

THE EXECUTIVE

Tuesday, 22 February 2005

Open Report

Agenda Item 8. Council Tax 2005/06 and Medium Term Financial Strategy for 2005/06 to 2007/08 (Pages 1 - 90)

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THE EXECUTIVE

22 FEBRUARY 2005

REPORT OF THE DIRECTOR OF FINANCE

COUNCIL TAX 2005/06 AND MEDIUM TERM FINANCIAL STRATEGY	FOR DECISION
<p><i>This report advises on the level of the Council Tax for 2005/06 and the adoption of a Medium Term Financial Strategy.</i></p>	
<p>Summary</p>	
<ol style="list-style-type: none"> 1. This report refers a proposed budget and Council Tax to Assembly on 2nd March 2005 for final decision. 2. In putting together the proposed budget, there has been a need to balance the pressures on the budget and investment in key services in accordance with the Council's priorities against the resources available and set a budget which is deliverable and sustainable. 3. The budget needs to be seen within the context of a three-year plan and the implications of the current proposal for the Council's planning over the next three financial years needs to be considered as part of the consideration of the 2005/06 budget. It is likely that the Council will continue to face difficult choices when setting budgets in future years. 4. To support the decisions that will need to be made a Medium Term Financial Strategy, covering the years 2005/06 to 2007/08, is included as Appendix D to this report. 	
<p>Recommendations</p>	
<p>The Executive is recommended to refer to the Assembly for approval:</p>	
<ol style="list-style-type: none"> 1. The budget, as set out at Appendices A and B. 2. A Council Tax increase of 3.9% (split London Borough of Barking and Dagenham 3.46% and the Greater London Authority precept 5.5%), as set out at Appendix C. 3. The three year planning figures arising from this budget proposal indicated at Appendix D within the Medium Term Financial Strategy. 4. The Medium Term Financial Strategy to assist the Council in future decision making on the budget and that it is reviewed on an annual basis. 5. The position on reserves as set out in paragraph 2.4. 6. To note the need to identify relevant efficiency gains throughout the organisation of up to £13.5m over a 3 year period to meet the required Government targets and produce an Annual Efficiency Statement (paragraph 8.3). 	

7. Delegate to the Director of Finance the responsibility to allocate initial savings targets across all services for the 2006/07 budget process to commence in April 2005.

Reason

Under the Council's Constitution, it is necessary for the Executive to refer a proposed revenue budget and Council Tax to the Assembly for approval or amendment.

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1. Background

1.1 The proposed budget has been set against the background of the Community priorities, which the Medium Term Financial Strategy will help to deliver and 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

1.2. 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.

1.3 An initial revenue budget for 2005/06 was presented and approved as a separate report to the Executive on 25th January 2005. It shows that the base budget requirement for 2005/06 is £232.825 million.

1.4 The purpose of this report is to propose a revenue budget and Council Tax for 2005/06, which will be referred to Assembly for consideration on 2nd March 2005.

1.5 The final announcement for the Greater London Authority precept was made on 14th February 2005, with authorities to be notified on or prior to 17th February 2005. The proposal is for a 5.5% increase.

2. Budget Considerations

2.1 Inflation

2.1.1 A provision of £9.3 million has been indicated, based on an expected level of inflation of:

	2005/06
Employee costs	2.95%
Other inflation	2.5%
Fees and charges	2.5%
Pensions costs	3%

This is in line with the Government's forecast for the economy as whole and reflects the agreed three year pay award for officers and teachers' pay. This estimate represents inflation on pay and prices and assumes that income from fees and charges should rise in line with inflation. The provision comprises £4.8 million for Education, £2.6 million for Social Services and £1.9 million for other Services.

2.1.2. The impact of not funding inflation is that Directors would have to seek new savings or transfer resources from other budgets to cover the unavoidable costs of pay and price increases.

2.2. Education Issues

2.2.1 Education is a priority for the Council and its single largest service. It also remains a high priority for the Government and local authority, spending on schools is subject to special scrutiny, in the light of this, it requires special consideration.

2.2.2 The 2005/06 budget has been set based on education spending at formula spending share (FSS). The Council has 'passported' the increase in the schools element of the Education FSS in to the schools budget and for 2005/06 passing on the full increase in schools FSS is mandatory.

2.2.3 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.

2.2.4 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.

2.2.5 For schools funding, from 2006/07, this will be provided as a ringfenced grant, rather than coming through in the general government grant and being "passported" to schools by the Council. This change will remove the discretion over whether authorities spend on schools at FSS. For 2004/05 the final data available shows that the actual schools budget was £881,000 more than the 2004/05 schools FSS, for 2005/06 the position shows the schools budget to be £907,000 more than the schools FSS. Therefore, full and careful consideration of this position will need to be made at the appropriate time; when more information is available from Government.

2.2.6 The Education FSS has increased this year by £7.002 million and the proposals for additional pressures in the Education Service for this sum are shown in Appendix A and A(i).

2.2.7 The Schools Forum has been consulted on various options relating to the Education Budget and endorses the proposals being made.

2.3 Social Services Issues

- 2.3.1 Social Services remain under considerable demographic pressure, and there is continuing uncertainty over funding. In addition, Social Services remain subject to a range of Government initiatives and high levels of scrutiny.
- 2.3.2 A significant part of the Council's Social Services expenditure is funded by specific grants, and these are used to direct funding to Government priorities. This means that as Government priorities change, specific grants are discontinued and redirected towards new services, which requires careful budget management.
- 2.3.3 Social Services budget planning for the three year period 2003/04 to 2005/06 is contained within an "Improving Social Services Financial and Commissioning Framework" which was updated and agreed by the Executive on 23/3/04.

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 framework 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 re-provision/modernisation of five residential home and day centres and continued modernisation of service delivery.

- 2.3.4 Even when funded at the FSS level budget pressures continue to remain in the Social Service budget, particularly in the following areas:
- Children's family support services
 - Adult care packages
 - Adult care management
 - Recruitment costs for social workers

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

It should be noted that Social Services also receive additional specific grants of approximately £8.2m in addition to the £65.8m FSS. See table below.

	2004/05 £m	2005/06 £m	Change £m	Change %
FSS	62.436	65.777		
Grants	7.669	8.216		
	<u>70.105</u>	<u>73.993</u>	<u>3.888</u>	<u>5.55</u>

- 2.3.5 Coupled with the spending pressures on Social Services, the settlement requires that resources are managed carefully to ensure that services can continue to be met with the financial resources available.
- 2.3.6 The Social Services Formula Spending Share (FSS) has increased this year by £3.340 million and the proposals for additional pressures in Social Services for this sum are shown in Appendix A and A(i).

2.3.7 As part of the 2005/06 budget setting, the 2004/05 projected underspend position of £1.5m for the Social Services budget, has been used to fund the overall 2005/06 budget. This will require Social Services to identify ongoing savings of £1.5m in order to ensure future years budgets remain balanced. For future years budgets there will need to be a review of the position of funding Social Services at the relevant formula spending share levels.

2.4. Reserves/Contingency

Reserves

2.4.1. The overall 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.

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

Early draft Comprehensive Performance Assessment (CPA) guidelines give 5% as a target level. For Barking and Dagenham this would be £11m. School balances should form part of the strategy but if possible be in addition to the 5% level.

2.4.3. The advice of the Director of Finance remains that a figure of around 5% of the net budget is the recommended level for working resources. The free balance of the general reserve at 1st April 2005 is estimated to be £11.5 million. 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.

2.4.4. Annex 7 and 8 of the attached Medium Term Financial Strategy sets out in detail the type of reserves held by the Council along with a profile of their estimated utilisation up to 1st April 2008. It also recommends the level of certain reserves and their intended use.

Contingency and Robustness of Budget

2.4.5. 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 (e.g. homelessness)
- Costs of new responsibilities, where estimates have been prepared with limited experience
- Unconfirmed grant funding regimes (e.g. civil defence)
- Unexpected events
- Variable interest rates
- Budget risks

- 2.4.6 For 2005/06, the level of contingency included within the proposed budget is £1.1 million.
- 2.4.7 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’s view that the Council’s process for setting the 2005/06 budget has, so far, been robust. Further advice will be offered to the Council Assembly should this assessment change.

3. Formula Grants and Levies

3.1 Formula Grant 2005/06

A final announcement of the Formula Grant for 2005/06 was made on 2nd February 2005, which allocated £187.445 million to the Council for 2005/06 (an increase of £9.3m or 5.2% increase on a like for like basis compared with 2004/05).

3.2 Levies

- 3.2.1 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 final levies for 2005/06 are as follows:

	2005/06	2004/05
	£000s	£000s
East London Waste Authority	5,524	4,881
Environment Agency – Flood Defences	96	88
London Pension Fund Authority	136	134
Lee Valley Regional Park Authority	150	142
Greater London Magistrates Court Authority	<u>0</u>	<u>290</u>
	<u>5,906</u>	<u>5,535</u>

- 3.2.2 With effect from 2005/06 the Greater London Magistrates Court Authority is no longer a levy to be paid by the Council, as funding for this body is being paid direct by the Government. In respect of the East London Waste Authority the increase of £643,000 relates to the lifting of the three year cap on the household element of the levy and relevant provision has been made in the pressures proposed for this year’s budget.

4. Base Budget

- 4.1. The Base Budget for the authority as reported in a separate report to the Executive on 25th January 2005 is £232.825 million.

5. Executive Budget Proposals

- 5.1 The Executive budget proposals are set out in full at Appendix A with further detailed description of the proposals at Appendices B(iii), B(iv) and B(v). For EPCS services these identify increased pressures of £2.898 million and savings of £2.664 million.

5.2 In respect of the savings proposals there is an impact of some of these on ring-fenced areas (i.e. Education, Social Services and the Housing Revenue Account) and this totals a further £162,600 of savings in the relevant departments. (The detail of this is shown in Appendix B(ii)).

6. Council Tax

6.1 Collection Fund

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. The latest estimate is that a deficit will be made on the Collection Fund this year and that Barking and Dagenham's share will be £0.884 million.

6.2. Greater London Authority Precept

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 three main constituent bodies, the Metropolitan Police Service, the London Fire and Emergency Planning Authority and Transport for London.

The Mayor has revised his original proposals submitted for consultation to authorities in December 2004 and has proposed an increase in the precept at Band D for 2005/06 of 5.5%. This would result in a Band D precept for 2005/06 of £254.62, compared to £241.33 in 2004/05. The Mayor's budget can be amended by a two-thirds majority of the London Assembly, which met on the 14th February. The decision was that the above proposals were approved.

6.3. Capping

6.3.1 There have been Ministerial announcements regarding capping, for example;

"I am writing to make it clear that we expect all local authorities to budget prudently, and that the average council tax increase in England will be less than 5% next year."

"We are prepared to take tougher capping action next year than we did in 2004/05 to deal with excessive budgets. This applies to all authorities, including Police and Fire authorities."

"The Government will not tolerate excessive increases either next year, or in years to come."

"The Government will take decision on capping principles once authorities have set their budgets for 2005/06."

Nick Raynsford
Minister for Local and Regional Government
December 2004.

- 6.3.2 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.
- 6.3.3 Even if the budget requirement is considered excessive, capping may not result, as there are mechanisms for pre-signalling capping for a following year.
- 6.3.4 The proposed budget requirement for 2005/06 is £232.252m, compared to our Formula Spending Share (FSS) of £238.222m. The budget requirement, after adjustment for fundamental changes to the FSS, shows a 5.00% increase on 2004/05, compared to a 5.00% increase on FSS.

6.4. Council Tax 2005/06

Appendix C sets out the impact on Council Tax of the budget proposals set out in this report. This reflects the GLA precept as agreed by the London Assembly.

7. Medium Term Financial Strategy

- 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 view up to the financial year 2007/08. The Strategy proposed is attached at Appendix D for Members consideration. The purpose of the three-year 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 set out in the papers. Members should bear in mind the ongoing implications of proposals included in the 2005/06 budget, although these will not finally be approved until later budget years.
- 7.3 Annex 3 of the Strategy sets out indicative planning figures for 2006/07 and 2007/08, which will be subject to further discussion and decision at the appropriate time.
- 7.4 The revenue budget is likely to increase by more than the Government's indicated Spending Review targets over the next two years. In addition, further pressures are almost certain to come to light. It will also be necessary to consider the use of capital resources and a review of the Council's Debt Free position. Pressures to earmark Government funding for specific purposes, particularly in relation to Schools, are likely to be maintained. In particular, from 2006/07 schools funding is to be provided as a ringfenced grant. This change removes the discretion over whether authorities spend on schools at FSS.
- 7.5 In addition, the ongoing effect of Government changes to the local government finance system and the impact of Census 2001 data on grant allocations will have an impact on the authority which cannot currently be assessed. Significant budget pressures are 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 £21.9 million of potential budget pressures is currently forecast for 2006/07.
- 7.7 In order to plan for these ongoing pressures, it is important that the budget process for 2006/07 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 £5.8 million for 2006/07 will need to be made across all Services apart from the mandatory ringfenced Schools budget. Targets are to be set to allow the process for identifying savings to commence in April 2005. It is recommended that the Director of Finance should provide the initial targets for savings across all services to enable this to happen.

8. Efficiency

- 8.1 As part of the results of the 2004 Spending Review announced by the Deputy Prime Minister in July 2004, it was announced that within local government a target of 2.5% per annum for efficiency gains was introduced. Therefore, by 2007/08 efficiency gains equivalent to 7.5% of the 2004/05 baseline should be achieved. This was to deliver at least £6.45 billion across all local government by 2007/08.
- 8.2 This is a very challenging target for local government and in terms of Barking and Dagenham initial calculations suggest that the 2.5% is around £4m to £4.5m per annum on a recurring basis (i.e. up to £13.5m over the 3 years). The efficiency gains can be met in two ways. Firstly, 50% of the sum is to be met through "cashable gains". These represent the potential to release resources for reallocation elsewhere. The remaining 50% should be derived from "non-cashable gains". These are achieved through such means as improved quality or additional outputs for the same level of resources. All efficiency gains generated will be available to the local authority to reinvest in improved services or used to reduce council tax.
- 8.3 Detailed guidance has been received from the Office of the Deputy Prime Minister and each local authority is required to produce an Annual Efficiency Statement (AES) signed off by the Leader, Chief Executive and Director of Finance. For 2005/06 the forward part of the AES has to be submitted by 15th April 2005 and we will then need to report on how we have performed against our projections in June 2006. Additionally, we are required to report on how we have performed on 2004/05 by 15th June 2005.
- 8.4 It is essential that, as a Council, we are identifying all the relevant efficiency gains for 2004/05 and those expected for 2005/06 as a matter of priority. All Departments will be involved in these exercises, being led by senior officers. The Council also needs to develop an efficiency plan that will identify efficiency savings throughout the whole 3 year period. A new Efficiency Board being led by the Director of Corporate Strategy and supported by a number of Heads of Service will be overseeing this task.

9. Consultation

- 9.1 When considering its budget proposals, the Council is required to take into account the views of the local community about its budget.
- 9.2 This year's meeting with business representatives was undertaken with the Chamber of Commerce on 8th February with an extended public advert to all local businesses in the Borough. The outcome of the meeting was that there was general agreement that the proposed budget was a good balancing act with minimal impact on businesses. They were also pleased that the Council is looking at alternative sources of income rather than just budget reductions.
- 9.3 In addition, the proposed budget was presented to the Barking & Dagenham Partnership Implementation Group on 3rd February, which has representatives from the voluntary sector, PCT, Regeneration bodies and the Government Office for London. The outcome of this meeting was again general agreement to the budget proposals.

Background Papers

Information from Office for Deputy Prime Minister
Budget working papers

REVENUE BUDGET PROPOSALS 22ND FEBRUARY 2005

APPENDIX A (i)

CORPORATE STRATEGY REVENUE BUDGET

Reference	Options	2005/06 £000s	2006/07 £000s	2007/08 £000s
<u>Pressures</u>				
2P	Age Concern	65.0	50.0	45.0
3P	Land Charges shortfall in income	200.0	250.0	250.0
4P	Human Resources (HR) - core activity	59.5	59.5	59.5
Pressures Sub Total		324.5	359.5	354.5

REVENUE BUDGET PROPOSALS 22ND FEBRUARY 2005

APPENDIX A (i)

CORPORATE STRATEGY REVENUE BUDGET (CONT...)

Reference	Options	2005/06 £000s	2006/07 £000s	2007/08 £000s
<u>Savings</u>				
1S	Geographical Information System (GIS) and Information Service	-27.2	-27.2	-27.2
2S	Project Support	-8.7	-8.7	-8.7
3S	Supplies and Services	-34.7	-34.7	-34.7
4S	Head of Policy hours	-8.6	-8.6	-8.6
5S	Employers Orgs Subs	-10.1	-10.1	-10.1
6S	Supplies and Services	-6.4	-6.4	-6.4
7S	Reduction in Admin Support	-6.0	-6.0	-6.0
8S	Efficiency Savings in Human Resources	-37.0	-37.0	-37.0
9S	Trainee Solicitor	-13.5	-13.5	-13.5
10S	Professional Fees / Counsels Fees / Books & Publications / Stationery / Postages	-14.4	-14.4	-14.4
11S	Property & Contract Team	-35.6	-35.6	-35.6
12S	Support Officer	-24.0	-24.0	-24.0
13S	Increase Income from East London Waste Authority (ELWA)	-8.7	-8.7	-8.7
14S	Members Furniture and Rent/Hire Facilities	-4.0	-4.0	-4.0
15S	Ceremonial Activities	-10.0	-10.0	-10.0
16S	Members Transport	-3.0	-3.0	-3.0
17S	Community Forum Budgets	-25.0	-25.0	-25.0
18S	Discontinue January Output of Citizen - Printing and Distribution	-10.8	-10.8	-10.8
Savings Sub Total		-287.7	-287.7	-287.7
		36.8	71.8	66.8
<u>NET INCREASE IN BUDGETS</u>				

REVENUE BUDGET PROPOSALS 22ND FEBRUARY 2005

APPENDIX A (i)
APPENDIX A (i)

EDUCATION, ARTS & LIBRARIES REVENUE BUDGET

Reference	Options	2005/06 £000s	2006/07 £000s	2007/08 £000s
<u>LIBRARIES</u>				
<u>Pressures</u>				
1P	Jo Richardson Community School new library provision	33	56	56
Growth Sub Total		33	56	56
<u>Savings</u>				
48S	Butler Court Residential units	-10	-10	-10
49S	Library Staffing	-20	-20	-20
50S	Library Book Fund	-22	-22	-22
51S	Library Lettings Income	-10	-10	-10
52S	Libraries Maintenance and Services budget	-15	-15	
Savings Sub Total		-77	-77	-62
<u>NET REDUCTION IN BUDGETS</u>		-44	-21	-6

REVENUE BUDGET PROPOSALS 22ND FEBRUARY 2005

APPENDIX A (i)
APPENDIX A (i)

FINANCE REVENUE BUDGET

Reference	Service	Options	2005/06 £000s	2006/07 £000s	2007/08 £000s
<u>Pressures</u>					
5P		Information Security	160	280	300
6P		Print Unit	150	100	0
Pressures Sub Total			310	380	300
<u>Savings</u>					
19S		Transport	-3	-3	-3
20S		Improving Cash Flow Processes	-40	-50	-50
21S		Pension Fund - Corporate and Central Finance (C&CF) Team	-20	-20	-20
22S		Servicing Capital Programme	-15	-15	
23S		Regeneration and Environment Restructure	-50	-50	-50
24S		VAT Audit	-10	-10	-10
25S		Pension Fund (Payroll)	-50	-50	-50
26S		Banking Costs	-25	-25	-25
27S		Transport	-15	-15	-15
28S		Summons Costs	-12	-12	-12
29S		Reg 36	-15	-15	-15
30S		Overpayment Recovery	-60	-60	-60
31S		National Non-domestic Rates (NNDR) Staff	-15	-15	-15
32S		Cashiers Review	-25	-40	-40
33S		Overtime in Information Management and Techonology (IM & T)	-12	-12	-12
34S		Supplies and Services in IM & T	-73	-105	-105
35S		Staffing in IM & T	-63	-63	-63
Savings Sub Total			-503	-560	-545
<u>NET REDUCTION IN BUDGETS</u>			-193	-180	-245

REVENUE BUDGET PROPOSALS 22ND FEBRUARY 2005

APPENDIX A (i)
APPENDIX A (i)

HOUSING AND HEALTH REVENUE BUDGET

Reference	Options	2005/06 £000s	2006/07 £000s	2007/08 £000s
<u>Pressures</u>				
Pressures Sub Total		0	0	0
<u>Savings</u>				
54S	Enterprise Act and other Budget Provision	-60	-60	-60
55S	Temporary Accommodation - Bed & Breakfast	-154	-154	-154
56S	Increased Income Targets	-16	-16	-16
57S	Reduction in Internal Support	-40	-40	
Savings Sub Total		-270	-270	-230
<u>NET REDUCTION IN BUDGETS</u>		-270	-270	-230

REVENUE BUDGET PROPOSALS 22ND FEBRUARY 2005

APPENDIX A (i)
APPENDIX A (i)

REGENERATION AND ENVIRONMENT SERVICES REVENUE BUDGET

Reference	Options	2005/06 £000s	2006/07 £000s	2007/08 £000s
<u>Pressures</u>				
7P	Vehicle Leasing	135	260	260
8P	Grounds Maintenance from HRA	321	321	321
9P	Cleaner, Greener, Safer Provision	35	35	35
Pressures Sub Total		491	616	616
<u>Savings</u>				
36S	Parking Services	-200	-200	-200
37S	Parking Services - End of Life Vehicles Disposal	-200	-200	-200
38S	Civil Engineering Fee Charges	-100	-100	
39S	Public Conveniences - Unmanning	-80	-80	-80
40S	Capitalisation of Highways Repairs	-200	-200	-200
41S	Asset Rental Income Generated	-170	-170	-170
42S	Design overheads, Supplies & Agency	-30	-30	-30
43S	Asset Management Budget Surveys	-70	-70	-70
44S	Maintenance Contracts Disposal Programme Security	-10	-10	-10
45S	Recharge Property to Social Services	-20	-20	-20
46S	Community Halls	-173	-173	-173
47S	Full Year Effect (FYE) of 2004/05 Department of Regeneration & Environment (DRE) Restructuring	-203	-203	-203
Savings Sub Total		-1456	-1456	-1356
<u>NET REDUCTION IN BUDGETS</u>		-965	-840	-740

REVENUE BUDGET PROPOSALS 22ND FEBRUARY 2005

APPENDIX A (i)
APPENDIX A (i)

SOCIAL SERVICES REVENUE BUDGET (EPCS services only)

Reference	Options	2005/06 £000s	2006/07 £000s	2007/08 £000s
<u>Pressures</u>				
Pressures Sub Total		0	0	0
<u>Savings</u>				
53S	Non-residential care supported placements	-70	-70	-70
Savings Sub Total		-70	-70	-70
<u>NET REDUCTION IN BUDGETS</u>		-70	-70	

REVENUE BUDGET PROPOSALS 22ND FEBRUARY 2005

APPENDIX A (i)
APPENDIX A (i)

CORPORATE ITEMS

Reference	Options	2005/06 £000s	2006/07 £000s	2007/08 £000s
<u>Pressures</u>				
10P	Customer First	1217	4120	3592
11P	East London Waste Authority (ELWA) Levy	523	723	923
Pressures Sub Total		1740	4843	4515
<u>Savings</u>				
Savings Sub Total		0 0		
<u>NET INCREASE IN BUDGETS</u>		1740	#REF!	4515

REVENUE BUDGET PROPOSALS 22ND FEBRUARY 2005

APPENDIX A (i)
APPENDIX A (i)

OTHER CORPORATE PROPOSALS

Reference	Options	2005/06 £000s	2006/07 £000s	2007/08 £000s
<u>Pressures</u>				
1	Provision for Performance Improvement	300	300	300
2	Corporate capacity	225	500	750
Pressures Sub Total		525	800	1050
<u>Savings</u>				
3	Customer First costs - ring fenced areas (Housing Revenue Account, Social Services and Education)	-400	-400	-400
4	Customer First savings - Housing GF and Regeneration & Environ.	-286	-286	-286
5	Social Services - projected underspend 2004/05 & ongoing	-1500	-1500	-1500
6	Corporate & Democratic Core costs - Contribution (Housing Revenue Account)	-225	-500	-750
7	Additional interest on balances	-1400	-1400	-1400
8	Review of Contingency Provisions, etc.	-542	-542	-542
Savings Sub Total		-4353	-4628	-4878
<u>NET REDUCTION IN BUDGETS</u>		-3828	-3828	-3828

REVENUE BUDGET PROPOSALS 22ND FEBRUARY 2005

APPENDIX A (i)
APPENDIX A (i)

EDUCATION, ARTS & LIBRARIES REVENUE BUDGET (FSS services)

Reference	Options	2005/06 £000s	2006/07 £000s	2007/08 £000s
<u>Pressures</u>				
1	Additional Pupil Numbers	180	300	600
2	Revenue Costs of Capital Programme	141	300	450
3	Single Status	0	190	190
4	Customer First	190	250	250
5	Vehicle Leasing	65	90	90
6	School Budget minimum funding guarantee	1228	2500	3700
7	PFI Contribution (Jo Richardson Community School)	441	756	756
8	General Inflation	4757	9500	12700
Pressures Sub Total		7002	13886	18736
<u>Less : inflation</u>		4757	9500	12700
<u>NET INCREASE IN BUDGETS</u>		2245	4386	6036

Note: The full year impact of the 2005/06 budget decision means that there is an estimated commitment of:
 2006/07 £6,884,000
 2007/08 (additional to 2006/07) £4,850,000
 These sums will need to be a first priority to be met from the relevant FSS increase in those years.

REVENUE BUDGET PROPOSALS 22ND FEBRUARY 2005

APPENDIX A (i)
APPENDIX A (i)

SOCIAL SERVICES REVENUE BUDGET (FSS services)

Reference	Options	2005/06 £000s	2006/07 £000s	2007/08 £000s
<u>Pressures</u>				
1	Customer First	223	223	223
2	Major Repairs - Revenue	125	0	0
3	Community Safety	60	60	60
4	Cost Pressures Contingency	367	367	367
5	General Inflation	2565	5400	7200
Pressures Sub Total		3340	6050	7850
<u>Less : inflation</u>		2565	5400	7200
<u>NET INCREASE IN BUDGETS</u>		775	650	650

Note: The full year impact of the 2005/06 budget decision means that there is an estimated commitment of:
 2006/07 £2,710,000
 2007/08 (additional to 2006/07) £1,800,000
 These sums will need to be a first priority to be met from the relevant FSS increase in those years.

Pressure Proposals 2005/2006 - EPCS Services

<u>No.</u>	<u>Proposed Pressure</u>	<u>Education Arts & Libraries £'000</u>	<u>Corporate Strategy £'000</u>	<u>Finance £'000</u>	<u>Regeneration & Environment £'000</u>	<u>Corporate /Levies £'000</u>	<u>Proposed Total £'000</u>
1P	Jo Richardson Community School new Library Provision	33					33.0
2P	Age Concern		65.0				65.0
3P	Land Charges Shortfall in Income		200.0				200.0
4P	Human Resources (HR) - Core Activity		59.5				59.5
5P	Information Security			160			160.0
6P	Print Unit			150			150.0
7P	Vehicle Leasing				135		135.0
8P	Grounds Maintenance from HRA				321		321.0
9P	Cleaner, Greener, Safer Provision				35		35.0
10P	Customer First					1,217	1,217.0
11P	East London Waste Authority Levy					523	523.0
		33	324.5	310	491	1,740	2,898.5

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Savings Proposals 2005/2006 - EPCS and Other Services

No.	Proposed Savings	Corporate Strategy		Finance		Regen & Environment		Education, Arts & Libraries		Social Services & Health		EPCS		Other Services		All Services	
		EPCS	Other	EPCS	Other	Environment	Libraries	Health	Total	Total	Total	Total	Total	Total	Total	Total	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1S	Geographical Information System (GIS) & Service	27.2	25.8									27.2					53.0
2S	Project Support	8.7	8.3									8.7					17.0
3S	Supplies and Services	34.7	6.5									34.7					41.2
4S	Head of Policy Hours	8.6	8.2									8.6					16.8
5S	Employers Org Subs	10.1	15.7									10.1					25.8
6S	Supplies and Services	6.4	12.6									6.4					19.0
7S	Reduction in Admin Support	6.0	9.1									6.0					15.1
8S	Efficiency Savings in Human Resources	37.0	0									37.0					37.0
9S	Trainee Solicitor	13.5	14.1									13.5					27.6
10S	Professional Fees/Counsels Fees/Printing & Stationery	14.4	0									14.4					14.4
11S	Property and Contract Team	35.6	28.0									35.6					63.6
12S	Support Officer	24.0	0									24.0					24.0
13S	Increase Income from Waste Authority (ELWA)	8.7	1.3									8.7					10.0
14S	Members Furniture and Rent/Hire Facilities	4.0	0									4.0					4.0
15S	Ceremonial Activities	10.0	0									10.0					10.0
16S	Members Transport	3.0	0									3.0					3.0
17S	Community Forum Budgets	25.0	0									25.0					25.0
18S	Discontinued January Citizen - Printing & Distribution	10.8	0									10.8					10.8
19S	Transport																3.0
20S	Improving Cash Flow Processes			3													3.0
21S	Pension Fund - Corporate Finance Team			40													40.0
22S	Servicing Capital Programme			20													20.0
23S	Regeneration and Environment Restructure			15													15.0
24S	VAT Audit			50													50.0
25S	Pensions Fund (Payroll)			10													10.0
26S	Banking Costs			50													50.0
27S	Transport			25													25.0
28S	Summons Costs			15													15.0
29S	Reg 36			12													12.0
30S	Overpayment Recovery			15													15.0
31S	National Non-domestic Rates (NNDR) Staff			60													60.0
32S	Cashiers Review			15													15.0
33S	Overtime in Info Management & Technology (IM & T)			25													25.0
34S	Supplies and Services in IM & T			12													12.0
35S	Staffing in IM & T			73													73.0
				63													63.0
																	33.0

APPENDIX B (ii)

BUDGET PRESSURE OPTIONS – EPCS BLOCK

BRIEF DESCRIPTION OF OPTIONS

Appendix B(iii)

EDUCATION, ARTS & LIBRARIES

1P Jo Richardson Community School new library provision - £33,000

JRCS new public library to be opened in September 2005. This is the additional cost of the new Library provision over and above the savings provided by the closure of Woodward Library.

Sub-Total Arts Libraries & Culture **£33,000**

CORPORATE STRATEGY

2P Age Concern £65,000

To maintain the active age centres provided by Age Concern – support already agreed by the Executive.

3P Land Charges shortfall in income £200,000

This is a statutory service provided to buyers of property within the borough and the number of searches received is wholly dictated by the activity in the housing market. The projected shortfall in income reflects the position of the housing market and a change in the way searches are being accessed.

4P Human Resources (HR) – core activity £59,500

As a result of various savings to be made in HR (5S, 6S, 7S and 8S) it is intended that these are redirected back into core HR activity to strengthen this for the Council as a whole.

Sub-Total Corporate Strategy **£324,500**

FINANCE

5P Information Security £160,000

Investigation and compliance into Information Security. Determine and establish policies, procedures and processes to enable system resilience, information sharing, and disaster recovery.

6P Print Unit £150,000

At present the Print Unit is experiencing a reduction in workload and the above sum reflects the latest estimate arising from this reduction. A review of the Print Unit to look at the future printing needs of the Council will be undertaken. All options regarding the provision of printing will be identified and the future direction of the Unit can then be determined.

Sub-Total Finance **£310,000**

REGENERATION & ENVIRONMENT

Appendix B (iii)

7P Vehicle Leasing £135,000

Final costs in respect of leasing Council fleet. Costs should not increase subsequent to 2006/07 as whole fleet will be leased.

8P Grounds Maintenance from HRA £321,000

Final full year costs of correct allocation of maintenance charges from the Housing Revenue Account – already agreed by the Executive.

9P Cleaner, Greener, Safer £35,000

Currently £315k is provided on a one off basis in the 2004/05 budget. Within the overall budget strategy there is provision for this sum to be included in the 2005/06 base budget and increased further by £35,000.

Sub-Total Regeneration & Environment **£491,000**

CORPORATE & LEVIES

10P Customer First £1,217,000

Revenue cost associated with the implementation of Customer First.

11P East London Waste Authority Levy £523,000

The Council pays a levy towards the running costs of the East London Waste Authority. The current levy is £4.881 million. The above cost is the increase in the levy for 2005/06, as advised by the Treasurer to ELWA.

Sub-total Corporate and Levies **£1,740,000**

OVERALL PRESSURES TOTAL **£2,898,500**

BUDGET SAVINGS OPTIONS – EPCS BLOCK**BRIEF DESCRIPTION OF OPTIONS****CORPORATE STRATEGY****1S Geographical Information System (GIS) and Information Service £27,200**

Merger of GIS and information service will save one Information Manager also delete vacant information officer post, create admin post.

2S Project Support £8,700

Reduction in project support budget in Performance and Review team and Equalities and Diversity Team.

3S Supplies and Services £34,700

Reduction in budget available to Policy Service for projects and other smaller budgets.

4S Head of Policy hours £8,600

Head of Service will do a four day week.

5S Employers Orgs Subs £10,100 *

This budget head has been underspent by £26,000 for the last two years. The subscription amounts to around £5,000 per annum. Based on this understanding the savings can be achieved.

6S Supplies and Services £6,400 *

Savings arising from underspends gratuities (£2,300), Occupational Health (£2,900), Staff Suggestion Scheme (£1,200).

7S Reduction in Admin Support £6,000 *

The estimated savings are based on the reduction of 28/35 of Scale 3 post. This is subject to a review of administrative support in Corporate Human Resource (HR) with the estimated savings being a target for achievement.

8S Efficiency Savings in Human Resources £37,000 *

To be identified by the new Head of Service.

Note * - It is intended that these savings in HR totalling £59,500 would be redirected back into HR in order to strengthen the core HR activity (see Pressure item 4P).

9S Trainee Solicitor £13,500

The savings proposal is the deletion of a trainee solicitor post. This item is an existing post. There will not be a redundancy situation as this post is currently vacant.

10S Professional Fees / Counsels Fees / Books & Publications / Stationery / Postages £14,400

Reduction in current budget levels for these items.

11S Property & Contract Team £35,600

The proposed saving is to make the existing posts of Property and Contract Lawyer (£19,700) and Legal Assistant (£15,900) redundant.

12S Support Officer £24,000

This post was originally part of the Customer Care Team which has now been disbanded.

13S Increase Income from East London Waste Authority (ELWA) £8,700

This is income (guaranteed) from ELWA for support provided to them (administrative cover when needed, Mod Gov. agenda system etc.).

14S Members Furniture and Rent/Hire Facilities £4,000

£1K, £3K respectively to be met from the existing budgets for those areas.

15S Ceremonial Activities £10,000

- **Civic Reception**

The proposal is to review the Civic reception.

- **Ceremonial Council Meetings**

The proposal is to continue the meetings but review the provision of catering, drinks etc. afterwards.

- **Annual Ceremonial Council Meeting (Mayor Investiture)**

The proposal is to continue the meetings but review the provision of catering, drinks, video etc.

- **Mayors scrapbook and 1 x p/t Admin Assistant**

The proposal is to review producing scrapbooks for Mayors at the end of their term. It also includes the potential redundancy of a part-time Member Services Officer.

16S Members transport £3,000

The proposal is to reduce this budget based on transport usage in the current year.

17S Community Forum Budgets £25,000

The proposal is to cut the annual £10K which is given to each Forum to spend in their areas to £7.5k (£15k) and to reduce the number of meetings from 6 to 4 per year (£10k)

18S Discontinue January Output of Citizen – Printing and Distribution £10,800

In term of news, there is just a perceptible lack of material for the January issue each year. Part of the strength of the magazine is based on its frequency. It is the most popular council magazine MORI studied and is the only one produced every single month. However dropping just one month each year may not devastate the magazine's reliability and timeliness.

Sub-total Corporate Strategy**£287,700****FINANCE****19S Transport £3,000**

Car allowance budget needs to reflect current staffing levels and usage.

20S Improving Cash Flow Processes £40,000

The process of cash flow management is undertaken within the Financial Services division (Corporate and Central Finance). The ultimate objective is to ensure that the Council maximises its investment return on the resources it has available. As part of the restructure of this team a number of business processes for cash flow management have been reviewed to contribute towards the overall objective. A new procedure is now in place but is

continually being developed to monitor more accurately the movement of cash into and out of the Authority. For example, the exact receipt date for grants from Government Departments.

21S Pension Fund – Corporate and Central Finance (C&CF) Team £20,000

A review has been initially undertaken on the appropriate charges that should be made to the Pensions Fund. The proposed saving ensures that the correct accounting treatment is made.

22S Servicing Capital Programme £15,000

To ensure appropriate accounting treatment in respect of servicing the Council's capital programme of £300 million over four years from the Corporate and Central Finance Team.

23S Regeneration and Environment Restructure £50,000

At the Executive meeting on 19th October 2004, Members approved a new staffing structure for a combined Regeneration and Environment Finance team. The outcome of this restructure resulted in an overall saving of £50,000 commencing in April 2005.

24S VAT Audit £10,000

It is planned to engage a VAT auditor to review VAT payment to suppliers on a "on win/no fee" basis. This has been undertaken successfully in the past.

25S Pensions Fund (Payroll) £50,000

The savings accrues because of changes in the way of recharging the Pension Account for Payroll Service.

26S Banking Costs £25,000

The Council pays a fee of 46p to its current service provider in respect of each payment made at the post office for Council Tax, Rent and Social Services charges.

A quote has been obtained from an alternative service provider which indicates a substantial saving of up to 10p per transaction.

27S Transport £15,000

The number of posts entitled to an essential car user allowance was reviewed as part of the Revenues Service establishment restructure approved by the Executive in May 2004. The number of allowances was significantly reduced as a result of changes in working practices.

28S Summons Costs £12,000

Income from summons and liability order costs charged to customer for Income Tax and Business Rates is a significant income stream for Revenues Services. In recent years income has increased dramatically as charges were raised to levels similar to other London Boroughs.

An agreement has been reached between London Authorities and the Greater London Magistrate Court Authority to allow a small annual increase in the amount of cost charge. The annual increase in 2004/05 was £3.00 and it is anticipated that there is a similar increase will be negotiate for subsequent years resulting in modest increases in income.

29S Reg 36 £15,000

The Council is entitled to prosecute council taxpayers who fail to provide information regarding their personal finance following the granting of a court order. This procedure has not been followed by the Council in the past, and as well as offering an effective payment enforcement tool it also gives the opportunity to create a new income stream through

collection of costs associated with the prosecution. An agreement has been reached between London Authorities and the Greater London Magistrate Court Authority.

30S Overpayment Recovery £60,000

The Council currently recovers overpayments of Housing Benefit from customers using a variety of methods. Recent changes in the way this progress is regulated with regard to subsidy allowances and improvements in collection performance have resulted in a significant income stream. Additional increases in income are projected for subsequent years.

31S National Non-domestic Rates (NNDR) Staff £15,000

The structure of the NNDR and Inspections team was revised in May 04 as part of the wider Revenues Services establishment restructure. As part of the restructure, inspection service for three functional areas was combined, and an estimate made of the level of administrative support required. Following the introduction on the new structure one part time (0.5 FTE) administrative support post has remained vacant and it is now evident that this post is surplus to actual requirements.

32S Cashiers Review £25,000

A full review of the cashiering service is planned which will examine savings options resulting from:

- Efficiency improvements
- Review of business processes
- Review of staffing levels
- Identification of new income systems.

33S Overtime in Information Management and Technology (IM & T) £12,000

Reducing overtime and focussing on emergency/planned and authorised work will reduce the overtime budget.

34S Supplies and Services in IM & T £73,000

These savings are achieved by reducing maintenance costs and re-negotiation of contracts, due to contract negotiation and changes in provision of services.

35S Staffing in IM & T £63,000

These savings can be made through reviewing the level of management.

Sub-total Finance

£503,000

REGENERATION AND ENVIRONMENT

36S Parking Services £200,000

To increase the budget for parking income to reflect current and anticipated future levels of receipts.

37S Parking Services – End of Life Vehicles Disposal £200,000

Government legislation for the safe disposal of abandoned vehicles was put in place in 2002/03, however, due to lack of private sector facilities the legislation was not enacted until April 2004. Now the legislation has been enacted expenditure has not been incurred due to other legislation, GLA initiatives and an increase in the value of scrap metal.

38S Civil Engineering Fee Charges £100,000

Increase charge rates for Civil Engineering fees. Most of the increased revenue will be recovered from external funding bodies such as Transport for London (TfL).

39S Public Conveniences – Unmanning £80,000

Reducing recharges from the Building Cleaning Section by de-manning four public conveniences.

40S Capitalisation of Highways Repairs £200,000

The revenue budget for Highways Maintenance for 2004/05 includes the sum of £2.7m for payments to contractors. Much of this budget is expended on revenue items such as street lighting energy or reactive emergency repairs to footpaths or carriageways. An element of this budget, however, relates to larger area repairs or road sign/street lighting column replacements and expenditure for these works could in future be capitalised. The budget for Highways maintenance is not reduced for this option.

41S Asset rental income generated £170,000

Rental income has exceeded budget in 2004/05 and is expected to continue into 2005/06.

42S Design overheads, supplies and agency £30,000

Savings to be generated in the Design office through improved management of supplies expenditure – particularly agency staff.

43S Asset Management Budget Surveys etc. £70,000

Savings to be generated through improved management of supplies expenditure – particularly agency staff.

44S Maintenance contracts disposal programme security etc £10,000

Savings to be generated through improved management of supplies expenditure – particularly agency staff and security costs.

45S Recharge property to Social Services £20,000

Review of Property Services recharges shows that Social Services and Regeneration activities are being cross subsidised. Charging more appropriate fees would increase costs by at least £20K to each service.

46S Community Halls £173,000

The process of agreeing the transfer of the management of Community Halls to Community Associations is taking place. As a result of the transfer it is expected that service provided by Council staff will be replaced by voluntary activity. Main saving will be premises related expenditure.

47S Full Year Effect (FYE) of 2004/05 Department restructuring £203,000

As part of its savings plans for 2004/05, DRE undertook a rationalisation of its management structure. The savings represents the FYE in 2005/06 of the saving over and above that required to meet the 2004/05 savings target.

Sub-total Regeneration and Environment

£1,456,000

EDUCATION, ARTS & LIBRARIES

48S Butler Court Residential units £10,000

Income usually exceeds expenditure in this area. The difference is usually set aside for refurbishments. However, the amount set aside in previous years has exceeded the amount spend on refurbishments. The difference for 2005-06 is therefore being offered as a saving.

49S Library Staffing £20,000

A review of library staffing requirements has been undertaken, and a recurring saving of £20,000 has been identified.

50S Library Book Fund £22,000

As a result of value for money purchasing and internet purchasing of books, it is estimated that £22,000 can be saved on the Library Book Fund.

51S Library Lettings Income £10,000

A review of library lettings income has revealed that an increase of income of £10,000 can be achieved.

52S Libraries Maintenance and services budget £15,000

Efficiencies have been achieved in the delivery of the services within the libraries maintenance and services budget, and £15,000 can be offered as a saving on a recurring basis.

Sub-total Education Arts and Libraries

£77,000

SOCIAL SERVICES

53S Non-residential care supported placements £70,000

Reduction in supported placements budget for workshops and homeworking etc. There has been a reduction in the use of this type of placement. This is the only area of placements expenditure within Social Services that is chargeable to the EPCS block. For the department to find savings from the EPCS block, this area must be targeted. Any residual costs as a consequence of the savings will be met from the Social Services Physical Disabilities Placements budget (circa £630k).

Sub-total Social Services

£70,000

HOUSING AND HEALTH

54S Enterprise Act & other Budget Provision £60,000

This figure can be taken from the Department's budget for 2005-06.

55S Temporary Accommodation – Bed and Breakfast £154,000

Combined effect of lower usage of Bed and Breakfast placements, increased collection of charges of not eligible for Housing Benefit and greater use of Private Sector Leased property (which includes an administration charge element).

56S Increased Income Targets £16,000

A review of income opportunities has been carried out across the services and a sustainable increase has been identified.

57S Reduction in Internal Support £40,000

The cost of providing support to services within Housing and Health is apportioned between the Housing Revenue Account (HRA) the Housing General Fund, and Health and Consumer Services (H&CS) saving will be achieved in the H&CS element.

This saving will be achieved by reappportioning the contribution made to support costs in favour of EPCS services and through efficiencies created by an internal restructure that will see a reduction in the overall management overhead for the department.

Sub-total Housing and Health

£270,000

OVERALL SAVINGS TOTAL

£2,663,700

(Cash sums relate to the EPCS element only)

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BRIEF DESCRIPTION OF PRESSURE & SAVING OPTIONS 2005/06

PRESSURES

1 Provision for Performance Improvement £300,000

An essential aspect of the Council in improving its overall performance is to ensure that additional support is directed to specific areas where performance needs to be improved. This sum will allow the direction of appropriate resources to the identified areas.

2. Corporate Capacity £225,000

This additional resource will be directed at ensuring the Council can improve on its capacity to deliver service improvements.

Sub-Total Pressures £525,000

SAVINGS

3. Customer First Costs – Ring-fenced areas (Housing Revenue Account, Social Services & Education) £400,000

With the introduction of the Customer First contact centre an appropriate allocation of the one-off initial costs and ongoing running costs need to be charged to relevant ring-fenced areas.

4. Customer First Savings – Housing GF and Regeneration & Environment (R&E) £286,000

This is the identified saving in service budgets from these two Departments (Housing - £150,000 and R&E - £136,000) as a result of the introduction of the new contact centre.

5. Social Services – Projected Underspend 2004/05 and ongoing £1,500,000

As part of the 2005/06 budget setting, the 2004/05 projected underspend position of £1.5m for the Social Services budget, has been used to fund the overall 2005/06 budget. This will require Social Services to identify ongoing savings of £1.5m in order to ensure future years budgets remain balanced. For future years budgets there will need to be a review of the position of funding Social Services at the relevant formula spending share levels.

6. Corporate & Democratic Core Costs – Contribution (Housing Revenue Account) £225,000

The above sum allows for the Housing Revenue Account to contribute towards the Council's Corporate and Democratic Core costs. This sum is intended to increase to £0.5 million in 2006/07 and £0.75m in 2007/08.

7. Additional interest on balances £1,400,000

This favourable position is due to the recent increases in interest rates, performance on investments being better than expected coupled with a larger investment base due to earlier capital receipts being generated from land disposals and right to buy sales.

8. Review of Contingency Provisions, etc. £542,000

An annual review of the contingency and other provisions is undertaken in the light of current year performance with the contingency and a thorough assessment of factors which need to be addressed as part of the contingency budget and other provisions, etc.

Sub-Total Savings **(£4,353,000)**

OVERALL NET TOTAL **(£3,828,000)**

CALCULATION OF THE PROPOSED COUNCIL TAX 2005/06

	£'000	Band D Council Tax £	Increase %
BARKING & DAGENHAM			
Budget Requirement - Base Budget 2005/06	232,825		
- Executive Proposals	<u>-573</u>		
	232,252		
Less: Formula Grant	-187,445		
Council Tax Collection Fund Loss	884		
Council Tax Requirement	<u>45,691</u>		
Council Tax Base	50,838.8	<u>898.74</u>	
Overall Council Tax - Band D equivalent			
London Borough of Barking & Dagenham		898.74	3.46%
Greater London Authority		254.62	5.5%
		<u>1,153.36</u>	3.9%

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MEDIUM TERM FINANCIAL STRATEGY

2005/06 TO 2007/08

MEDIUM TERM FINANCIAL STRATEGY
2005/06 TO 2007/08

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MEDIUM TERM FINANCIAL STRATEGY
2005/06 TO 2007/08

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 2005/06 to 2007/08, 2005/06 is based on the budget and plans agreed in 2004 and further developed in February 2005. 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 2005/06 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 was 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. Consideration will be given to how this will be allocated which may include partner organisations.

Comprehensive Performance Assessment (CPA)

- 3.4. The Council was informed in December 2004 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. The CPA process has undergone a fundamental review and for 2005 and a new procedure is to be adopted. Within the review there is a much stronger focus on the use of resources as part of the overall assessment.
- 3.6. Overall this element assesses how well the Council manages and uses its financial resources. It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services. The use of resources block will carry more weight in determining the overall CPA category for the Authority. The MTFs will be an essential part of addressing these requirements.
- 3.7. The Council's next Corporate Assessment is scheduled for 2008, however, the Council is requesting an earlier assessment.
- 3.8. Alongside the CPA process there is the usual Government inspection process particularly around Education (Ofsted), Social Services, Housing 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.

Efficiency

- 3.9. As part of the results of the 2004 Spending Review announced by the Deputy Prime Minister in July 2004, it was announced that within local government a target of 2.5% per annum for efficiency gains was introduced. Therefore, by 2007/08 efficiency gains equivalent to 7.5% of the 2004/05 baseline should be achieved. This was to deliver at least £6.45 billion across all local government by 2007/08.
- 3.10. This is a very challenging target for local government and in terms of Barking and Dagenham initial calculations suggest that the 2.5% is around £4m to £4.5m per annum on a recurring basis (i.e. up to £13.5m over the 3 years). The efficiency gains can be met in two ways. Firstly, 50% of the sum is to be met through "cashable gains". These represent the potential to release resources for reallocation elsewhere. The remaining 50% should be derived from "non-cashable gains". These are achieved through such means as improved quality or additional outputs for the same level of resources. All efficiency gains generated will be available to the local authority to reinvest in improved services or used to reduce council tax.
- 3.11. Detailed guidance has been received from the Office of the Deputy Prime Minister and each local authority is required to produce an Annual Efficiency Statement (AES) signed off by the Leader, Chief Executive and Director of Finance. For 2005/06 the forward part of the AES has to be submitted by 15th April 2005 and we will then need to report on how we have performed against our projections in June 2006. Additionally, we are required to report on how we have performed on 2004/05 by 15th June 2005.

- 3.12 It is essential that, as a Council, we are identifying all the relevant efficiency gains for 2004/05 and those expected for 2005/06 as a matter of priority. All Departments will be involved in these exercises, being led by senior officers. The Council also needs to develop an efficiency plan that will identify efficiency savings throughout the whole 3 year period. A new Efficiency Board being led by the Director of Corporate Strategy and supported by a number of Heads of Service will be overseeing this task.

4. Budget Strategy

Council Tax Strategy 2004/05 – 2006/07

- 4.1. In March 2004 the Council set a Council Tax strategy for 2004/05-2006/07. The key elements were:

- 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% LBBB, 7.54% GLA) with further projected increases of:-

2005/06	(5.5% LBBB, 10% GLA)
2006/07	(5.5% LBBB, 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.

Budget Strategy 2005/06 onwards

4.2. For 2005/06 the key elements of the strategy set in 2004/05 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 with consideration for future schools funding.
- b) Social Services budget set at FSS with a need to review this position for future year's budgets.
- c) Highways budget set at FSS.
- d) Continuing the protection of the services that deliver the Cleaner, Greener, Safer priorities.
- e) There is no planned use of reserves for ongoing expenditure.
- f) A 5 year capital plan (2004/05 to 2008/09) totalling £233m with £117m 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 £43m 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 £43m is not achieved the programme will need to be reassessed.

- h) Remaining debt free for 2005/06 to 2007/08, 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
 - 3.9% in 2005/06 (3.46% LBB, 5.5% GLA) with further projected increases of:-

2006/07	(5% LBB, 10% GLA)
2007/08	(5% LBB, 10% GLA)
- j) As part of the 2005/06 budget setting, the 2004/05 projected underspend position of £1.5m for the Social Services budget, has been used to fund the overall 2005/06 budget. This will require Social Services to identify ongoing savings of £1.5m in order to ensure future years budgets remain balanced.
- k) The Housing Revenue Account to contribute to the Council's Corporate and Democratic Core costs. For 2005/06 this is £225k, 2006/07 £500k and 2007/08 £750k.
- l) Savings of £2.7m for 2005/06, of which £200k 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 reductions projected in the budget of about;

£5.8m for 2006/07
and a further £7.2m for 2007/08 being required.

Savings at this level will need to be made across all Services apart from the mandatory ringfenced Schools budget. Targets are to be set to allow the process for identifying savings to commence 1st April 2005. The Director of Finance will be providing the initial targets for savings across all services.

- m) Pressures of £2.9m for 2005/06.
This mainly relates to statutory requirements, unavoidable pressures, and existing commitments. However, investment is planned 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.
- n) Further budget pressures of £22m and £16m are projected for 2006/07 and 2007/08 respectively across all Council budgets.

4.3 The strategy for 2006/07 and beyond continues the position that has been established for 2004/05 and 2005/06.

4.4 A summary of spending and Formula spending Share projections for 2006/07 onwards plus council tax increases are contained in Annexes 3 and 4.

5. Formula Spending Share

5.1. The Local Government settlement is 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. Additional top ups are added for numbers of disabled, elderly, and unemployed people, and people from ethnic minorities. Top ups are also added 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 Financing

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.

There is an expectation that, at some point, 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 final FSS for 2005/06 is:

	£M
Education	122.037 (Schools - £108.263m & LEA Central Servs - £13.774m)
Social Services	65.777
Highways	4.890
EPCS	42.363
Capital	<u>3.155</u>
	<u>238.222</u>

5.6. There are a number of factors that can result in changes to the Council's FSS:

1. Census data and demographic changes;
2. The overall amount of money made available to local government by central government through the Spending Reviews;
3. Changes in Local Government responsibilities;
4. The underlying data used in the formula; and
5. 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 2005/06 formula grant, nor did it use the 2001 data for 2004/05. The government has now commenced a fundamental review of the social services formulae and may make changes to EPCS for the 2006/07 settlement in addition to minor changes to Education & Highways. 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.

6.2 However, in the summer of 2004, the government and its academic advisors did issue some initial exemplifications of incorporating the 2001 data into the FSS calculations. These exemplifications show that, depending on what indicators are used, they could have significant redistributive effects. At this stage, however, it is difficult to predict the decisions that will be made for the 2006/07 settlement, or the effects that these decisions may have on Barking and Dagenham's FSS levels in future years.

6.3 An analysis of the 2001 census data can, however, give an idea of the changing structure of Barking and Dagenham's population.

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 (ONS). While this trend is likely to continue due to the major housing developments such as those planned along the Thames Gateway, more recent statistics from the ONS have shown a stagnation in the population in Barking and Dagenham. The 2002 population estimates were revised down by 1,400 following an adjustment to the formula

used to calculate the figures. The 2003 estimate, released in October 2004, has only shown a moderate increase from the revised 2002 figure.

- 6.5 These statistics are contrary to experiences of managers involved in local service delivery, who have seen increased usage and pressure on services across the borough. The statistics are also contrary to information on council tax properties and housing completions, both of which have risen consistently in recent years.
- 6.6 The changes to the calculation have resulted in unusual statistics for a number of other London Boroughs. Lewisham, Hounslow, Newham and Brent are examples of boroughs whose statistics on council tax properties and housing completions do not tie in with ONS data on population.
- 6.7 These arguments are being pursued with the ONS. Whatever the outcome of these discussions, the long term population trend in Barking and Dagenham, as supported by the 2001 census data, is one of population growth, and this trend will impact on service delivery across the borough.
- 6.8 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.
- 6.9 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 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.

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.

- 6.10 The Council will therefore need to review its spending priorities particularly in the areas of Education and Social Services. From 2006/07 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 2004 (SR 2004) was announced in July 2004 and set out plans from 2005/06 to 2007/08, in the context of the overall national budget of 2004.

SR 2004 indicated the following increases in FSS:

FSS block	Plans	Baseline		
	2004-05	2005-06	2006-07	2007-08
Education	26,402	5.9%	6.8%	6.0%
Children's services	3,737	7.5%	7.5%	4.6%
Adult services	8,690	9.9%	4.0%	4.4%
Police	4,355	4.5%	4.7%	4.7%
Fire	1,848	2.7%	3.3%	3.8%
Highway Maintenance	2,004	2.5%	0.0%	0.0%
EPCS	11,152	0.6%	3.5%	3.7%
Capital Financing*	2,802	16.7%	10.1%	9.0%
TOTAL	60,990	5.8%	5.5%	5.1%
Net aggregate external finance	42,421	5.4%	5.5%	5.1%
Locally Financed Expenditure	18,569	6.7%	5.5%	5.1%

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 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 and the Government will make adjustments for these. This will also include transfers from specific formula grants and ring-fenced grants into FSS.

8.2 For 2005/06, the access and systems capacity and preserved rights grants are no longer ring-fenced. For schools funding, from 2006/07, this will be provided as a ringfenced grant, rather than coming through in the general government grant and being "passported" to schools by the Council. This change will remove the discretion over whether authorities spend on schools at FSS. For 2004/05 the final data available shows that the actual schools budget was £881,000 more than the 2004/05 schools FSS, for 2005/06 the position shows the schools budget to be £907,000 more than the schools FSS. Therefore, full and careful consideration of this position will need to be made at the appropriate time; when more information is available from Government. The ODPM have not released any firm information on further plans over future years at this point in time.

8.3 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.

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.
- 9.2 For example, education 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 indicated that the borough was experiencing one of the largest population growths in the capital. While the 2002 figures have been adjusted to show a more gradual increase, this overall trend of population growth is expected to continue over time. 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 2003 determine funding for 2005/06). 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 2005/06. The floor did not apply to Barking and Dagenham in 2005/06 as the grant increase was 5.32%.
- 10.2 The DFES also guarantees that every LEA receives a minimum per pupil increase in schools FSS each year, which was 5.5% in 2005/06. Barking and Dagenham benefited from this floor protection in 2005/06, translating directly into a higher level of formula grant and FSS. However, Barking and Dagenham was affected by the LEA block FSS ceiling of 8.75% for 2005/06.
- 10.3 The Government announced that it would be abolishing general ceilings for 2005/06. This Council welcomes the move, as it ensures that areas of population growth, such as Barking and Dagenham, receive sufficient funding to enable them to meet the challenges they face.

11. Capping

There have been Ministerial announcements regarding capping, for example;

“I am writing to make it clear that we expect all local authorities to budget prudently, and that the average council tax increase in England will be less than 5% next year.”

“We are prepared to take tougher capping action next year than we did in 2004/05 to deal with excessive budgets. This applies to all authorities, including Police and Fire authorities.”

“The Government will not tolerate excessive increases either next year, or in years to come.”

“The Government will take decision on capping principles once authorities have set their budgets for 2005/06.”

Nick Raynsford
Minister for Local and Regional Government
December 2004.

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 2005/06 is £232.252m, compared to our Formula Spending Share (FSS) of £238.222m. The budget requirement, after adjustment for fundamental changes to the FSS, shows a 5.00% increase on 2004/05, compared to a 5.00% increase on FSS.

12 Inflation

12.1 General price inflation of around 2.5% is expected over the next 2-3 years. In arriving at this general price increase a variety of economic drivers were assessed some of which may have increased beyond 2.5% and others which may be subject to negligible inflation or even deflation.

12.2 In terms of forecasting inflation for staffing costs, a national 3 year pay agreement was agreed in 2003 being 2004/05 - 2.75%, 2005/06 - 2.95% and 2006/07 - 2.95%. The implementation of this 3 year pay agreement will improve the budget setting process.

12.3 The Council's actuary reported the results of its tri-annual valuation in October 2004 outlining the performance and position of the Council's pension scheme. The valuation reported that the Council needed to increase its annual pension contributions in order that the pension fund would be sufficiently funded to meet its projected liabilities. As a result the Council's pension contributions will increase over the next 3 years to the following

- 2004/05 9%
- 2005/06 12%
- 2006/07 15%
- 2007/08 16.2%

12.4 Other inflationary pressures which may impact on the Council's budget could include future Government changes such as increased national insurance contributions, cost pressures relating to specific industry pressures e.g. Construction services, as well additional costs arising on difficult to fill posts and the use of temporary staff.

12.5 The London Weighting pay dispute is also unresolved, which could contribute to inflationary pressures. This is estimated to cost approaching £300k per annum (including HRA staff).

12.6 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.

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

	2005/06	Later Years
Employee costs	2.95%	2.95% (per annum)
Other inflation	2.50%	2.50% (per annum)
Fees and charges	2.5%	2.5% (per annum)
Pensions costs	3.0%	4.2% (3% for 2006/07) (a further 1.2% for 2007/08)

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. Single Status

- 14.1 The Council is currently involved in detailed work on the implementation of Single Status across the organisation. Essentially for local authorities this is to meet the requirement of the national pay agreement to complete a pay and grading review for implementation by 31st March 2007. Any costs associated with the final recommendations will need to be reflected as appropriate within the relevant year's budget process. The service reconfiguration reserve has been used for certain of the initial costs of single status.

15. Charging Policy

- 15.1 The Council has agreed a charging policy and this is set out in Annex 5.

- 15.2 A Corporate Charging Register will be developed during 2005 which will set out:

- A schedule of charges
- The date of revision
- The basis of calculations

- 15.3 All charges will be reviewed annually as part of the budget setting process and this review will commence for the financial year 2005/06. 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.

- 15.4 The Local Government Act 2003 permits Councils to charge in further areas. The Council has not yet taken advantage of this power but will keep it under review.

- 15.5 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.

16. Prudential Capital Guidelines

- 16.1 The enabling legislation for the current capital regime is set out in the Local Government Act 2003 which came into force on the 1/4/04. Authorities are now given greater freedom to borrow providing they can meet the revenue costs of the borrowing and the running costs of the resultant capital scheme.

The capital system provides a more integrated approach to capital investment decision making with an authority having to take account the following when setting its prudential indicators:

- Affordability;
- its asset management plans;
- the implications for external borrowing;
- value for money through options appraisal and its strategic plans.

The aim is to bring together revenue and capital resources to meet service delivery objectives.

- 16.2 The previous capital control system used in the main, the issue of annual Credit approvals by Central Government. These approvals allowed local authorities to either borrow or enter into other long-term credit arrangements up to an approved level. The use of this system effectively allowed the Government to control Council’s borrowing and prevent local government from generating unsustainable levels of debt.
- 16.3 Instead of the use of Credit approvals, the new system places reliance on a series of prudential indicators that must be determined by each local authority for the forthcoming year and the following two years. These indicators will assist Council’s in determining an appropriate level of borrowing and to provide benchmarks against which they can monitor their borrowing levels.
- 16.4 In simple terms the Council is now able to borrow at whatever levels it feels are necessary so long as any borrowing is affordable, prudent and sustainable.

- 16.5 The new prudential guidelines requires 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.
- 16.6 The new regime also requires the pooling of housing capital receipts. As from the 1st April 2004 the following pooling arrangements will apply:

	<u>Retained by Council</u>	<u>Paid into National Pool</u>
Right to Buy Receipts	25%	75%
Other Housing Receipts	50%	50%

- 16.7 However 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. Over this three period the new pooling arrangements are estimated to cost the Council about £31.3 million of usable capital receipts that would have previously been available to the Council. This analysis of transitional support is summarised as follows:

	<u>Retained by Council £m</u>	<u>Paid into National Pool £m</u>
2004/2005	19.1	6.4
2005/2006	10.8	10.8
2006/2007	4.7	14.1
2007/2008	0	16.1

- 16.8 These new arrangements have 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 in the medium term the Council will need to reappraise its ability to fund its capital programme solely from capital receipts and external funding without the need to borrow.

17. Debt Free Position

- 17.1 At the 31st March 2004 the Council was classified as being a debt free authority. Capital regulations were introduced on the 1st April 2004 which made this debt free status less attractive. In particular these regulations require Council's to pay a proportion of their housing capital receipts into a national pool (see annex 6).
- 17.2 There is however a transitional arrangement for Council's that were debt free on the 31st March 2004. These transitional arrangements permit those authorities which were debt free at the 31st March 2004 to retain a proportion of

its housing capital receipts it would have otherwise had to be pooled and foregone. These transitional arrangements exist for a period of three years (2004/05 to 2006/07).

- 17.3 The estimated transitional relief available to the Council for the next two years (2005/06 and 2006/07) as a result of it being debt free at the 31st March 2004 is estimated at £15.5m and is detailed in paragraph 15.7.

18. Reserves and Contingency

Reserves

- 18.1 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.
- 18.2 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.
- 18.3 The Comprehensive Performance Assessment (CPA) guidelines give 5% as a target level. For Barking and Dagenham this would be £11m. 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.

- 18.4 Annex 8 sets out the Council's position on reserves and a policy for their application. It can be summarised:-

- General Reserve
 - Projected uncommitted reserve at £11.5m for 2005/06
- Repairs and Renewals Reserve
 - This contains a small number of reserves to fund the repair and renewal of specific assets such as IT

Spend to Save and Service Reconfiguration Reserves

- These reserves was originally established with a balance of £4m each to be used as the Council underwent significant changes in its service provision as it addresses both the community priorities and new ways of working. In 2005/06 the projected uncommitted amount of these reserves was £4m on Spend to Save and £0.8m on service reconfigurations
- Capital and Revenue Support Fund
 - This reserve has been set aside to fund planned capital expenditure should anticipated capital receipts fail to arise. In 2005/06 the uncommitted balance remains at is £10m

- Insurance Fund
 - This fund is held to meet potential and contingent liabilities that the Council self insures. In 2005/06 the fund is estimated to be £8.2m. It is recommended that this is an appropriate level of provision and that it is maintained for any future unforeseeable items
- Interest Equalisation Reserve

This reserve was established to enable future reductions in investment income to be smoothed in the budget setting process. A full profile over a three year period is set out in Annex 8.

18.5 All reserves and their 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

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

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

19. Flexibility Plans

19.1. 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.

20. Education

- 20.1 The 2005/06 budget has been set based on education spending at FSS. The Council has 'passported' the increase in the schools element of the Education FSS in to the schools budget and for 2005/06 passing on the full increase in schools FSS is effectively mandatory.
- 20.2 The Secretary of State for Education and Deputy Prime Minister has previously 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.
- 20.3 While this Council is committed to spending on Education at FSS, it is opposed to compulsory passporting, as it removes local discretion in the determination of schools budgets.
- 20.4 This puts a more intense focus on the need to "passport" and the council's budget is therefore based on this.
- 20.5 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.
- 20.6 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.
- 20.7 In common with boroughs such as 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).

- 20.8 For schools funding, from 2006/07, this will be provided as a ringfenced grant, rather than coming through in the general government grant and being “passport” to schools by the Council. This change will remove the discretion over whether authorities spend on Education at FSS. As it is a long standing practice for the Council to spend at FSS, this change is not expected to have a significant impact.

21. Social Services

- 21.1 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 updated and agreed by the Executive on 23/3/04.

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.

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

- Children’s family support services
- Adult care packages
- Adult care management
- Recruitment costs for social workers

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

It should be noted that Social Services also receive additional grants of approximately £8.2m in addition to the £65.8m FSS. See table below;

	2004/05 £m	2005/06 £m	Change £m	Change %
FSS	62.436	65.777		
Grants	7.669	8.216		
	<u>70.105</u>	<u>73.993</u>	<u>3.888</u>	<u>5.55</u>

- 21.3. As part of the 2005/06 budget setting, the 2004/05 projected underspend position of £1.5m for the Social Services budget, has been used to fund the overall 2005/06 budget. This will require Social Services to identify ongoing savings of £1.5m in order to ensure future years budgets remain balanced. For future years budgets there will need to be a review of the position of funding Social Services at the relevant formula spending share levels.

22. Housing

- 22.1 The Housing Revenue Account has a medium and long term financial plan as part of the Housing Business Plan. This has been assessed by ODPM as being "Fit for Purpose"
- 22.2 As part of the Governments policy for all Local Authorities to review the future of their stock, and to submit detailed option appraisals to be agreed and signed off by them by July 2005, a comprehensive Housing Futures programme has been established.
Part of this work is to identify the capital investment required to achieve the decent homes standard set by ODPM by 2010, and then to retain the stock at that level for the duration of the 30 year Business Plan.

A robust balanced HRA over the 30 year period also needs to be prepared and updated annually.

Both these financial documents will help shape the medium and long term future direction of Housing

- 22.3 Within the Housing General Fund there continues to be pressures around homelessness and the provision of temporary accommodation. The reliance on Bed and Breakfast is gradually reducing and is being replaced by the use of Private Sector Leased (PSL) properties. Contracts for PSL's are being procured in accordance with EU directives and should provide better financial control.
- 22.4 Greater emphasis for the provision of new social housing is being placed on Private Sector Housing Developments. Partnering arrangements are being set up to ensure adequate resources are available to ensure the medium and long term objectives are met.

23. Other Services

Highways

- 23.1 The Highways FSS for 2005/06 when compared to the 2004/05 FSS has increased by just £43k (0.9%). When taken together with inflation pressures in 2005/06 of £163k this has resulted in an overall real terms reduction of £120k (2.4%).

Since the Highway budget for 2005/06 has been set at FSS, the Highways budget has in real terms since 2003/04 seen a reduction in excess of £500k.

The fall in FSS is due to a variety of reasons including a reduction in the indicator for traffic flows and the flow of HGV's, buses and coaches on principal roads and a reduction in the Government's control totals for uplifting Highways FSS .

- 23.2 In the 2004 spending review the Government indicated that there would be no growth in Highways FSS in either 2006/07 or 2007/08. As a result, if the Council continues to operate its policy of the Highways budget remaining at FSS, then as a consequence of inflationary pressures further reductions of around £300K will be required over the next two years in the Highways budget. Whilst there is a reduction in the budget, additional resources are likely to be made available through organisations such as Transport for London funding. In addition the Council has and is continuing to invest in its Highways infrastructure through its capital programme. It is the council's medium to long term strategy to ensure that highway maintenance is maintained at an appropriate level using all funding sources available to the Council. For comparison purposes currently Councils in London spend well below FSS on highways maintenance.

Environmental, Protective and Cultural Services (EPCS)

- 23.3 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.
- 23.4 For 2005/06 and 2006/07 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.
- 23.5 For 2005/06 the overall budget includes savings on the EPCS block of around £2.7m. Forward projections indicate that further savings of £5.8m for 2006/07 and £7.2m for 2007/08 will be needed from the EPCS block. 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.
- 23.6 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)

- 23.7 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.
- 23.8 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. To date, the Government have committed just over £26million towards regeneration of Barking Town Centre up to 2006, £14 million towards the regeneration of Dagenham Dock and £125 million towards London Riverside
- 23.9 Within the Sustainable Communities plan published in 2003 the government proposed 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 Barking Town Centre and that of its partners in the Thames Gateway London Partnership, This has now been established. It has a Board and a Chairman. The Council is represented on the Board. The officer core should be in place by summer 2005.
- 23.10 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).
- 23.11 Much work has been undertaken to look at the social infrastructure needs of the new communities and the impact on existing ones. Officers are also looking at, with the Barking Riverside Company and English Partnerships, new ways of managing some of the public infrastructure created and also ways of capital funding it in the first place. 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

- 23.12 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 three year business plan sets out the technical, process and environmental improvements necessary to provide easily accessed services in a way and a time that will suit customers. This will be achieved through the continuing development of the contact centre, **Barking and Dagenham Direct**, launched in October 2004, for all the Councils services.
- 23.13 The current indicative costings of the contact centre indicate the following:-

	<u>Annual Cost</u>	<u>Use of Reserves</u>	<u>Net Cost</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
2004/05	1,908	1,908	0
2005/06	2,429	1,212	1,217
2006/07	4,120	0	4,120
2007/08	3,592	0	3,592

23.14 Provision has been made to use reserves to fund the set up costs for 2004/05 and part of the ongoing costs in 2005/06. Thereafter the cost of Customer First will need to be funded from revenue by the Council. Some of these new costs will be funded by the need to consider and re-direct existing staffing costs.

23.15 The above costs set out in paragraph 22.13 are in respect of the contact centre only. The establishment of one stop shops are subject to a further review; however, the annual revenue costs for each of the one stop shops is currently estimated to cost £1.3m.

23.16 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. 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.

23.17 In addition, there is an approved capital budget of £5m covering the period 2003/04 to 2006/07 to deliver the whole project for a Contact centre and other support.

Procurement

23.18 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.

24. Future Considerations

- 24.1. **Balance of Funding** – The Government has received an initial review of the balance of Local Government funding and this was reported in July 2004. Part of the recommendations of this report has been the establishment of an independent enquiry into this area by Sir Michael Lyons who is to report back by December 2005. The focus of this independent inquiry is to examine how to make the council tax system fairer and more sustainable. Currently there is no indicative implementation date and it is likely that this inquiry would impact significantly on Local Government finance.
- 24.2. **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 (LABGI) 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 will be introduced on 01/04/05, the same time as the Business Rate Revaluation. Councils will be able to retain business rates locally, the exact amount being dependent on the growth in rateable values from December 2004 to December 2005, with the amount payable in the last quarter of 2005/6. A ceiling has been set for the Council at 3% of EPCS (£1.3m), and a floor of zero. The formula is very sensitive to changes in growth of Rateable Value's, so it is currently difficult to predict the Council's expected funding from this source.

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.

- 24.3 **Revaluations** – The following revaluations are planned:

Business Rates: 1/4/2005 then 1/4/2010

Council Tax: Revaluation in Spring 2005 – Implemented 1/4/2007.

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 Councils own properties maybe 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.

- 24.4 **Population Increase** – The current population of the Borough is approximately 166,000. 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.2005/2006 settlement uses 2003 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.

25. Capital Investment

- 25.1. 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.
- 25.2. A variety of resources are available to local authorities to fund capital investment. The primary one is borrowing. However due to the Council's existing levels of capital receipts and its projected generation of future capital receipts, the Council does not currently utilise this type of resource to fund the Capital Programme.
- 25.3 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.
- 25.4 Thirdly, capital grants, issued by Government departments and agencies, which are allocated on a competitive bidding basis for specified purposes. Many of these bids require local authorities to make a financial commitment to the running costs of the schemes.
- 25.5 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.

- 25.6 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.
- 25.7 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.
- 25.8 It is anticipated that around £150.2 million of capital receipts will be available to support Capital projects from 2005/06 to 2008/09. Various assumptions have been made regarding the generation of capital receipts particularly around land disposals and 'Right to Buy' receipts. This position will therefore need to be closely monitored over the relevant years.

A Capital programme for 2005/06 to 2008/09 amounting to £145 million, funded by capital receipts of £70.6 million and externally funded sources of £74.4 million is to be considered by the Assembly in March 2005.

A summary of this programme is detailed in Annex 9.

As a result of these schemes this will leave around £76.9m of Capital receipts to fund future schemes.

An initial commitment of 50% of usable Housing capital receipts is being made available for the Housing Futures options exercise on bringing Council homes upto the decent home standards by 2010.

- 25.9 Any 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. A contingency sum has already been included for this.
- 25.10 In addition, Service departments have already identified around a further £200m of capital requirements over the next four years of which £176m has been identified to be funded by the Council. In early 2005/06 these schemes will be evaluated in detail to determine those schemes which are required and how these will be financed.
- 25.11 There are some significant programmes being undertaken that may require the Council to consider funding options in the longer term. They include Housing Futures, and also projects designed to meet the Council's regeneration agenda.

- 25.12 Similarly, there may be instances where there may be a business benefit of borrowing. For example, the construction of a car park could be financed by a loan, while the longer term income received on this asset would make the borrowing economically beneficial.
- 25.13 The Council will move away from being in a debt free position at some point in the next few years. As this point approaches, or should any situation arise in the mean time where it would be beneficial for the Council to borrow, the Director of Finance would report the relevant proposals to members.
- 25.14 The Director of Finance will report during 2005/06 on the implications of its investment requirements including the implications of borrowing and give consideration when this might be necessary and most advantageous to the Council.

Dated : February 2005

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
Early Professional Development Plan	Education
Educational Asset Management Plan	Education
Under Performing 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 Position Statement	Education
Social Services	
Social Services Delivery and Improvement Statement	Social Services
National Services Framework Older Persons Plan	Social Services
DAAT Plan	Social Services
Children's Service Plan	Social Services
Youth Justice Plan	Social Services
Adult Treatment Plan	Social Services
Young Persons Substance Misuse Plan	Social Services
Crime and Drugs Strategy	Social Services
ACPC Business Plan	Social Services
DRE	
Integrated Waste Strategy (ELWA)	DRE
Emergency Plans	DRE
Local Development Plan	DRE
Local Implementation Plan	DRE
Rights of Way Improvement Plan	DRE
Asset Management Plan	DRE
Local Bio Diversity Action Plan	DRE
Housing and Health	
HRA Business Plan	Housing and Health
Housing Strategy	Housing and Health
Crime, Disorder and Drugs Strategy	Housing and Health
Food Law Enforcement Service Plan	Housing and Health
Health and Safety Enforcement Plan	Housing and Health
Supporting People Strategy	Housing and Health
Public Health Annual Report	Housing and Health
DCS	
Local Neighbourhood Renewal Strategy	DCS
Best Value Performance Plan	DCS
Community Strategy	DCS
Finance	
Capital Strategy	Finance
IEG Statement	Finance

Local Public Service Agreement

In July 2003, Barking and Dagenham Council signed its Local Public Service Agreement, pledging to deliver a range of improvements in key areas such as education, crime and the environment.

A grant of £914,346, along with the council's own resources, is being used to help us achieve the targets, which include increasing the number of children getting five GCSEs at grades A*-G, reducing domestic burglary, and improving the cleanliness of the streets.

If the Council meets less than 60% of its targets over the three year period, no additional grant will be due. If more than 60% of targets are met, a performance reward grant will be received. This ranges from £0 (under 60%) to £4.6m (100%). Half of the grant would be payable in 2006/07, and the remaining half in 2007/08.

Other targets include reducing the level of absence in schools, reducing the re-offending rate of young offenders, reducing deaths and serious injuries on the borough's roads and increasing the availability of homes to let.

The Council in 2005/06 will be in the third and final year of the LPSA period. Performance against targets is variable. They are being regularly monitored and remedial action is being taken where necessary. For many of the targets, improvement in performance will only be seen in this final year when actions implemented at the front end of the LPSA period come to fruition.

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

The table below shows the expenditure recorded against the targets, the grant contribution towards these targets, the Council's contribution, and the total planned expenditure over the life of the LPSA.

	PUMP PRIMING GRANT - Record of Expenditure	Maximum Grant contribution towards this expenditure (£)	Council contribution towards this expenditure (£)	Planned total of council expenditure (£)	Actual/Projected Expenditure to end of year	
					03/04 total (£)	04/05 total (£)
1, 2	A Personal Tutor (qualified teacher) to work with Looked After Children (LAC)	87,972	23,591	11,563	11,046	34,013
1, 2, 6, 7a	A Learning Co-ordinator to support the Borough's "Flexi-Learning Programme"	70,000	23,636	93,636	17,288	23,334
1, 2, 6, 7a	Tuition fees for pupils to attend Barking College as part of the "Flexi-Learning Programme"	175,000	19,727	194,727	64,909	48,681
6	Appointment of Access and Attendance Officer to primary team.	43,363	45,000	88,363	29,671	21,369
3	Appointment of a Burglary Reduction Advisor in the Chief Exec's Community Safety Team	94,981		94,981	3,041	29,335
4	Walking Bus Co-ordinator Consultation with schools	71,000		71,000	0	18,882
		4,000		4,000	0	0
8	Trial of innovative and more responsive equipment to improve street cleansing 2 SCARAB machines at £45,000	90,000		90,000	90,000	0
9	Staffing resources for the abandoned vehicle team	76,786		76,786	19,392	2,775
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	1,260	24,740
11	Appointment of Crime Reduction Worker based in YOT to implement specialist programme for all young people.	89,500		89,500	3,485	37,794
12	Rangers post. Woodland planting programme. Appointment of external consultants to gain green flag accreditation. Publicity and educational materials.	85,744	45,744	131,488	18,365	21,170
TOTALS		914,346	157,698	1,072,044	258,457	262,093

Annex 3

SUMMARY OF BUDGET PROJECTIONS UP TO 2007/08			
	2005/06 £'000	2006/07 £'000	2007/08 £'000
BUDGET REQUIREMENT B/F Pressures/Changes	220,168	232,252	252,623
Unavoidable	523	200	200
Likely Commitments			
Education spending to FSS	7,002	8,140	8,335
Social Services spending to FSS	3,340	4,145	3,130
Inflation (EPCS Services Only)	1,486	1,575	1,650
Concessionary Fares	0	225	155
Impact of 2005/06 budget decisions - pressures	703	128	-85
Areas of Potential Concern			
Corporate	1,753	5,630	2,545
Other	456	1,635	0
Future issues	0	250	100
Adjustments			
FSS fundamental changes	1,017	0	0
Other changes/Executive decisions	-32	0	0
Total of Pressures/Changes	16,248	21,928	16,030
Less: Impact of Savings agreed for 2005/06	2,664	57	0
Social Services underspend 2004/05 brought forward by use of reserve	1,500	0	0
Social Services recurring underspend - ongoing	0	1,500	1,500
Revised Budget Requirement	232,252	252,623	267,153
Funding			
Formula Grant	187,445	199,040	209,660
Council Tax Collection	45,691	48,045	50,330
Collection Fund Deficit	-884	-250	0
Total Funding	232,252	246,835	259,990
Council Tax Base (1)	50,839	50,839	50,839
LBB Council Tax (2)	898.74	945	990
GLA Precept (3)	254.62	280	310
Total	1153.36	1,225	1,300
Overall change	3.9%	6.2%	6.2%
Funding Gap to be met by savings/elimination of growth/ /delivering Customer First savings/use of reserves/ further increase in Council Tax	0	5,788	7,163
(N.B. This is after allowing a 5% increase in LBB Council Tax)			
Notes			
1. Assumes the same Council Tax base as in 2005/06.			
2. Assumes a 5% increase in Council Tax consistent with projected increase for the Council's Formula Spending Share for both 2006/07 and 2007/08.			
3. Assumes a 10% increase for both 2006/07 and 2007/08.			

Formula Spending Share Projections to 2007/08

Service	2004/05 FSS	2004/05 Adjusted FSS (Like for like vs 04/05)	2005/06 FSS	2005/06 Increase	2005/06 Adjusted FSS (Like for like vs 06/07)	2006/07 Projected FSS	2006/07 increase	2007/08 Projected FSS	2007/08 Increase
	£m	£m	£m	%	£m	£m	%	£m	%
Schools	101.910	101.910	108.263	6.24%	108.272	115.851	7%	123.613	6.70%
LEA Block	13.124	13.124	13.774	4.95%	13.774	14.325	4%	14.325	4%
Education	115.034	115.034	122.037	6.09%	122.046	130.176	6.66%	138.511	6.4%
Social Services	61.293	62.436	65.777	5.35%	66.381	69.921	5.38%	73.052	4.48%
Highways Maintenance	4.847	4.847	4.890	0.89%	4.890	4.890	0%	4.931	0%
EPCS	42.140	42.015	42.363	0.83%	42.363	43.844	3.5%	43.465	3.70%
Capital Financing	2.555	2.555	3.155	25.57%	3.208	3.401	6%	3.571	5.25%
TOTAL FSS ALL SERVICES	225.870	226.888	238.222	5.02%	238.888	252.232	5.59%	265.530	4.03%

Notes to table:

1. There are a number of specific grant transfers into FSS relating to the training support, preserved rights and residential allowance grant streams for 2005/06
2. The Council will be receiving an additional £118,398 in formula grant during 2005/06 as a result of the 2003/04 amending report which corrected for the revisions made by the ONS to the 2001 mid year population estimates.
3. The EPCS element of the 2005/06 settlement includes baseline adjustments in for the 2004 Civil Contingencies Act and out due to the ending of the Greater London Magistrates Court Authority levy
4. Following the 2005/06 settlement, corresponding grant increases for neighbouring boroughs include Redbridge (6.3%), Newham (5.0%) and Havering (4.1%)
5. Schools funding will be via ringfenced grant from 2006/07 onwards. This will equate to the FSS in the schools line in this table.

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 raised 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. In April 2004 the financial capital financing system was introduced based upon a prudential system of borrowing. Authorities are now 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 position until 2007/08 the requirements of the code 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.

The system provides a more integrated approach to capital investment decision making with an authority having to take account the following when setting its prudential indicators:

- Affordability;
- its asset management plans;
- the implications for external borrowing;
- value for money through options appraisal and its strategic plans.

The aim is to bring together revenue and capital resources to meet service delivery objectives.

The previous capital control system used in the main, the issue of annual Credit approvals by Central Government. These approvals allowed local authorities to either borrow or enter into other long-term credit arrangements up to an approved level. The use of this system effectively allowed the Government to control Council's borrowing and prevent local government from generating unsustainable levels of debt.

Instead of the use of Credit approvals, the new system places reliance on a series of prudential indicators that must be determined by each local authority for the forthcoming year and the following two years. These indicators will assist Council's in determining an appropriate level of borrowing and to provide benchmarks against which they can monitor their borrowing levels.

In simple terms the Council is now able to borrow at whatever levels it feels are necessary so long as any borrowing is affordable, prudent and sustainable

2. These compulsory prudential indicators are referred to in the Local Government Act 2003 and are embodied in the CIPFA Prudential Code. The requirements of the new prudential system are based around some clear fundamental principles including:
- 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.
 - Capital spending decisions must be both affordable and within sustainable limits in relation to the levels of Council Tax and HRA rent required to support these plans over the medium term
 - When considering the affordability of capital decisions the Council will need to take into account all the available resources, both in terms of its capital payments and receipts, and its revenue income and expenditure
 - All authorities must adopt the treasury management code.
 - Authorities should not borrow for revenue purposes (except in the short-term)

3. The new system places reliance on a series of prudential indicators that must be determined by each local authority for the forthcoming year and the two following financial years.

These indicators can be grouped into the following categories:

- Affordability
- Prudence
- Capital Expenditure
- External Debt
- Treasury Management

Although there are 5 key prudential indicator headings, they should not be looked at in isolation as they all have inter-relationships with one another.

These compulsory prudential indicators are referred to in the Local Government Act 2003 and are embodied in the CIPFA Prudential Code.

4. The prudential indicators can be summarised as follows:

Affordability

These indicators compare the cost of all the authority's external borrowing with its overall expenditure. They also identify the increase in both Council Tax and HRA rents that will result from any additional borrowing.

The indicators for affordability are:

- Estimated/actual ratio of financing costs to net revenue stream for HRA and general fund.
- Estimates of the incremental impact of capital investment decisions on both the Council Tax and housing rents

Prudence

This indicator is designed to ensure that medium term borrowing is only used for capital purposes. The indicators for prudence are:

- Net borrowing and Capital Financing requirement

Capital Expenditure

These indicators look at estimated and actual capital expenditure and the Capital financing requirement. The indicators for capital expenditure are

- Estimated/actual capital financing requirement (i.e. borrowing) for HRA and general fund.
- Estimated/actual capital expenditure for HRA and general fund.

External Debt

These indicators set out the limits for external borrowing and are set in the context of the authority's Treasury Management Policy and strategy.

The indicators for external debt are:

- Authorised limit for external debt i.e. the authorised limit for borrowing plus the authorised limit for other long term liabilities.
- Operational boundary for external debt i.e. total external debt gross of investments separately identifying borrowing from other long term liabilities.
- Actual external debt as at 31st March of previous year

Treasury Management

These indicators address treasury management issues such as the amount of debt at fixed rates, the amount at variable rates and the period over which the money is borrowed. The indicators for Treasury Management are:

- Adoption of CIPFA Code of Practice for Treasury Management in the Public Services
 - Upper limit on fixed interest rate exposure
 - Upper limit on variable interest rate exposure
 - Upper and lower limits for the maturity structure of borrowing
 - Prudential limits for principal sums invested for longer than 364 days
5. 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.
6. 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.

7. 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.
8. In summary, over the next 4 years the amount that can be retained by the authority for both its allowable element and its transitional relief is likely to be:

	<u>£m</u>
• 2004/2005	27.5
• 2005/2006	17.9
• 2006/2007	11.0
• 2007/2008	5.4

This has been factored into the capital programme projections.

Reserves

1. General Reserve

- 1.1. The free balance for 2005/06 is estimated to be £11.5m. 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.

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. The number of repairs and renewal reserves has substantially reduced over the last few years due to changes in service delivery e.g. leasing of vehicles and plant, closure of UPVC workshop.

3. Spend to Save and Service Reconfiguration Reserves

- 3.1. 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, addressing e-government targets and realising efficiency gains will significantly change the way the Council conducts its business.
- 3.2. Alongside this, the council is also required to make savings within the EPCS block.
- 3.3. Currently £4m has been ear-marked for potential spend to save activities, each of which would require a fully costed business case approved by TMT and the Executive.
- 3.4. In addition £4m has also been set-aside in a Service reconfiguration reserve. Approvals have already been given in respect of £2.8m for Customer First and £380,000 for the office accommodation review. The remainder of the reserve will be held for potential other one-off costs associated with service reconfigurations such as Single Status, delivery of e-Government targets etc.
- 3.5. The use of these two reserves will be reviewed annually as part of the budget setting process.

4. Capital and Revenue Support Fund

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

The current level of net capital receipts after allowing for transitional arrangements, are as follows:

Year	RTB/Mortgages £m	Land Disposals £m
2004/05	27	21
2005/06	18	14
2006/07	11	8
2007/08	5	0
Total	61	43

- 4.2. Receipts from RTB/Mortgages are regularly received and are subjected to monthly monitoring to ensure the planned level is received or action taken quickly to rectify the position. Similarly those of land disposals are also monitored but delivery of these receipts is much more risky and is dependant upon a number of external factors. Whilst the Council has been extremely successful in generating land disposal receipts in both 2003/04 and 2004/05, reliance on these type of receipts cannot be guaranteed and hence they need to be treated with caution.
- 4.3. 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. The Council's current Capital programme is affordable in that this expenditure can be funded from capital receipts already received. However over the forthcoming months the Council intends to review and plan for a future Capital programme by examining all capital bids which are not included in its existing programme. Any such future programme will need to take account of the level of future receipts and any risks associated with their delivery.
- 4.4. It is recommended that this reserve is maintained at the £10m level. The reserve can be used to substitute for any future short fall in the planned use of capital receipts.

5. Insurance Fund

- 5.1. The Insurance Fund is held to meet potential and contingent liabilities for insurance that the council self insures. In recent years the Council's contributions and payments from this fund have been broadly neutral. However it is recommended that the appropriate level of provision is maintained for any future unforeseeable items e.g. contaminated land.
- 5.2. However, the council recognises the need to ensure it has a strong approach to its risk management arrangements and the level of technical expertise of a corporate finance nature.

6. Interest Equalisation Reserve

The Council's General Fund budget has been prepared for 2005/06 utilising £4.3m of interest on balances which is £1.1m higher than that budgeted for in 2004/05. This level of investment income will however reduce in future years as reserves and balances are used. In the last twelve months interest rates have generally increased allowing the Council to generate higher than estimated investment income in 2004/05. Whilst the current economic climate has maintained both relatively low levels and stable interest rates, the generation of interest receipts to the Council will be subject to any volatility in the markets.

The establishment in 2003/04 of an interest equalisation reserve will enable future reductions in investment income to be smoothed in the budget setting process.

7. Barking College

- 7.1. 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.

8. Local Management of Schools

- 8.1. 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.

9. Collection Fund

- 9.1. 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.
- 9.2. The Council has an estimated shortfall on its Council base for 2004/05 of £884,000. This deficit is as a result of:
- a further increase in the award of single person discounts to single people on full benefit in 2003/04 and
 - an increase in the estimated bad debt provision in 2004/05.
- 9.3 This deficit has been factored into the 2005/06 budget.

10. Housing Reserves

10.1. HRA Working Balance

The position on this reserve reflects the decisions made by the Executive on 8th February 2005 when the HRA estimates were considered along with the rent increase.

10.2 **Major Repairs Reserve (MRA)**

The MRA at the 1/4/04 was £10.7m, but the majority of this is to be used in 2004/05 for funding the HRA's Major Capital Works programme. The estimated balance at 1/4/05 is projected to reduce to £1.5m. Thereafter contributions into the MRR will be mirrored by the planned capital expenditure on MRR projects. Any balance is a timing issue.

10.3. **HRA Insurance**

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

10.4. **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 1/4/04 £m	Bal 1/4/05 £m	Bal 1/4/06 £m	Bal 1/4/07 £m	Bal 1/4/08 £m
General	15.2	11.8	11.5	11.2	11.1
<u>Earmarked</u>					
Repairs and Renewals	2.5	1.5	1.3	1.1	0.9
Spend to Save	4	4	3.5	3	2.5
Service Reconfigurations	4	2.3	0.8	0.6	0.3
Capital and Revenue Support Fund	10	10	10	10	10
Insurance Fund	8.5	8.2	7.9	7.6	7.3

Profile of Reserves (Estimated)
Ring fenced areas

	Bal 1/4/04 £m	Bal 1/4/05 £m	Bal 1/4/06 £m	Bal 1/4/07 £m	Bal 1/4/08 £m
Barking College	0.8	0.3	0.3	0.3	0.3
School Balances (net)	0.8	1.0	1.2	0.9	0.9
<u>HRA</u>					
Working Balance	2.0	3.0	3.0	2.5	2.5
Insurance	0.4	0	0	0	0
Leaseholder Repair Fund	3.1	3.1	3.1	3.1	3.1
MRA	10.7	1.5	0.3	0.3	0.3

Summary of Capital Programme 2004/05 to 2008/09

<u>Department</u>	<u>2004/05</u> <u>£'000</u> £m	<u>2005/06</u> <u>£'000</u> £m	<u>2006/07</u> <u>£'000</u> £m	<u>2007/08</u> <u>£'000</u> £m	<u>2008/09</u> <u>£'000</u> £m	<u>Total</u> <u>£'000</u> £m
Education, Arts & Libraries	21.2	13.9	1.5	0	0	36.6
Housing	36.7	38.6	23.1	23.1	0	121.5
Regeneration & Environment	18.4	20.1	9.1	5.5	1.1	54.2
Social Services	5.7	2.7	0	0	0	8.4
Finance	1.9	1.8	0	0	0	3.7
Corporate Strategy	2.7	3.1	1.5	0	0	7.3
	86.6	80.2	35.2	28.6	1.1	231.7
Accountable Bodies	1.3	0	0	0	0	1.3
Total Programme	87.9	80.2	35.2	28.6	1.1	233.0
<u>Funding:</u>						
Capital Receipts	45.0	45.1	14.8	10.7	0	115.6
External Sources	42.9	35.1	20.4	17.9	1.1	117.4
Total Funding	87.9	80.2	35.2	28.6	1.1	233.0