a) Education budget set at FSS, including the full passporting to schools of the increase in the schools FSS.
- b) Social Services budget set at FSS.
- c) Highways budget set at below FSS (by £300k).
- d) Protecting the services that deliver the Cleaner, Greener, Safer priorities.
- e) There would be no planned use of reserves for ongoing expenditure.
- f) A 4 year capital plan totalling £283m with £121m of the programme funded from external resources, subject to full capital appraisal on a scheme by scheme basis.
- g) A rigorous asset disposal programme, and a capital programme that is dependent on around £50m of sale proceeds from land disposals. Potentially asset disposals may exceed this level and the programme has been set in order to accommodate a higher level of receipts if they are realised. Similarly if the £50m is not achieved the programme will need to be reassessed.
- h) Remaining debt free for 2004/05 to 2006/07, with the proceeds from interest on balances reducing as accumulated capital receipts are used to fund the capital programme. The position on borrowing will be kept under review.
- i) A council tax increase of

5.9% in 2004/05 (5.46% LBB, 7.54% GLA) with further projected increases of:-

2005/06 (5.5% LBB, 10% GLA)
2006/07 (5.5% LBB, 10% GLA)
- j) Savings of £3.5m for 2004/05, of which £600k relates to highways and the remaining are within the environmental, protective and cultural services block however protecting the service provision for cleaner, greener, safer.

With further savings projected of about;

£3m for 2005/06
and £2.3m for 2006/07 being required.

- k) Growth of £2.6m for 2004/05.
This mainly relates to statutory requirements, unavoidable growth, and existing commitments. However, investment is planned in recycling, contract management, procurement and further investment in Cleaner, Greener, Safer initiatives. In addition, there is also a phased transfer of the costs of grounds maintenance from the HRA to the general fund. Further budget pressures of £17m and £14.5m are projected for 2005/06 and 2006/07 respectively.

4.3 The strategy for 2005/06 and beyond continues the position that has been established for 2003/04 and 2004/05.

4.4 A summary of spending and Formula spending Share projections for 2005/06 onwards plus council tax increases are contained in Annexes 3 and 4.

5. Formula Spending Share

5.1. For 2004/05 the local Government settlement was based on the Formula Spending Share (FSS). The FSS is based on formulae that include information on the population, social structure and other characteristics of each Authority including a top up to reflect the extra costs of employing staff in high cost areas such as London and the south east.

5.2. The FSS covers the following major service blocks:

Education

Social Services

Highways

Environmental, Protections and Cultural Services (EPCS)

Capital

5.3. The Government does not use FSS as a measure of how much a Council should spend. Rather, it is a way of dividing up the resources that the Spending Review has made available – how the cake is sliced, rather than how big the cake should be. It is a way of allocating grant according to authorities relative circumstances.

The Government is, however, particularly concerned to ensure that its planned increases in school funding are directed into school budgets. Local Authorities are therefore now required by the DfES to ensure that the full increase in the schools element of the Education FSS is reflected in the schools budget. This is expanded on further in section 19 on Education.

There is an expectation that inspectors will examine Social Services expenditure compared to FSS, but at present there has been no Government requirement to spend at Social Services FSS.

5.4. The FSS formula comprises of the following elements:

- A **Basic Amount** for each client that is the same for each Authority.
- A **Deprivation Top-up** that allows for the additional costs of providing services in deprived areas, e.g. proportion of benefit claimants, ethnicity and English as an additional language.
- An **Area Cost Top-up** that recognises that wages and business rates vary across the country.
- Other **Top-ups** that address a range of cost pressures like sparsity, density, visitors and commuters.

5.5. The Councils FSS for 2004/05 is:

	£M
Education	115.035 (Schools - £101.911m & LEA Central Servs - £13.124m)
Social Services	61.293
Highways	4.847
EPCS	42.140
Capital	<u>2.555</u>
	<u>225.870</u>

5.6. The Government does not expect to change the FSS formulas for 2005/06 (except in so far as the weightings given to particular indicators may need to change following the incorporation of the new 2001 census data) and this has been assumed in the Strategy. However, four factors can change:

1. The overall amount of money available which is based on the 2004 Spending Review updated to take into account known movements since that date.
2. Changes in Local Government responsibilities.
3. The underlying data used in the formula.
4. Floors and Ceilings

These four factors are analysed further in Sections 6 to 10.

6. Census Data and Demographic Changes

6.1 The ODPM did not use the demographic and socio economic indicator data from the 2001 Census data to distribute 2004/05 formula grant. This data is likely to be used, however, in some form in 2005/06. These indicators currently account for around 40% of the Borough’s social services funding. No announcement has been made as to when the new indicator data will be used or indeed whether the ODPM will seek to revisit the weightings given to each indicator in the FSS formula in the light of the census results. If new data which has so far been released had been applied it would have had the following effect:-

- Social Services FSS down £1.1m (£0.9m for children)
- EPCS FSS up £0.4m
- RSG down £0.4m

This is due primarily to the children's element of FSS in particular the data for

- a) Children with Limiting Long Term Illness
- b) Proportion of Children in One Adult (Lone Parent Households)
- c) Proportion of Children living in flats
- d) Population density

6.2 The continued use of the 1991 data in 2004/05 appears to be a one year reprise, so representation needs to be made to the ODPM as well as the funding departments (DfES and DoH) about the validity of the data and the impact on our service provision of such grant losses were they to arise. The majority of deprived London boroughs would also see sharp losses in funding from the application of the new census data to the current formula (e.g.

Hackney and Tower Hamlets' children's social services funding could fall by over 20%).

6.3 The impact of this could be to reduce the funds available for Social Services to deal with budget pressures and new incentives while assisting the EPCS block in addressing its pressures.

6.4 The 2001 census indicated that the borough experienced the largest population growth in the capital compared with the previous 2000 mid year estimates issued by the Office for National Statistics and this trend is likely to continue for the foreseeable future due to the major housing developments planned along the Thames Gateway.

6.5 The changing demographic profile of the borough will put pressure on resources for schools and children's social services in particular. This is illustrated by the fact that the population aged under 18 increased by 4.8% in the 2001 census compared with the previous 2000 mid year estimates whereas the population over 65 increased by only 1.25%. The proportion of the population of working age (18 - 64) increased by the greatest amount – almost 7% - which in part reflected the revised methodology which was used by the ONS to allocate in migrants and adult asylum seekers across the 33 London boroughs. The Borough's elderly population is therefore likely to decline as a percentage of the total whereas the number of children of school age is likely to continue to increase substantially. As more young families move into the area this may also impact on relative deprivation levels.

- 6.6 An analysis of the census data shows other trends which offer both significant challenges and opportunities to the borough.

For example Barking and Dagenham:

1. had the highest percentage increase in its ethnic minority population over the last decade of any district in England by some margin. The increase of 148% compares with an average nationally of 37% and in London of 42%. Excluding the Corporation of London where the results are arguably not statistically significant due to its low population the next highest increase was Thurrock at 97%. Despite the boroughs ethnic minority population still only representing 9% of the total although this percentage is much higher amongst the child and younger adult population. This increase will tend to drive expenditure pressures upwards per child for social services and special educational needs as children from BME backgrounds are up to three times as likely to be placed in care than their white counterpart.
 2. ranks second in London after Hackney in terms of the proportion of children with a limiting long term illness according to the 2001 census. In 1991 it only ranked 14th out of 33 – it is not clear whether this reflects a real relative movement or is indicative of an undercount in the figures for other deprived London boroughs due to the tick box nature of this question on the census form and the lack of rigorous quality controls on this indicator by the Office for National Statistics.
 3. had the greatest relative decline in the proportion of its children living in flats in London i.e. a reduction from 25% of children to 20%. This modest reduction may have implications for the Council's future funding for children's social services.
- 6.7 The Council will therefore need to review its spending priorities particularly in the areas of Education and Social Services. From 2005/06 the full effects of the new 2001 census indicators are likely to feed into the government's funding allocation formula. Aligned with the relative changes in government funding due to the Borough's population trends this will tend to reduce the relative level of resources allocated through FSS for elderly care over time with corresponding increases in expected expenditure on schools and particularly children's social services.

7. Spending Review

- 7.1. The Government decides how much it can afford to spend, reviews its expenditure priorities and sets targets for the improvements, which are to be delivered from additional spending in its spending reviews (SR).
- 7.2. These reviews take place every two years, covering a three year period. They set out Government assumptions about local authority revenue, spending and determine the total level of grant to local authorities. The final year of a spending review becomes the first year of the next.

- 7.3. Spending Review 2002 (SR 2002) was announced in July 2002 and set out plans from 2003/04 to 2005/06, in the context of the overall national budget of 2002.

SR 2002 indicated the following increases in FSS:

	2003/04	2004/05	2005/06
	%	%	%
Education	6.3	5.5	5.9
Social Services	8.6	6.3	8.8
Highways	2.6	2.5	2.4
Environmental, Protective and Cultural Services	5.3	2.9	3.3
Capital Financing	19.1	5.2	17.1

With the following increases in:

	2003/04	2004/05	2005/06
	%	%	%
Net External Finance (RSG and NNDR)	7.3	5.9	6.7
Locally Financed	6.2	2.3	6.1

N.B. 1. The percentage increase for the schools element is significantly higher (6%+) than the planned growth for LEA central services (3.5%).

These figures are inclusive of inflationary increases. The plan does include the total budgeted figures, but these are at the national level and no detail is given at the Authority level.

- 7.4 The next review in 2004, likely to be announced in July 2004 and will cover the period 2005/06 to 2007/08. One of the key priorities of the review is addressing child poverty so it is to be expected that schools and children's social services are likely to see the greatest growth in funding between now and 2007/08. The increases shown above for 2005/06 are therefore likely to change.
- 7.5 The Chancellor in his Autumn 2002 Statement reinforced the July 2002 plans and these are being used in this strategy.
- 7.6 Annex 4 sets out a projection based on the latest available information.

8 Changes in Local Government Responsibilities (Functional Changes)

- 8.1 Changes occur between the years due to change in responsibilities (e.g. transfer of responsibility for post 16 education to the learning and skills council in 2002/03 or the funding of nursing care for the elderly to the NHS in 2003/04); the Government will make adjustments for these. This will also include transfers from specific formula grants and ring-fenced grants into FSS. The Government has committed itself to reducing the amount of ring fenced grants to 4.5% of total funding but the actual proportion will still be 11.1% in 2004/05. A reduction in ring fencing for social services (releasing an extra £4.5m for general use by LBBB) has been offset by a 17% growth in the proportion of education funding which is ring fenced.
- 8.2 At the total level, these transfers are neutral but for the Council there is a risk that funding levels change as the distribution of the grant is not the same as that when calculated via the FSS.
- 8.3 The strategy assumes that the transfer of these grants into FSS is neutral. In each case there is a risk that the cash transfer will not be like for like, although due to the borough's rising population there is unlikely to be a disadvantageous effect. At present these are not considered as budget pressures but they may become such.

9 Changes in the Underlying Data in the Formula

- 9.1 Population changes, pupil numbers, relative deprivation etc can all change from year to year and will impact on the overall grant position. In general these are not usually too significant to cause financial planning difficulties in the short term. Data changes are also only relative in the context of all councils.
- 9.2 For education, the funding is strongly linked to pupil numbers which in turn feeds into the fair funding formula used to distribute the schools budget.
- 9.3 The 2001 census indicates that the borough is experiencing one of the largest population growths in the capital and will continue to for the foreseeable future due to the major housing developments planned along the Thames Gateway. The changing demographic profile of the borough will put pressure on resources for schools and children's' social services. The Borough's elderly population is likely to decline as a percentage of the total whereas the number of children of school age is likely to increase substantially. As more young families move into the area this may also impact on relative deprivation levels.
- 9.4 There is a tendency for a two year 'lag' in the population data that feeds into the FSS (i.e. population estimates from July 2002 determine funding for 2004/05). There will also be an impact on the needs for the development of the infrastructure.
- 9.5 The council is already experiencing this with increasing pupil numbers and the need to provide school places. This is impacting on the capital programme, which in turn has revenue consequences. The Schools Organisation Plan is being used to inform the potential demand for school places and the capital programme requirements.

10. Floors and Ceilings

- 10.1 Each year, the Government guarantees a minimum increase in the Revenue Support Grant for each Council. This is known as a “Floor” increase set at 4% in 2004/05. This has to be paid for, so the Government also sets a maximum grant increase, a “Ceiling”, set at 7.5% for 2004/05. It dampens the effect of extreme changes in grant year on year. Neither applied to Barking and Dagenham in 2004/05 as the grant increase was 7.46% although there is a risk that its grant increase may be capped by the ceiling in future years due to the expected growth in population and pupil rolls.
- 10.2 The Government does not announce the level of floors and ceilings in advance of the provisional settlement announcement in November so it is difficult to predict funding levels for future years.
- 10.3 The DFES also guarantees that every LEA receives a minimum per pupil increase in schools FSS each year and is 5% in 2004/05. Barking and Dagenham benefited from this floor protection by £1m in 2004/05. This has translated directly into a higher level of formula grant and FSS.
- 10.4 For planning purposes it has been assumed that the Council will not be subject to formula grant floors or ceilings and as a result of the DfES’s guarantees for 2005/06 will receive an increase in schools funding per pupil of at least 5%.
- 10.5 The Council should campaign to get the cap lifted where the increase is a result of increased population, otherwise public service provision will lag behind population growth.

11. Capping

There have been a number of Ministerial announcements regarding capping, for example;

“Given the scale of investment in local services and the scope for efficiency improvements in local government, the Government believe next year, local authorities must aim to deliver council tax increases in low single figures”

The Minister has also written to a number of councils who have been considering council tax increases of more than 5%. Any capping decision depends on the view of the Deputy Prime Minister as to whether an authority’s budget requirement – and not the council tax – is excessive.

Even if the budget requirement is considered excessive, capping may not result, as there are mechanisms for pre-signalling capping for a following year.

The proposed budget requirement for 2004/05 is £220.168m, compared to our Formula Spending Share (FSS) of £225.87m. The budget requirement, after adjustment for fundamental changes to the FSS, shows a 5.74% increase on 2003/04, compared to a 5.78% increase on FSS.

12 Inflation

- 12.1 Price inflation of around 2.7% is expected over the next 2-3 years. Some economic drivers are subject to negligible inflationary or even deflationary drivers, but staff costs, taking account of the levels of pay increases and additional national insurance and employer pension contributions, are likely to contribute to inflationary pressures. So too is incremental drift as the council tackles difficulty to fill posts.

UBS are predicting average earnings to increase by 4% into 2004.

- 12.2 The London Weighting pay dispute is unresolved, which could contribute to inflationary pressures. This is estimated to cost approaching £300k per annum (including HRA staff).
- 12.3 Approximately 80% of the Council's expenditure is on staff costs, so the inflationary pressures here are particularly important. Barking and Dagenham in common with nine other East London boroughs receives a top up of only 9% (around £20m) to its basic Formula Spending Share allocations to reflect the higher costs of recruiting staff in the capital – the area cost adjustment – compared to 15% for those in West London and 26% for the twelve inner London authorities. This is a potential lobbying area for the Council as relative wages paid in Barking and Dagenham are around 50% higher than the East London average according to the ONS's New Earnings Survey (the data source for determining relative wage rates) and this ought to be reflected in the area cost adjustment calculation.

The Governments inflation target is 2½% and the spending plans for local government have been based on being close to that target.

- 12.4 For the purposes of the strategy the following inflation assumptions have been made:-

	2004/05	Later Years
Employee costs	3%	3%
Other inflation	2.5%	2.5%
Fees and charges	2.5%	2.5%
Pensions costs	½%	2% per annum

13. Vacancy Provision for Employee Costs

- 13.1 Budgets are currently set taking into account vacancy factors. Heads of Service have discretion as to the level depending on the local circumstances; in general Social Services and Education do not operate with such factors.

Predicting staff costs', including recruitment and retention costs, is becoming increasingly problematic, with shortages in key areas, such as Planning, Finance and Social Services. Other financial pressures include the level of sickness, high costs of repeated recruitment drives and the cost of temporary staff and consultants used to meet resource gaps.

- 13.2 The Council has a policy for reducing its use of agency staff and is being monitored extensively.

14. Charging Policy

- 14.1 The Council has agreed a charging policy and this is set out in Annex 5.
- 14.2 A Corporate Charging Register will be developed during the first half of 2004. It will set out:
- A schedule of charges
 - The date of revision
 - The basis of calculations
- 14.3 All charges will be reviewed annually as part of the budget setting process and this review will commence for the financial year 2004/05. In general fees and charges will be increased to ensure a 2.5% increase in yield in addition to the principles set out in the charging policy.
- 14.4 The Local Government Act 2003 will permit Councils to charge in further areas and these will need to be reviewed as further information becomes available.
- 14.5 From 01/04/03, Department of Health "Fairer Charging" statutory guidance applies to non-residential charging policies within care environments. The Fairer charging Guidance requires charges to take account of both the users' ability to pay and level of service required. This in effect makes it a requirement to undertake a means test to decide levels of charge and to move away from previous non-means tested flat rate charges the Council has favoured in Social Care. The statutory means test has meant that over 50% of Social Services clients have been taken out of being required to pay charges. This guidance will need to be adhered to when making charges for Social Services activities.

15. Prudential Capital Guidelines

- 15.1 The enabling legislation for a new capital regime is set out in the Local Government Act 2003 and the new system is to be in place from 1/4/04. Authorities will be given greater freedom to borrow providing they can meet the revenue costs of the borrowing and the running costs of the resultant capital scheme.
- 15.2. The new regime requires the pooling of housing capital receipts. Transitional arrangements have been approved for debt free Councils which will allow 75%, 50% and 25% of our pooled receipts to be retained over the three years 2004/05 to 2006/07 providing they are used for housing purposes. This is estimated to cost the Council about £30.3 million over the three year period in the level of usable capital receipts and is split as follows:
- £5.1m 2004/05
 - £9.8m 2005/06
 - £15.4m 2006/07

The new arrangement has been allowed for in the Council's Capital Plan. The Capital Plan will need to be reviewed to ensure that these resources can be allocated for this purpose. These new requirements mean that the Council will need to reappraise its debt free status as the financial advantages of being debt free are reducing.

- 15.3. The new prudential guidelines will require the Council to set out various indicators on its Capital plans, investments and projected Council Tax increases, although being debt free reduces the extent of these. Annex 6 sets this out in more detail.

16. Debt Free Status

- 16.1 The council currently is debt free; from 1 April 2004 the new capital regulations make this less attractive. These mainly relate to the need to pay a proportion of housing capital receipts into a national pool (see Annex 6). There is however a transitional assistance for councils that is debt free on 31 March 2004. The council needs to be debt free on 31 March 2004 otherwise it would forego about £30m of transitional relief.
- 16.2 The capital plan for the council is indicating that there will be gap between the spending needs and the available resources over the period of the plan of around £16 million.
- 16.3 The Director of Finance will report during 2004/05 on the implications of borrowing and give consideration to when this might be advantageous to the Council.

17. Reserves and Contingency

Reserves

- 17.1 When reviewing the Medium Term Financial plans, Councils need to consider the 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 each year.
- 17.2 The CIPFA guidance on Local Authority Reserves and Balances 2003 does not set any "level", but sets out the factors the Finance Director should use when assessing the level. Until recently the external auditors have been silent of specifying levels, tending to only comment on adequacy.
- 17.3 The CPA guidelines give 5% as a target level. For Barking and Dagenham this would be £10.5m. School balances should form part of the strategy but if possible be in addition to the 5% level.

In addition, the Council will hold earmarked reserves for specific purposes.

17.4 Annex 7 sets out the Council's position on reserves and a policy for their application. It can be summarised:-

- General Reserve
 - Projected uncommitted reserve at £11.3m for 2004/05
- Repairs and Renewals Reserve
 - Transfer un-required balances into the general reserve.
 - Set up a spend to save reserve and service reconfiguration reserve from the vehicle and plant reserve.
- Capital and Revenue Support Fund
 - No Change
- Insurance Fund
 - Utilize un-required contributions for revenue spending in 2004/05 onwards, use un-required contribution in 2003/04 for the new resource equalisation reserve.
- Resource Equalisation Reserve
 - A reserve be established to cover the potential shortfall as a result of the reduction in the council tax base as reported to the Executive on 23 December 2003.

A full profile over a three year period is set out in Annex 8.

17.5 All reserves and the policy will be reviewed annually as part of the budget setting process. The actual movement on reserves will be reported as part of the Annual Statement of Accounts. The Constitution does not specifically refer to reserves and as such delegates all matters to the Director of Finance.

Contingency

17.6. 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 will be considered are examples of the factors that will be considered:-

- Projected pay awards (including London Weighting)
- In year budget pressures of volatile budgets
- Costs of new responsibilities, where estimates have been prepared with limited experience
- Unconfirmed grant funding regimes
- Unexpected events
- Variable interest rates
- Budget risks

18. Flexibility Plans

- 18.1. In the event of an unforeseen event during the year creating a budget pressure the following are examples of the action that may be taken by service managers.
- a) Examination of grant funding in order to maximise income.
 - b) Income generation activity
 - c) Enhanced approval process for making commitments.
 - d) Spending freeze.
 - e) Recruitment freeze.
 - f) Non statutory spend frozen.
 - g) Deletion of all uncommitted one-off and special projects.
 - h) Review of service provision level.

Notwithstanding this, it is important that there is a continuance of regular monitoring of all Council budgets, which will enable advance warnings of any potential budget risks. This will allow the Council to utilise the above options to control budget pressures in a timely and controlled manner.

19. Education

- 19.1 The 2004/05 budget has been set based on education spending at FSS. The Council has 'passport' the increase in the schools element of the Education FSS in to the schools budget and for 2004/05 passing on the full increase in schools FSS is effectively mandatory.
- 19.2 The Secretary of State for Education and Deputy Prime Minister has written to every local authority, expecting it to passport in full, 'barring exceptional circumstances'. In addition, that a guaranteed per pupil increase at school level and restrictions on increases in central expenditure to be implemented through the fair funding regulations.
- 19.3 This puts a more intense focus on the need to "passport" and the council's budget is therefore based on this.
- 19.4 The DFES has made a commitment that every LEA will receive an increase in formula grant at least as high as their growth in schools FSS (passporting target). Based on a strategy of spending at education FSS this would only impact on the education element of the budget.
- 19.5 The DFES has also effectively 'capped' the element of centrally funded items such as special educational needs, and could have a significant impact on the education budget for us as SEN is subject to significant budget pressures. This means that LEA's may not increase the centrally retained element of the schools budget by a greater percentage than the amount delegated to schools unless the agreement of both the local schools forum and the Secretary of State is obtained.

19.6 In common with Newham and Haringey, Barking and Dagenham pays inner London pay rates to teachers but receives no direct compensation for this through the FSS system as it falls within the outer east London area cost adjustment region. As a result the schools area cost adjustment top up for these three boroughs- 9.1% - is the same as that for all other services and identical to that for the neighbouring boroughs of Redbridge, Havering and Bexley which all pay outer London weighting. Inner London boroughs, by contrast, receive an ACA top up for schools of 27% (almost 3 times as much) despite paying the same wage rates to teachers as Barking and Dagenham. This represents a critical lobbying issue for Barking and Dagenham (and arguably Newham) where relative wage pressures according to the ONS New Earnings Survey (the basis for calculating the ACA) are around 50% higher than the East London average and indeed greater than or equivalent to some boroughs with an inner London ACA (e.g. Greenwich).

20. Social Services

20.1 Social Services budget planning for the three year period 2003/04 to 2005/06 is contained with an "Improving Social Services Financial and Commissioning Framework" which was agreed by the Executive on 18/03/03.

This framework is based on a continuation of Social Services funding at the FSS level and a comprehensive service modernisation agenda for social care provision. The strategy being set to facilitate the accelerated improvement in performance towards obtaining three stars for Social Services.

The frame work and spending plan that has been agreed redirects money from Older Persons Services towards Children's Services and Mental Health. This includes the closure and reprovision/modernisation of five residential home and day centres and continued modernisation of service delivery.

20.2. Even when funded at the FSS level budget pressures continue to remain in the Social Service budget, particularly in the following areas:

- Children's Social Work Recruitment
- Looked after Children
- Older Persons Care Packages

The plan is based on these pressures being contained within the FSS funding level by achieving efficiency savings from the modernisation of the service and is reflected in the service scorecards.

It should be noted that Social Services have received considerable additional resources in grants outside of the FSS.

The details of these were reported to the Executive on 23.12.03 and can be summarised as follows:-

	2003/04 £m	2004/05 £m	Change £m	Change %
FSS	53.911	61.294		
Grants	<u>7.543</u>	<u>6.405</u>	<u>6.245</u>	<u>10.16%</u>
	<u>61.454</u>	<u>67.699</u>		

21. Housing

- 21.1. The Housing Revenue Account has a medium term and long term financial plan as part of its Business Plan, and has been assessed as “Fit for Purpose”
- 21.2. Within the Housing General Fund there are increasing expenditure pressures around homelessness and in particular on Bed and Breakfast and leasing arrangements. As part of the Council’s Homelessness Strategy, it is important that these pressures are addressed through its implementation. In order to deliver the financial strategy in 2004/05 there are also a number of statutory changes (mainly in respect of benefits). It is expected that there will be other such changes in future years and these will need to be accounted for in the financial plan.

22. Other Services

Highways

- 22.1 The Highways FSS for 2004/05 has reduced by £167k, which together with inflation of £150k is an overall reduction of £317k. In addition the budget that has been set is £300k below FSS. The fall in FSS is due to a reduction in the indicator for traffic flows and the flow of HGV’s, buses and coaches on principal roads.
- 22.2 While there is a reduction in the budget, it is not planned to reduce service provision as greater use will be made of the opportunity to utilise Transport for London funding. It is the council’s medium to long term strategy to ensure highway maintenance is maintained at an appropriate level. Currently Councils in London spend well below FSS on highways maintenance.

Environmental, Protective and Cultural Services (EPCS)

- 22.3 The service areas in EPCS are going to be subject to the greatest budget pressures over the short to medium term as resources are directed to Education and Social Services.
- 22.4 For 2003/04 and 2004/05 the overall budget is heavily dependent on interest on balances, which will reduce as capital receipts are used and balances reduce. Further budget pressures will result to fund debt charges if the council goes into borrowing. All of this will put increased pressure on the EPCS block.

22.5 For 2004/05 the overall budget includes savings on the EPCS block of £3.5m. Forward projections indicate that further savings of £3m for 2005/06 and £2.3m for 2006/07 will be needed from the EPCS. This will entail further reviews of the services provided to establish if they are still contributing to the council's priorities and delivering value for money.

22.6 Strategy for Achieving Savings within the EPCS Service Areas

In order to achieve the level of savings projected with the EPCS block it will require fundamental changes in the service provision and a fundamental review of the range of services provided.

Areas that need to be addressed are:-

- Fundamental service reviews
- Procurement and the delivery of the best value review improvement plan
- Income generation – by examining extensively the opportunities for external funding of existing service provision as well as new sources of funding.
- Charging Policy (see section 14)
- Maximising investment income
- Setting efficiency targets for specific service areas.

Regeneration and Urban Development Corporation (UDC)

22.7 Regenerating the local economy as a community priority requires strong links to the financial planning of the council. The council has undertaken a best value review of regeneration and the action plan from this sets out the financial implications.

22.8 The council has allocated £700k from reserves over a 3 year period from 2003/04 to 2005/06 to invest in the staffing infrastructure to support the regeneration agenda. Key to the regeneration strategy is the leveraging in of external funding and it is planned that this investment will generate external funding in the future (capital and revenue) to deliver the regeneration priorities.

22.9 The Sustainable Communities Plan, published earlier this year recommended that a number of special purpose vehicles should be established in the Thames Gateway and the other growth areas to take forward their regeneration. The government proposed at that time that an Urban Development Corporation (UDC) should be established in two areas in the Thames Gateway, namely Thurrock (covering a single borough) and East London. This was in accord with the Council's policy objectives for the regeneration of London Riverside and that of its partners in the Thames Gateway London Partnership, subject to caveats relating to representation on the Board of the UDC, its geography and the exercise of its powers.

22.10 On 17 November 2003, the Office of the Deputy Prime Minister (ODPM) published the formal consultation paper on the proposed UDC for East London.

22.11 The major issues for Barking and Dagenham remain issues of geography (in terms of the boundary of the UDC), representation on the Board and the exercise of powers in particular under the Town and Country Planning Act 1990 and related legislation. The key issue is the continuing support of the Council to the establishment of the UDC and the delivery of the objectives contained in the Sustainable Communities Plan, but the serious concerns the Council has in relation to the Government's draft proposals need to be addressed before the Council can confidently endorse the establishment of the UDC. It is unlikely that the UDC will be operation until Winter 2004.

22.12 Notwithstanding this welcome investment in regeneration projects in the Borough the need for major investment in the London Riverside area and Barking Town Centre to secure the delivery of the Communities Plan's objectives will require concerted effort and considerable resources (with estimates as high as £2 billion for infrastructure improvements alone). Recognising this, the Council has been broadly supportive of the proposal to establish an Urban Development Corporation both independently and as a partner in the Thames Gateway London Partnership.

There are likely to be substantial financial implications as a result of the establishment of the UDC, depending on the powers that it takes. These are impossible to assess at present, due to the lack of information on these matters included in the consultation paper.

22.13 All of this will impact on the medium term financial strategy, although most likely in future versions as the significant growth will come over 5-10 years.

Customer First

22.14 The Customer First initiative comprises of a 3 year plan aiming to deliver the vision of "An excellent contact service with high standards of quality and performance." This will be by a contact centre and one stop shops.

22.15 The **initial** indicative costing indicates:-

	Revenue Costs	Revenue Savings	Net
	£m	£m	£m
2004/05	2.0	-	2.0
2005/06	3.2	2.4	0.8
2006/07	7.0	4.0	3.0

Provision has been made to use reserves to fund the set up costs for 2004/05 and 2005/06 while staff savings are being delivered.

In addition, there is a capital budget of £5m covering the period 2003/04 to 2006/07.

22.16 The savings detailed above are based on staff costs being saved from across service areas and further savings of £3m will be required in 2006/07. The extent of this level of service reconfiguration is extensive and the financial viability of the project is dependent on driving out savings from service departments as a result of streamlining back office business processes, otherwise additional budget pressures will result.

22.17 This cross cutting initiative is key to the council's future service provision and will figure significantly in the council's financial planning, as resources are required to be redirected and saved in order to deliver the initiative.

Procurement

22.18 The best value review of procurement has recommended the establishment of a corporate procurement team and the 2004/05 budget includes provision for this growth item.

The review identified potentially significant savings from better procurement practices, without impacting on service provision.

The improvement plan from the review includes activity on this with a key outcome to "deliver savings and efficiencies in areas of major spend within the council".

The improvement plan also focuses on the development of a mixed economy of service provision, with a variety of in-house, voluntary sector and commercial suppliers.

This area will need to contribute to achieving long term savings.

23. Future Considerations

23.1. **Balance of Funding** – The Government is conducting a review of the balance of local Government funding. Views are being sought with a final report setting out the options for change (but without any recommendations) which was due to be issued in late 2003, and is still awaited.

There is no indication of an implementation date, but this review would impact significantly on Local Government finance.

23.2. **Local Authority Business Growth Incentives** – At present all business rate revenues are collected by Councils and passed into a central pool. These revenues are then re-distributed on a per capita basis. The Local Authority Business Growth Incentive Scheme would allow Councils to individually retain some of the business rate revenues that are associated with growing the business rate tax base at a local level.

The Scheme is to be piloted and we have asked to be a pilot, but have not yet been advised of the outcome. The Scheme would be introduced on 01/04/05, the same time as the Business Rate Revaluation. The Executive has considered that it may be of value to use the funds generated from this scheme to be invested in economic development work.

23.3 Revaluations – The following revaluations are as planned:

Business Rates 1/4/05 then 1/4/10

Council Tax Revaluation in Spring 2005 – Implemented 1/4/07.

For business rates, five yearly reviews are well established and the transitional arrangements ensure that the impact is spread over a number of years. The Council will be required to implement the results of the revaluation. The Council's own properties may be subject to changing costs of NNDR.

For Council Tax, there has been no revaluation since Council Tax was introduced and the valuations are based on market values in 1991.

House prices in Barking and Dagenham have increased by 104% since 1991 (compared to 90% nationally). The impact of this revaluation and any other changes that occur as a result will need to be carefully assessed.

There is a potential for significant administrative activity needed in the implementation of the new valuations. Transitional arrangements will ensure the impact is spread over a number of years.

23.4 Population Increase – The current population of the Borough is 165,000. This is projected to increase to 181,000 (9.6%) by 2010 and to 230,000 (39%) by 2020. This will have a significant impact on the Council's financial position, in particular the investment in the infrastructure that will be needed.

There is likely to be a timelag of two years between population increases and funding feeding through into FSS for non-schools services (i.e. 2003/2004 settlement uses 2001 population data), there is a potential medium term problem here due to the rapidly increasing population growth expected at Barking Reach and Dagenham Dock over the next decade.

There is also the up-front revenue costs associated with schools for example, while they become occupied with a full intake. However, none of these factors will make any significant difference to the financial position over the next three years. Therefore the population projections will need to be taken into account in future revisions of this Medium Term Financial Strategy.

24. Capital Investment

24.1. The Council is required to review its capital spending plans each year and set a Capital Programme. A key consideration when setting the programme is the projected level of available capital resources.

24.2. A variety of resources are available to local authorities to fund capital investment. The primary one is borrowing. Currently the Authority has Debt Free Status and does not utilise this type of resource to fund the Capital Programme.

- 24.3. A second source of funding is Capital Receipts which arise from the sale of assets such as surplus land and the sale of council dwellings. The amount of capital receipts generated varies from year to year, however, in order to maintain a consistent Capital Programme level it is necessary to plan the use of these receipts.
- 24.4. Thirdly, capital grants, issued by Government departments and agencies, which are allocated on a competitive bidding basis for specified purposes. Many of these require local authorities to make a financial commitment to the running costs of the schemes.
- 24.5 The range of external sources of capital funding that are potentially available to support the capital programme include those arising from regeneration programmes, Transport grants, Disabled Facilities grants, a number of Education grants e.g. seed challenge, Lottery, European Funds , PFI programmes and other specific Government programmes. These will also need to be kept under review by relevant spending departments throughout the year to ensure their full use and access to further availability of such external funds.
- 24.6. An important part of planning is for the Council to have a Capital Strategy and Asset Management Plan in place. In addition, there are other Service Capital Plans that are required by Government Departments and they need to link clearly to the overall Capital Strategy and Asset Management Plan. Specific ones are for Housing and Education.
- 24.7. The Capital Strategy and the Asset Management Plan are integral to the Council's future capital investment planning process. The Capital Strategy links policies and priorities to capital investment and provides a framework for the operational work of asset management. The Asset Management Plan, which covers all of the Council's assets, provides essential information in determining Capital Investment needs.
- 24.8. It is anticipated that around £146 million of capital receipts will be available to support the 2004/05 to 2007/08 Capital Programme. Various assumptions have been made regarding the generation of capital receipts in 2004/05 and for later years particularly around land disposals and 'Right to Buy' receipts. This position will therefore need to be closely monitored over the relevant years.
- A programme for 2004/05 to 2007/08 amounting to £283 million, funded by capital receipts of £162 million and externally funded sources of £121 million is to be considered by the Assembly in March 2004.
- 24.9. Future revenue commitments (excluding capital finance costs) that may flow from these capital expenditure schemes will need to be incorporated in Service revenue growth/savings options and budgets that are considered each year when the Council Tax is set.

Dated : February 2004

Statutory Plans

The Council is requested to produce a number of Statutory Plans, the Government has proposals to reduce the number of these by 75% over a period of time.

At present the following plans are required:

Name	Lead Department
Adult Learning Plan	Education
Behaviour Improvement Plan	Education
Early Professional Development Plan	Education
Educational Asset Management Plan	Education
Excellence Clusters Plan	Education
Excellence in Cities Plan	Education
ICT Development Plan	Education
National Literacy Plan	Education
National Numeracy Plan	Education
Under Reforming Schools Plan	Education
Youth Service Plan	Education
Behaviour Support Plan	Education
Early Years Development and Childcare Plan	Education
Education Development Plan	Education
Schools Organisation Plan	Education
Accessibility Strategy	Education
Library Plan	Education
Local Cultural Strategy	Education
Children's Service Plan	Social Services
Youth Justice Plan	Social Services
Area Child Protection Committee Business Plan	Social Services
Teenage Pregnancy Strategy	Social Services
Community Care Plan	Social Services
Social Care Plans	Social Services
Waste Recycling Plans	DLES
Emergency Plans	DLES
Air Quality Action Plan	DLES
Local Development Plan	DLES
Local Transport Plan	DLES
Rights of Way Improvement Plan	DLES
Asset Management Plan	DLES
Contaminated Land Plan	DLES
Local Bio Diversity Action Plan	DLES
Local Agenda 21	DLES
HRA Business Plan	Housing and Health
Homes Energy Conservation Act Report	Housing and Health
Homelessness Strategy	Housing and Health
Food Law Enforcement Service Plan	Housing and Health
Trading Standards Plan	Housing and Health
Supporting People Strategy	Housing and Health
Local Neighbourhood Renewal Strategy	DCS
Best Value Performance Plan	DCS
Community Strategy	DCS
Capital Strategy	No longer required as rated as good.
IEG Statement	Finance

Local Public Service Agreement

VISION:

Barking and Dagenham Council is undergoing a transformation. It is re-engineering itself into a modern proactive Council in order to tackle a legacy of traditional and too often poorly performing services and to provide much clearer leadership across the community to improve the social, economic and environmental well being of local people.

At the heart of this programme is our 20 year vision for the area and seven community priorities which were developed following extensive consultation with the community.

Promoting equal opportunities and celebrating diversity

Better education and learning for all

Developing rights and responsibilities with the local community

Improving health, housing and social care

Making Barking & Dagenham cleaner, greener and safer

Raising general pride in the Borough

Regenerating the local economy

We have also developed balanced scorecards as a way of managing the whole authority and ensuring that all the Council's activity is focused on delivering the seven community priorities.

The balanced scorecards have been our starting point in developing our PSA. We have sought to use the PSA to reinforce and stretch the targets we had already identified as important in our balanced scorecards. In this way we have ensured that our PSA is at the centre of our work on improving services and delivering the community priorities.

HEADLINE OUTCOMES:

Improving the educational attainment of looked after children

Increase the number of pupils achieving 5 A*-G (or equivalent) including English & Maths

To reduce domestic burglary

Reducing deaths and serious injuries on the roads in Barking & Dagenham

To improve cost effectiveness across the council

Reduce the level of absence in local primary and secondary schools

To reduce the rate of offending of children and young people who are looked after and improve their health

Improve the overall cleanliness of the streets within the borough

Reduce the number of abandoned vehicles on the streets of Barking & Dagenham

To increase the availability of homes to let

To reduce the rate of re-offending of all young offenders

Making Barking & Dagenham greener by improving the natural environment and increasing awareness and use of the natural environment

WHAT FLEXIBILITIES HAVE BEEN GIVEN?

In support of Target 1: Improving the educational attainment of children looked after.

In support of Target 2: Increasing the number of pupils achieving 5 A* -G (or equivalent) including English and Maths.

In support of Target 6: Reduce the level of absence in local secondary and primary schools.

In support of Target 7: Narrowing the gap between the proportions of children in care and their peers who are cautioned or convicted.

Change 1 The Department for Education and Skills will permit Barking and Dagenham Council, with approval from all key stake holders, to provide access to preparatory modules from modern apprenticeships before the age of 16.

Change 2 The Youth Justice Board agrees to prioritise the Council for training and consultation in relation to protocols of reducing offending of Looked after Children. (*Target 7a only*)

In support of Target 11: Reducing the rate of youth re-offending.

Change 3 Pooling of budgets and transfer between funding streams (both from YJB and other sources) is likely to be allowed (within the financial year) on the following conditions:

Original projects must be delivered

Majority of cash must go to original purpose (75% minimum)

Any new project must be within YOT's statutory duties

YOT must submit a costed plan for the new work/work involving the pooled budget

Original grant recipient remains responsible for accounting to YJB for use of it

Audit certificates must be supplied for new as well as original projects

ISSP budgets cannot be diverted

The YJB will look sympathetically on year end flexibility for specific projects in specific circumstances.

WHAT WILL THE PUMP PRIMING GRANT MONEY BE USED FOR?

Target	Project	Planned total of Council expenditure £	Grant contribution towards this expenditure (£)
1,2	A Personal Tutor (qualified teacher) to work with Looked After Children (LAC)	£111,563 (+£23,591)	£87,972
1,2,6,7a	A Learning Co-ordinator to support the Borough's "Flexi-Learning Programme"	£93,636 (+£23,636)	£70,000
1,2,6,7a	Tuition fees for pupils to attend Barking College as part of the "Flexi-Learning Programme"	£194,727 (+£19,727)	£175,000
6	Appointment of Access and Attendance Officer to primary team	£88,363 (+£45,000)	£43,363
3	Appointment of a Burglary Reduction Advisor in the Chief Exec's Community Safety Team	£94,981	£94,981
4	Walking bus co-ordinator	£71,000	£71,000
	Consultation with schools	£4,000	£4,000
8	Trial of innovative and more responsive equipment to improve street cleansing 2 SCARAB machines at £45,000 each	£90,000	£90,000
9	Staffing resources for the abandoned vehicle team	£76,786	£76,786

Target	Project	Planned total of Council expenditure £	Grant contribution towards this expenditure (£)
10	Develop and implement handheld technology (consisting of 6 no. handheld computers with mobile telemetry capability). Training and on-site support during the development and implementation phases	£26,000	£26,000
11	Appointment of Crime Reduction Worker based in YOT to implement specialist programme for all young people	£89,500	£89,500
12	Rangers post. Woodland planting programme. Appointment of external consultants to gain green flag accreditation. Publicity and education materials.	£131,488 (+£45,744)	£85,744
		£1,072,044 (+£157,698)	£914,346

UNSUPPORTED CREDIT APPROVALS:

None.

PERFORMANCE REWARD GRANT:

Barking & Dagenham's net budget requirement for 2002/2003 was £186,500,000, therefore the maximum potential grant that can be awarded is £4,662,500.

SUMMARY OF BUDGET PROJECTIONS UP TO 2006/07

	2004/05 £'000	2005/06 £'000	2006/07 £'000
BUDGET REQUIREMENT B/F	205,200	220,168	236,476
Pressures/Changes			
Unavoidable	0	200	200
Likely Commitments			
Education spending to FSS	6,444	6,804	5,806
Social Services spending to FSS	4,264	5,581	3,868
Inflation (EPCS Services Only)	1,100	1,150	1,200
London Weighting	0	200	0
Concessionary Fares	213	250	250
Impact of 2004/05 budget decisions - growth	1,765	120	10
Areas of Potential Concern			
Corporate	355	1,350	2,150
Other	250	550	200
Future issues	0	750	750
Adjustments			
FSS fundamental changes	3,038		
Other accounting/Executive decisions	2,323	0	0
Adjustment to Reserves - deficit on collection fund	-1,305	0	0
Total of Pressures/Changes	18,447	16,955	14,434
Less: Impact of Savings agreed for 2004/05	3,479	647	120
Revised Budget Requirement	220,168	236,476	250,790
Funding			
Formula Grant	177,122	187,055	196,470
Council Tax Collection	44,351	46,790	49,365
Collection Fund Deficit	-1,305	-250	-250
Total Funding	220,168	233,595	245,585
Council Tax Base (1)	51,055	51,055	51,055
LBB Council Tax (2)	868.68	917	967
GLA Precept (3)	241.32	265	292
Total	1110	1,182	1,259
Overall change	5.9%	6.5%	6.5%
Funding Gap to be met by savings/elimination of growth/ further increase in Council Tax	0	2,881	5,205

(N.B. This is after allowing a 5.5% increase in Council Tax)

Notes

1. Assumes the same Council Tax base as in 2004/05.
2. Assumes a 5.5% increase in Council Tax consistent with a 5.5% projected increase for the Council's Formula Spending Share for both 2005/06 and 2006/07.
3. Assumes a 10% increase for both 2005/06 and 2006/07.

COMPARISONS BETWEEN FSS AND BUDGET PROJECTION

	2003/04		2004/05		2005/06		2006/07	
	FSS £m	BUDGET £m	FSS £m	BUDGET £m	FSS £m	BUDGET £m	FSS £m	BUDGET £m
Education	106.4	106.4	115.0	115.0	121.8	121.8	127.6	127.6
Social Services	53.9	53.9	61.3	61.3	66.9	66.9	70.5	70.6
Highways	5.0	5.0	4.8	4.5	5.0	4.7	5.1	4.8
EPCS (B)	42.8	47.5	42.2	46.3	43.5	45.4	44.4	46.7
Capital Financing	2.4	0.0	2.6	0.0	2.7	0.0	2.8	0.0
Sub Total (A)	210.5	212.8	225.9	227.1	239.9	238.8	250.4	249.7
Reserves	0.0	-3.2	0.0	-1.3	0.0	0.0	0.0	0.0
Interest on Balances	0.0	-4.4	0.0	-5.6	0.0	-5.2	0.0	-4.2
Total (C)	210.5	205.2	225.9	220.2	239.9	233.6	250.4	245.5
% Under FSS (C)		2.5%		2.5%		2.6%		2%
£m under FSS		£5.3m		£5.7m		£6.3m		£4.9m
£m over EPCS FSS (B)		£4.7m		£4.1m		£1.9m		£2.3m
£m Over/Under FSS (before interest on balance/reserves (A) (NOTE 1)		Over £2.3m		Over £1.2m		Under £1.1m		Under £0.7m

Note (1) - This illustrates the extent to which the budget compares to FSS if there were no use of interest on balances or reserves

(2) - Net of Savings required

(3) - Assuming all savings made in EPCS block

Comparison of FSS and Available funding sources

	2003/04 £m	2004/05 £m	2005/06 £m	2006/07 £m
Government Grant	161.8	177.1	187.1	196.4
Council Tax (including Collection Fund Surplus/Deficit)	43.4	43.1	46.5	49.1
Interest on Balances	4.4	5.6	5.2	4.2
Use of Reserves	3.2	1.3	0	0
Total funding Sources	212.8	227.1	238.8	249.7
FSS	210.5	225.9	239.9	250.4
Difference	+2.3	+1.2	-1.1	-0.7

Formula Spending Share Projections to 2006/07

Service	2003/04 FSS	2003/04 Adjusted FSS (Like for like vs 04/05)	2004/05 FSS	2004/05 Increase	2004/05 Adjusted FSS (Like for like vs 05/06)	2005/06 Projected FSS	2005/06 increase	2006/07 Projected FSS	2006/07 Increase
	£m	£m	£m	%	£m	£M	%	£M	%
Schools	93.8	96.0	102.0	6.2%	102.0	108.1	6.1%	113.5	5.0%
LEA Block	12.6	12.6	13.0	3.8%	13.0	13.7	4.5%	14.1	2.9%
Education	106.4	108.6	115.0	5.9%	115.0	121.8	5.9%	127.6	4.8%
Social Services	53.9	57.0	61.3	7.5%	61.5	66.9	8.8%	70.5	5.4%
Highways Maintenance	5.0	5.0	4.9	-3.3%	4.8	5.0	2.4%	5.1	6.2%
EPCS	42.8	40.5	42.2	4.0%	42.2	43.5	3.3%	44.4	2.1%
Capital Financing	2.4	2.4	2.5	7.2%	2.6	2.7	5.2%	2.8	3.7%
TOTAL FSS ALL SERVICES	210.5	213.5	225.9	5.8%	226.1	239.9	6.1%	250.4	4.4%

Notes to table:

- 1 London teachers pay budget support and additional budget support grant transferring into FSS (£2.2m) in 2004/05
2. Three children's quality protects grants transferring into FSS in 2004/05 (£3.2m)
- 3 Funding for council tax benefit and non HRA rent rebates being as 100% subsidy from 2004/05 and not through formula grant
4. Rent allowance FSS abolished - this funding will now be paid via subsidy in 2004/05
5. 97% of Environment agency levy ceasing in 2004/05 (paid directly by DEFRA)
6. Training support grant transferring into Elderly PSS FSS from 2005/06 (£192k)

Charging Policy for Council Services

1. Introduction

- 1.1. This paper sets out the Council's framework for developing charging policies. The policy has three fundamental principals:
 - Services should raise income wherever there is a power or duty to do so.
 - The income raised should cover the full costs of providing the service including all overheads.
 - Any departures from this policy must be justified in a transparent manner with reference to the Council's priorities and policies.
- 1.2. When the Council does not raise income in areas where it has the power to do so, it foregoes the opportunity to raise money to improve services and leaves less money available for spending on high priority services.
- 1.3. There are situations when the Council may decide not to raise income when it is empowered to or not to recover the full cost of a service. Members must be supplied with information to allow them to make these decisions in a structured and explicit manner. A decision to forego income or to subsidise a service is a policy decision about resources as significant as any decision made in the budget setting process.
- 1.4. This policy recognises three basic contexts in which charges are made. These will be considered in turn. The policy concludes by looking at the Council's approach to subsidy.

2. Context for Charging

2.1. Charging in a mixed economy

- 2.1.1 In this context the council is providing goods or services which are also available, or could be available from the private and voluntary sectors or other public service bodies.
- 2.1.2 In principle these services must recover their full cost. Furthermore where applicable the Council should be guided by the market price where this produces a surplus. This is not solely a charging issue; breaking even or achieving a surplus also requires the costs of the service to be fundamentally reviewed.
- 2.1.3. If the Council is unable to recover its cost it must be debatable as to whether it should be providing rather than commissioning the service.
- 2.1.4. Wherever practicable the level of charges should mirror the level of service provided.

2.2. Mandatory Charging

- 2.2.1. There are a number of areas of activity where the Council charges are set by central government by statute. The Council cannot vary these charges but it should seek to make progress towards full recovery by taking all reasonable steps to reduce the expenditure incurred in providing the service.
- 2.2.2. It is accepted that in some cases it may not be possible to deliver an acceptable service within the income available. In these cases, Members approval for the deficit must be sought together with an indication of the steps taken to minimise costs incurred.
- 2.2.3. In other areas charges will be determined by existing contractual commitments or by partnership arrangements in which the Council is one of a number of participants in policy formulation. Again the council should apply the principles outlined in this policy when contracts are renewed and promote them when partners consider charging policies.

2.3. Discretionary Charging

- 2.3.1. In this context the Council is the sole or primary provider of services and has discretion on whether to levy fees and charges and the extent to which costs are recovered.
- 2.3.2. Again the starting point should be that services will normally be expected to cover their costs and, where feasible to make a surplus, having regard to both the level of charges and the cost of the service.
- 2.3.3. Again wherever practicable charges should vary with the level of service provided.
- 2.3.4. The council may elect to subsidise some or all of the users of a specific service.

The next section sets out the policy on subsidisation.

3. Subsidy

- 3.1. The Council offers subsidised services in a number of areas. There are two types of subsidy; a general subsidy to all users of the service and specific subsidies targeted at particular categories of users. Both types of subsidy may apply to part or all of a particular service.

3.2. General Subsidy

- 3.2.1. General Subsidies occur when a service is delivered at below cost to all users (e.g. off peak access to facilities).

3.2.2. When considering such a subsidy, Members must satisfy themselves:

- That the proposed subsidy demonstrably supports a Council priority or policy.
- There is evidence to suggest that the impact of the policy can be measured.
- The cost of the subsidy can be estimated and accommodated within Council budgets.

- That the proposal is the most effective approach to delivering the policy objective having considered alternatives.

3.2.3. The decision to subsidise and the level of subsidy should be reviewed on an annual basis.

3.3. **Specific Subsidies**

3.3.1. Specific subsidies are targeted at particular groups and service users. In the context of charging and social inclusion this is normally taken to refer to low income residents. However, it is important to remember that the principles underpinning this policy could apply to any group (e.g. religious and sporting groups) and may arise in the context of partnership working.

3.3.2. If the Council decides to subsidise certain service users it has the responsibility to use fair, transparent and objective criteria in deciding who should be subsidised and why. It should be possible to communicate these criteria to service users.

3.3.3. Again any proposed subsidy must demonstrably support specific Council priorities or policy objectives. The financial implications of the subsidy must be identified in advance and must be able to be accommodated within existing Council budgets.

3.3.4. It is important to examine each proposed subsidy on its merits and to avoid blanket approaches to this issue. For example, subsidising benefit claimants across all Council services could improve access to services while exacerbating the poverty trap associated with the interaction of tax and benefit tapers. This could add disincentives of a return to work and reinforce social exclusion. It could also add to the cost of the services at the expense of low income groups who are in employment.

3.3.5. It is important therefore that such subsidies are focussed and have a reasonable chance of making a significant contribution to the Council priority or policy under consideration.

3.3.6. The proposed subsidy regime must be simple to administer. Complex bureaucracies for assessment and recovery will add significantly to the cost of service provision for all users while adding little value. The need to keep things simple and cost effective will affect the detail and sensitivity of any income assessment and the extent to which charges are directly linked to precise levels of service provision.

Charging Policy Commission

Fundamental Principles

1. Charges should be made for goods and services when ever the Council has a power or a duty to do so and all cases where the council is providing goods and services already provided by the Private Sector.
2. The starting presumption should be that charges will be set a level to recover the full cost of the service including all overheads and where appropriate to mirror prevailing commercial rates. In the short term it is accepted that transitional arrangements may have to be put in place including a review of service costs, before full cost recovery is attained.
3. Discounting or subsidising charges may only be considered is cases where:
 - Such a policy would demonstrably support or promote Council priorities and policy objectives in an effective manner.

And

 - The consequences of the discount or subsidy can be both quantified and accommodated within the Council's budgetary estimates.

Or

 - Where it is necessary to enable the Council to meet its legal responsibilities given prevailing contractual frameworks, statutory provisions or eligibility criteria.

Member Checklist for Reviewing Charges

1. What if any charges are currently levied? When were they last reviewed?
How were these charges arrived at? Do they vary with the level of service provided?
2. What proportion of the cost of the service provided do they recover? What is the value of any surplus or subsidy within existing arrangements?
3. Is there a significant “cost of collection”?
4. Who are the customers of the service? How would they be affected by charging?
5. What Council priorities, policies or objectives are supported by this service?
6. Should the Council be providing this service? Is the service also provided by the private or voluntary sectors? At what price?
7. What would be the impact of charging on the basis of full cost recovery?
 - In financial terms – for example would there be an increase or decrease in revenue?
 - In terms of the impact on Council policies and priorities? – for example would there be a significant decrease in the take up of the service?

What is the evidence for these projections of the impact of the policy?
8. Is there a case for subsidising or discounting the charges? What Council priority or policy would this support? What evidence do we have to indicate that subsidies or discounts would make a significant impact?
9. What alternative approaches have been considered? Do these service users have access to other sources of funding or subsidy? Have these sources been fully utilised?
10. How could such a discount or subsidy be structured or focused to achieve the best results?
11. Can the discount or subsidy be applied in a cost effective manner that is easy to communicate to customers? What would be the costs of collection if a discount or subsidy was implemented?
12. Can the income raise through the charging regime make a significant impact on the quality of service provision?
13. When will this charge next be reviewed? How will the impact of changes in the charging regime be monitored and reported.

Prudential Capital Guidelines

1. From April 2004 a new financial capital financing system is to be introduced based upon a prudential system of borrowing. Authorities will be given greater freedom to borrow providing that they can meet the necessary capital and interest repayments from revenue accounts. Even though the Council is currently not projected to lose its debt free status until 2007/08 this will fall within the three year horizon for capital and revenue forecasting. This will mean that the Council will need to implement the code in full even though those elements relating to borrowing limits and affordability will only apply in the final of the three years.

2. The second exposure draft of the CIPFA Prudential Code identifies a number of requirements, measures and limits which are collectively referred to as prudential indicators. These can be summarised as follows:

Requirements

- A three year rolling capital programme and revenue forecast is to be prepared and maintained with estimates of the council tax and/or average housing rent for each year.
- All authorities must adopt the treasury management code.
- Authorities should not borrow for revenue purposes (except in the short-term).

Measures

- Estimated/actual ratio of financing costs to net revenue stream for HRA and general fund.
- Estimated/actual capital expenditure for HRA and general fund.
- Estimated/actual capital financing requirement (i.e. borrowing) for HRA and general fund.
- Actual external debt

Limits

- Authorised limit i.e. the authorised limit for borrowing plus the authorised limit for other long term liabilities.
- Operational boundary i.e. total external debt gross of investments separately identifying borrowing from other long term liabilities.
- Various treasury management prudential limits e.g. interest rate exposures, maturity structure and borrowing.

3. The code also places specific responsibilities on the Chief Finance Officer to ensure that matters required to be considered when setting and revising prudential limits are reported to the decision making body and to ensure that appropriate monitoring and reporting arrangements are put in place to assess performance against all the forward-looking indicators.

4. It is possible that a failure to secure funding for parts of the capital programme could generate a need to borrow even earlier. Given the size of the capital programme and its dependence on external funding for success, failures to secure funding at an early stage could result in an earlier loss of debt-free status and a need to borrow within the prudential guidelines.
5. From 2004/05 debt free authorities will be required to pay a proportion of their housing revenue account capital receipts into a national pool as follows:
- Right to buy receipts including proceeds from sales to existing tenants or occupiers and mortgage payments by past tenants to the authority will be subject to a pooling rate of 75%. This will be phased in over a three year period with a pooling rate of 25% in 2004/05, 50% in 2005/06 and 75% in 2006/07 - subject to the difference between this and the 75% pooling amount in 2004/05 and 2005/06 being used for affordable housing.
 - Large and small scale voluntary transfer will not be pooled and may be used for any capital purpose.
 - All other housing capital receipts will be subject to pooling at a rate of 75% for dwellings and 50% for land, commercial and other HRA property – unless they are used for affordable housing or regeneration where the poolable part of the receipt may be reduced to zero in accordance with the ‘in and out’ rules. Poolable receipts include the disposal of mortgage portfolios and payments made to redeem landlords share.
6. In summary, over the next 5 years the amount that can be retained by the authority is likely to be:
- | | <u>£m</u> |
|-------------|-----------|
| • 2003/2004 | 38.1 |
| • 2004/2005 | 23.6 |
| • 2005/2006 | 16.3 |
| • 2006/2007 | 12.0 |
| • 2007/2008 | 6.0 |

This has been factored into the capital plan.

Reserves

1. General Reserve

- 1.1. The free balance for 2004/05 is estimated to be £11.3m. This takes into account the current approved usage of the reserve in future years.
- 1.2. It is projected to retain the reserve at around 5% of net expenditure, a target of around £11m.
- 1.3. The reserve is being used to fund on-going expenditure (£250k) in support of the regeneration activity. The use of the reserve will expire in 2006/07 when alternative funding will need to have been identified.

2. Repairs and Renewal Reserve

- 2.1. This reserve is set up to fund the repair and renewal of specific assets and is broken down into a number of individual reserves.
- 2.2. Three of these individual reserves totalling around £770k relate to services or assets that no longer exist and it is recommended that these be transferred to the general reserve.
- 2.3. The reserve contains a sum of £8m for vehicles and plant repairs and renewals. The Council has a policy of operating leasing these now and reserves to replace the assets are not required. However, if the leasing policy was to change a significant capital sum would be required to replace the assets.
- 2.4. The Council is currently undergoing significant changes in its service provision as it addresses the community priorities. Over the next few years, the introduction of Customer First and addressing e-government targets will significantly change the way the Council conducts its business.
- 2.5. Alongside this, the council is also required to make savings on the EPCS block.
- 2.6. It is recommended that £4m of this reserve be ear-marked for potential spend to save activities, each of which would require a fully costed business case approved by TMT and the Executive.
- 2.7. It is recommended that £4m (£2.8m has already been approved for Customer First) of the reserve be held for potential one-off costs associated with service reconfigurations e.g. Customer First; Single Status; accommodation reviews; delivery of e-Government targets.
- 2.8. The use of these two new reserves will be reviewed annually as part of the budget setting process.

3. Capital and Revenue Support Fund

- 3.1. This fund has been set aside to fund planned capital expenditure should the anticipated capital receipt fail to arise.

The current capital programme requires the following net receipts after allowing for transitional arrangements:

Year	RTB/Mortgages £m	Land Disposals £m
2003/04	36	11
2004/05	19	23
2005/06	16	13
2006/07	12	17
Total	83	64

- 3.2. Receipts from RTB/Mortgages have regularly been received and are subjected to monthly monitoring to ensure the planned level is received or action taken quickly to rectify the position. Those of land disposals are more risky. To date, the council has not had a track record of land disposal to this extent.
- 3.3. The current planned disposal programme, includes several high value disposals which if failed, were delayed or were for a lower value could impact significantly on the Capital Programme. Progress to date on asset sales has been slow. For budget planning purposes £52m of asset disposals has been projected, based on the 2003/04 original programme.
- 3.4. It is recommended that this reserve is maintained at the £10m level (representing 1/5th of the land sales in the programme). The reserve can be used to substitute for a short fall in the planned use of capital receipts.

4. Insurance Fund

- 4.1. The Insurance Fund is held to meet potential and contingent liabilities for insurance that the council self insures. Based on the claims history over the last five years, the annual contribution to this fund (£1.1m) is no longer required to cover claims and the reduction has been included within the setting of the Council Tax for 2004/05.
- 4.2. However, the council does need to strengthen its approach to the risk management arrangements and the level of technical expertise of a corporate finance nature. The Executive has agreed to utilise £400k to address risk management and financial management issues. It is proposed that the balance of £700k be used towards the Revenue budget.

5. Interest Equalisation Reserve

The budget has been prepared for 2004/05 utilising £5.6m interest on balances, this will reduce as reserves and balances are used and is higher than that of 2003/04. Interest receipts can be volatile, although at the currently relatively low levels of interest are less so. However, it is recommended that consideration be given to establishing an interest equalisation reserve when the 2003/04 accounts are closed, if there are underspends available to establish such a reserve.

This could then be used to smooth in interest rate changes in future years and reduce the volatility in the budget.

6. Barking College

- 6.1. The Adult College was given local delegated status about 12 years ago and is able to carry forward its budget surplus (or deficit). The college is almost entirely funded through Learning and Skills Council (LSC) income, which is allocated to the college for Further Education and Adult and Community Learning Course provision and delivery based on the LSC formula. The fund consists of an IT fund, specific projects and a contingency.

7. Local Management of Schools

- 7.1. These balances represent sums held on behalf of the schools and are earmarked for their use in accordance with the Council's education finance arrangements.

8. Collection Fund

- 8.1. The Collection fund is a separate account for the Council Tax, NNDR and residential community charge transactions. The transactions must be kept separate from the rest of the Council's income and expenditure.
- 8.2. The Council has an estimated shortfall on its Council base for 2003/04 as a result of not awarding single person discounts to single people on full benefit. The position has been regularized.
- 8.3. It is recommended that £1.305m of reserves be earmarked in a resource equalisation reserve. In order to reduce the Council's net expenditure on a one-off basis in 2004/05 in order to equalize any impact on the overall level of council tax.

9. Housing Reserves

9.1. HRA Working Balance

The position on this reserve reflects the decisions made by the Executive on 27 January 2004 when the HRA estimates were considered along with the rent increase. It stands at £10m at 1/4/03, but is projected to reduce to £550k by 1/4/04. During the year the contributions and the use of the fund will mirror the planned capital expenditure on MRA projects. Any balance is a timing issue.

9.3. **HRA Insurance**

This covers insurance claims within the HRA and is considered to be adequate.

9.4. **Leaseholder Repair Fund**

Leaseholders contribute annually to this reserve in order to fund significant repairs. It is essentially ring fenced to cover their contribution to the relevant repairs.

HRA reserves are ring fenced to the HRA.

Profile of Reserves (Estimated)

	Bal 1/4/03 £m	Bal 1/4/04 £m	Bal 1/4/05 £m	Bal 1/4/06 £m	Bal 1/4/07 £m
General	16.4	12	11.3	11	11
<u>Earmarked</u>					
Repairs and Renewals	10.9	1.5	1.3	1.1	0.9
Spend to Save	0	4	4	4	4
Service Reconfigurations	0	4	2	1.2	1.2
Capital and Revenue Support Fund	10	10	10	10	10
Insurance Fund	10.6	11.2	10.9	10.6	10.3

Profile of Reserves (Estimated)
Ring fenced areas

	Bal 1/4/03 £m	Bal 1/4/04 £m	Bal 1/4/05 £m	Bal 1/4/06 £m	Bal 1/4/07 £m
Barking College	0.5	0.3	0.3	0.3	0.3
School Balances (net)	1.8	0.7	1.5	1.9	2.2
<u>HRA</u>					
Working Balance	3.5	1.1	2.7	2.8	2.2
Insurance	0.8	0.8	0.8	0.8	0.8
Leaseholder Repair Fund	2.7	2.7	2.7	2.7	2.7
MRA	10.0	0.6	0.6	0.6	0.6

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