

LONDON BOROUGH OF RICHMOND UPON THAMES

CABINET

DATE: 22 FEBRUARY 2010

REPORT OF: DEPUTY LEADER AND CABINET MEMBER FOR RESOURCES

LEAD OFFICER: MARK MAIDMENT, DIRECTOR OF FINANCE AND CORPORATE SERVICES

SUBJECT: REVENUE BUDGET STRATEGY AND COUNCIL TAX 2010/11

WARDS: ALL

KEY DECISION?: YES

IF YES, IN FORWARD PLAN?: YES

1. PURPOSE OF THE REPORT

1.1 To consider the revenue budget strategy and recommend the level of Council Tax for 2010/11.

EXECUTIVE SUMMARY

1.2 This report draws attention to the key elements affecting the budget for 2010/11 and considers the prospects for future years. In light of the current economic situation, it recommends no Council Tax increase for 2010/11. It assumes the achievement of over £4m in efficiencies/savings in the year. The report also sets out the latest version of the Medium Term Financial Strategy which draws attention to the need to achieve further significant efficiencies/savings if Council Tax increases are to be kept below 5% in future years.

2. RECOMMENDATIONS

- 2.1 that the Central Items and contingencies as set out in paragraph 3.6.4 be agreed;
- 2.2 that Members consider the advice of the Director of Finance and Corporate Services in respect of Section 25 of the Local Government Act 2003 in setting the budget (see paragraph 3.11);
- 2.3 that the Council be **RECOMMENDED** to agree the Revenue Budget for 2010/11;
- 2.4 that the Council be **RECOMMENDED** to agree that the Richmond upon Thames element of the Band D Council Tax be unchanged at £1,287.39;
- 2.5 that the Cabinet note the Greater London Authority (GLA) precept of £309.82;
- 2.6 that the Council be **RECOMMENDED** to agree that the overall Band D

level of Council Tax for 2010/11 including the GLA element be set at £1,597.21, the same level as 2009/10. The levels of Council Tax for all property bands are shown at Appendix A; and

- 2.7 that the Cabinet approve the revised Medium Term Financial Strategy including the efficiencies/savings identified (Appendix D).

3. DETAIL

3.1 The Corporate Planning and Performance Management Process

- 3.1.1 The Community Plan is the key document which sets out the vision for a Richmond upon Thames, which:

- Is inclusive
- Puts protection of the environment at the core of its services and community life
- Delivers quality public services that truly reflect the needs of all its local people
- Addresses its challenges by harnessing the capacity of all its partners in the public, private, voluntary and community sector

It has been prepared in conjunction with partner organisations in the Local Strategic Partnership and each partner organisation has agreed specific targets towards achieving the vision. The Community Plan informs the Council's Medium Term Financial Strategy (MTFS) and its Corporate Plan.

The Council's Corporate Plan sets out the actions required by the borough to contribute to the overall Community Plan objectives.

The performance management framework draws on the Corporate Plan to devise service plans and, ultimately, individual staff appraisal targets. Amongst the key issues for the Council which impact on financial strategy are:

- Take up of personal budgets under Self Directed Support
- Client numbers and costs of Adult Social Care
- Numbers and costs of Children Looked After and Care Leavers
- Recycling rates
- Levels of Planning and Building Control applications
- Collection rates for key income streams (e.g. CTAX, Business Rates)
- Staffing levels including agency staff

The intention is that all staff understand what the Council is trying to achieve and have specific personal targets to aim for.

3.2 The Medium Term Financial Strategy (MTFS)

- 3.2.1 The MTFS is intended to identify a financially sustainable way of achieving the Council's aims recognising the need to balance service needs with available resources and the impact on Council Tax payers.
- 3.2.2 Historically, the Council has received relatively poor financial settlements from Government and, in order to provide the high quality services expected by the residents, has had to ensure that it makes the best use of these limited resources. The Council has been successful in achieving this aim and has been recognised by the Audit Commission through the highest value for money rating in the annual Use of Resources assessment.
- 3.2.3 The challenge for the MTFS now is to navigate the Council through the major challenges presented to the boroughs finances by the recession and the impact of government policy which is set to make major reductions in the level of resources available to the public sector. The Chancellor's Pre Budget Report signalled major reductions in spending over the next 3 – 5 years. The Institute of Fiscal Studies has suggested that, if health, schools, Sure Start programmes and overseas aid budgets are to be protected in 2011/12 and 2012/13, then other areas of the public sector will face average annual cuts of 5.6% p.a. over 3 years (16% in total). If the Government chooses to extend protection to a third year then the annual average for unprotected services will be around 6.9% p.a.

Such reductions in the level of resources are unprecedented in recent years and the Council needs to plan carefully for the future. The latest update to the MTFS, attached at Appendix D, projects known plans and expected budget changes forward for the next 2 years. It identifies a significant potential budget gaps if Council Tax increases are to remain below 5% and summarises modelling done on the impact of the underlying assumptions changing and the plans being put in place to manage this position.

3.3 The Current Financial Position

- 3.3.1 The outlook for the Council's finances continues to be very challenging. The reasons behind this are summarised in the following paragraphs and covered in more detail in the attached MTFS. This has lead the Council to a major review of the way it provides its services and organises itself internally that is summarised later in this report. In assessing the Council's current position, there are 3 key issues to consider:

- Current budget trends
- Future outlook -Economic position and public finances
- Level of balances and reserves

3.3.2 Current Budget Trends

- 3.3.3 The Council has consistently managed its budgets within the levels agreed, however, for the last two years in particular, this has meant taking in-year action to contain increasing service demand and falls in major sources of income. In particular investment rates and some income streams have begun to be significantly reduced in the current economic climate.

3.3.4 The action taken in the current year together with some one off funds brought forward in Adult Social Care masks the continuing challenge of achieving existing efficiency programmes whilst also dealing with the continued underlying growth in areas that support the most vulnerable in our community. These areas of pressure have all been reflected in the budget and the risk analysis on the MTFs but, once again sit alongside efficiency actions aimed at balancing these costs.

3.3.5 Future outlook

3.3.6 The Council is likely to remain under pressure in respect of both increasing costs and diminishing resources from Government. The continuing rise in the cost of social care costs shows no sign of abating and expectations of Council services remain high.

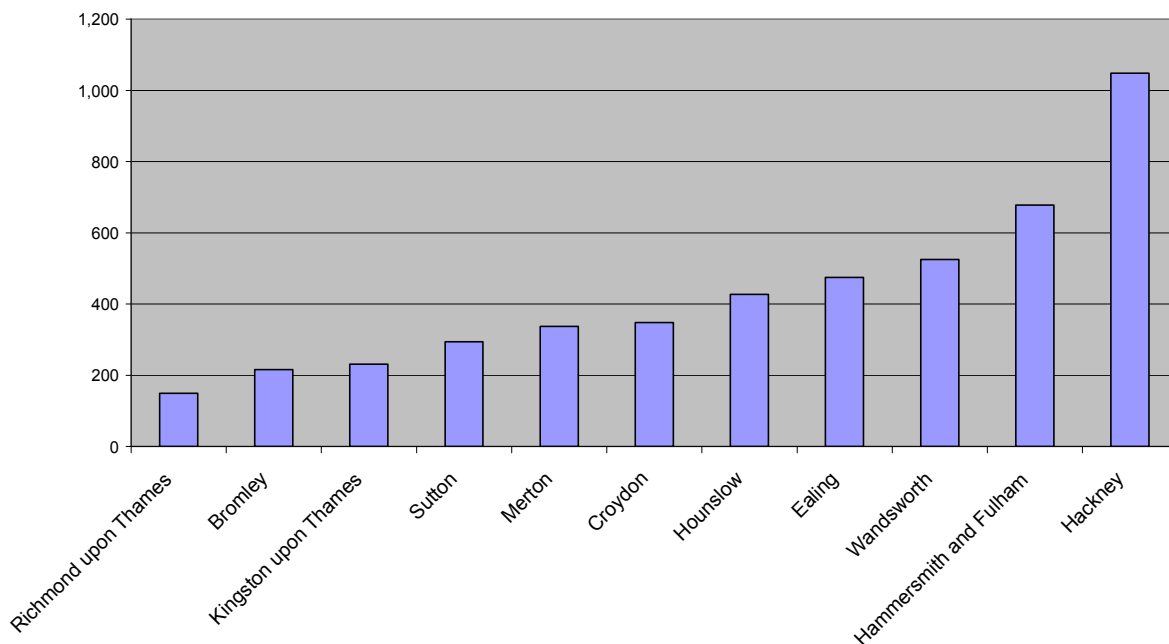
3.3.7 We are currently in the final year of a three year grant settlement that was prepared by the Government before the current economic crisis arose. There has been much debate about what the next funding settlement may bring and talk of a radical overhaul of the “relationship between the citizen and the state”. It is unlikely we will see any definite proposals until after the General Election later this year, therefore at the present time the MTFs assumes Government funding being frozen (reducing in real terms) for the future.

3.3.8 The 2009/10 Local Government Finance Settlement

3.3.9 Appendix C contains a Briefing Note on the main detail of the 2010/11 settlement. As has been the case for a number of years, the settlement was a poor one for Richmond. The Council’s grant increased by £400k or the minimum “floor” amount of 1.5% (excluding schools just 87p per head of population). To put this into context, the increase in landfill tax imposed by the Government next year will exceed this amount by itself. The grant, therefore, remains well below the level required to be considered equitable for the Boroughs residents. The Borough has, once again, made representations to Government about the level of the settlement including specific proposals to reduce or return additional landfill tax charges, provide safety net funding, provide direct funding to support borrowing, and returning a bigger proportion of business rates to invest in the local economy.

3.3.10 The following chart illustrates how much less per head Richmond receives compared to other boroughs.

Formula Grant / head 2010/11



If Richmond were funded at the same level as Bromley, the next lowest funded authority, we would receive an additional £66 per head. This would equate to approximately £139 off the Band D Council Tax. Funding at the same level as Kingston would provide an additional £82 per head, equivalent to around a £173 reduction in Band D Council Tax.

3.3.11 The outlook for the future of the grant remains poor. With some 66% of our general Government Grant now coming from the protection of the “floor” it is certain that Richmond will remain at the minimum increase in grant for the foreseeable future. The Government has made no promises for the floor level of grant beyond 2010/11.

3.3.12 Balances and Reserves

3.3.13 Appendix B to this report contains a full listing of the revenue balances and reserves held by the Council and their intended application. The key issues are:

- General Reserve planned to reduce to around £9m in four years time.
- The current year’s plans will bring expenditure from reserves over the last 4 years to around £35m. However, the Council’s discretionary balances, will not have reduced by as much as originally projected for the current year due to the current projected underspend for 2009/10 and one off receipts particularly in respect of VAT refunds. Reserves remain targeted at investment in key priorities and invest to save schemes.
- Approximately 15% (£7m) of the quoted balances at 1.4.09 are funds that are outside of the Council’s direct control e.g. school balances, Collection Fund. In addition to this a further approximately 22%

(£10.5m) e.g. PFI Reserve and Insurance Funds, whilst being nominally under Council control, are effectively not available for use.

- New reserves have been established to support economic recovery programmes and to support the development of a major efficiencies programme.
- The MTFS includes use of £2.25m of the General Reserve between 2009/10 and 2012/13.
- Balances are only available for use once. Their use to reduce Council Tax in any given year will result in efficiencies being required in future years

Appendix B to this document includes a fuller analysis of the reserves position.

3.4 The Efficiency Strategy

3.4.1 The Council has a strong track record of identifying efficiencies and has, so far, identified potential efficiencies of over £10m in response to Government targets set as part of the 2007 Comprehensive Spending Review. Many of these have already been included in the budget assumptions.

3.4.2 In response to the increased pressure brought about by the recession, the Council has stepped up its efficiency plans with a whole organisational review aimed at looking at all the key aspects of how the Council delivers its services and where there may be opportunities to reduce costs whilst also focussing on the key issues for the customer. This process is now approaching the end of its first stage and we expect it to yield business cases that will deliver potential for considerable budget reductions from 2010 and beyond. In addition we have again been reviewing specific budget areas with Members to look at where further short term opportunities for reductions may exist (whilst continuing to invest in those areas that the public have told us are of most importance). The impact of these plans will be reported as part of the budget papers in February/March 2010.

3.5 Working in Partnership

3.5.1 The Council and our local partners have a strong commitment and good track record of working in partnership. This was recognised in the CAA 2008 and shown through specific action on addressing the impact of the economic recession, in our joint commissioning work with NHS Richmond (NHSR) and engagement with the voluntary sector.

3.5.2 Set out below is a list of some of the partnership initiatives which are underway and contributing to the delivery of priorities within the borough. A more detailed explanation of our partnership working is included in the Medium Term Financial Strategy.

- Joint arrangements with NHSR including joint funding of key posts, shared budgets, Adult Services funding, fully integrated care teams (Community Mental Health, Health and Social Care Locality and Intermediate Care) and a programme to enable agreement on future priorities and financial planning.

- Work with the voluntary sector to provide a single building to act as a “Charity Hub” for the borough providing improvements to and savings on accommodation as well as offering the opportunity for voluntary organisations to collaborate and share resources.
- The Recession Action Plan includes support to affected groups including the professional and executive unemployed and young adults. In addition, the Business Skills and Economic Development Partnership is playing a key role in developing the strategic direction for the local economy.
- The Community Safety Partnership has been successful in delivering safest London Borough status for Richmond with reduced perceptions of anti social behaviour as well as reductions in property crime and violence. The partnership has won an award for its work with older people in the borough.

3.5.3 As the impact of the financial crisis bites in the public services, delivery through partnership will be even more important and our strategic approach to both finance and service delivery will increasingly need to build on strong partnership arrangements.

3.6 Overall budget proposals

3.6.1 In line with the Constitution and in accordance with proposals agreed by Leading Members and the Overview and Scrutiny Coordinating Group, individual service budgets have been agreed by the relevant Cabinet Member and reports have been submitted to the relevant Overview and Scrutiny Committee.

3.6.2 The Council has attempted to set a budget that achieves a balance between the Council Tax increase not adding a further financial burden on household budgets during the current difficult economic conditions, maintaining service standards and investment in key services and efficiencies/savings. In particular it has:

- Built in £3.4m for new demands/costs for statutory services:
 - £1.0m on Care Services for Older People and people with Learning Difficulties
 - £0.5m on Children’s services
 - £0.7m extra to meet escalating waste disposal costs
 - £1.2m to meet Concessionary fares costs
- Provided continuing support for capital investment, particularly in Education, where there is a growing need for new primary school places.
- Assumed inflation will be close to zero on both salaries and a number of contracted services. Also reductions have been applied to supplies and services. The contingency budget has been increased to £1.2m to cover the increased risk associated with these inflation assumptions and the

potential cost of Government promises in relation to free care for certain elderly people.

- Partly balanced the above by identifying £4m of cashable efficiency savings and income generation

3.6.3 The final service totals are:

	<u>£m</u>
Children's Services & Culture	32.304
Environment	27.584
Adult and Community Services	63.550
Finance & Corporate Services	23.891
Total	<u>147.329</u>

3.6.4 Central Items and contingency

	<u>£m</u>
Treasury	2.868
General Contingency	1.200
Waste Contingency	1.674
Capitalisation of Revenue	-0.700
Use of balances	-0.750
Transfers to Reserves	0.589
Area Based Grant	-9.252
Total	<u>-4.371</u>

3.6.5 Summary of Borough Expenditure

	<u>£m</u>
Service Estimates	147.329
Central Items and Contingency	-4.371
Total	<u>142.958</u>

3.7 Levies

3.7.1 There are a number of levies and other charges, which the Council has to pay each year. These levies count as part of the borough's expenditure and they are, therefore, included in the relevant service budgets. The relevant amounts and services are set out below:

Levy	Directorate	2009/10 £000	2010/11 £000	Variatio n %
West Waste	Environment	6,041	6,641	9.9*
Lee Valley Park	Environment	274	274	0.0*
Flood Defence	Corporate Services	178	178	0.0*
London Pension Authority	Fund Corporate Services	358	340	-0.5**
Coroner's Service	Corporate Services	135	135	0.0

* At the time of writing, the final levy figures were subject to confirmation.

** The LPFA levy figures exclude a charge of £165k for a deficit in one of the pensioner sub funds which is still under discussion with LPFA and DCLG.

There are no levies this year from the Mortlake or South West Middlesex Crematorium Boards.

3.8 Capping

- 3.8.1 Under the Local Government Act 1999, the Secretary of State retains reserve capping powers. The stated intention behind these powers is to control excessive tax increases but in practice they are largely based on monitoring year on year budget increases.
- 3.8.2 The Secretary of State does not set capping criteria in advance and announces decisions on capping or other action in April, after budgets have been set and Council Tax bills sent. The Government has made it clear that it considers the grant settlement sufficient to set an expectation that the average Council tax rise will be below the record low of around 3% average last year.
- 3.8.3 The proposed budget for 2010/11 would give increases in the budget requirement and tax level as set out below:

	2009/10		2010/11	
	Amount	Increase	Amount	Increase
Budget Requirement inc. schools	£237.729m	4.9%	£243.520m	2.4%
Budget Requirement ex schools	£141.260m	3.4%	£142.958m	1.2%
Council Tax (LBRuT element only)	£1,287.39	4.3%	£1,287.39	0.0%

3.9 The Greater London Authority (GLA) Precept

3.9.1 The Band D Council Tax in respect of the GLA Precept will remain at £309.82.

3.10 Summary of requirements and Council Tax

3.10.1

	£m
Total LBRuT Budget Requirement	142.958
School expenditure funded from DSG	100.562
GLA Precept	<u>27.542</u>
	271.062
Less	
Formula Grant	-28.015
DSG	-100.562
Contribution from Collection Fund	-0.500
	<u>141.985</u>

3.10.2 At the Council meeting of 26th January 2010, the Council Tax Base for 2010/11 was agreed as 88,895.44 Band D equivalents.

3.10.3 Based on the above figures, the total tax at Band D including the GLA element is unchanged at £1,597.21.

3.10.4 The table below shows the impact of the increases in Council Tax proposed by the Council and the GLA:

	2009/10	2010/11	%
	£	£	increase
LBRUT	1,287.39	1,287.39	0.00
GLA	309.82	309.82	0.00
TOTAL	<u>1,597.21</u>	<u>1,597.21</u>	0.00

3.11 Section 25(2) of the Local Government Act 2003

3.11.1 Section 25(2) of the Local Government Act 2003 requires the Chief Financial Officer of an authority to report on:

- (a) the robustness of the estimates made for the purposes of the calculations, and
- (b) the adequacy of the proposed financial reserves.

In doing so, the Director of Finance and Corporate Services has had particular regard to the guidance offered by the Chartered Institute of Public Finance and Accountancy and the views of the Council's external auditor.

3.11.2 The Council's stated aim is to achieve long term stability in its finances whilst restricting Council Tax increases. To achieve this, the Council must have regard to the major risks to its financial position and in particular:

- The current economic position
- Whether budget setting and monitoring processes are robust and effective
- Demand pressures on the budget
- Identifying and achieving efficiency improvements
- Risks to Government funding levels
- Risks to other income streams

3.11.3 The Council has a good recent track record in financial management that is recognised through external assessment from the Audit Commission with scores of 3 (good) for the Use of Resources judgement and recognition of delivery of Value For Money (VFM). These scores take into account both the service performance of the Council and the way we prepare and monitor our budgets as well as the wider use of resources including staffing and energy.

3.11.4 In spite of strong budgeting and monitoring procedures, the Council cannot be immune from changes in demand for the services that it provides or the national/global economic position. There are particular demand risks associated with care needs for both adults and children in addition to external pressures which are affecting the current and future cost of disposing of waste. On top of this, the continued economic downturn is providing a severe test of the Council's finances and, although we have taken action to contain the position, the underlying position remains challenging. The budget process has considered all of these issues and, within the resource constraints faced by the Council, has adjusted budget levels. It must be considered, however, that the continuing recession and the Government's need to reduce public spending will have a further impact on the Council's budget both via increased demand for services and decreasing sources of income. The Council has sufficient reserves to deal with such a position in the short term and in the medium term has taken action to increase its savings/efficiency programme significantly. Achievement of this programme will be closely monitored.

3.11.5 Paragraph 3.4 discussed the Council's approach to efficiency. Given the resource constraints and demand pressures faced by the Council it is imperative that the search for increased efficiency remains at the heart of all Council activities. This will contribute towards the achievement of the Council's objectives. The latest version of the MTFS identifies the need for a more substantial programme of efficiencies to be delivered in coming years.

3.11.6 The major risks around government funding are; the potential change to the "floor" mechanism, which provides for a minimum level of increase in grant each year; a general reduction in specific or area based grants and; unfunded demands being placed upon Council or partner services. This risk is highlighted by the fact that the "floor" provides the borough with over £18m more than it would receive were the "floor" to be withdrawn. This equates to around 16% on Council Tax and represents, in percentage terms, by far the largest level of floor protection for any authority in the country. The Government is likely to seek to freeze or reduce grant funding as part of its strategy to bring down public sector spending in future years.

3.11.7 It is imperative that any business invests in the maintenance of its infrastructure assets if it is to continue to provide high quality services and avoid major one-off crisis expenditure. The Council has made progress in this

area and the earmarking of revenue balances and capital resources for the purpose reflect the continuing commitment. These funds are, however, becoming much more limited and infrastructure projects in the future are likely to rely more and more on the Council's ability to borrow or generate efficiencies to fund such projects.

3.11.8 A full list of the current reserves held by the Council is attached at Appendix B. The main infrastructure funds are fully committed and likely, in the absence of any further contributions, to be significantly depleted by 2011.

3.11.9 The financial strategy includes the use of £750k general reserves in 2009/10 and a further £0.750m in the subsequent 2 years. Thereafter the use of balances is removed from budget assumptions. Both the current and projected levels of General Reserve are expected to remain within the Council's agreed range of 5-10% of the Budget Requirement. The largest single figure in the reserves list is the Pension Fund surplus/deficit which, in common with many other Pension Funds, is showing a large deficit. The Council has a 15 year recovery plan for the fund. However, the recessionary impact on financial markets will have a very significant impact on the fund. It is, therefore, likely that both the employer and employee contribution rates are likely to rise after the next valuation in 2010.

4. CONSULTATION AND ENGAGEMENT

4.1 The Council has undertaken two consultation exercises in relation to the budget. The first was with a selected representative sample of the public who attended an evening run by the OPM organisation, the second a Citizens Panel survey. The outcomes are reported within the MTFS. The Council has participated in several events for local business to discuss the current economic position and attended a business breakfast organised by Richmond in Business in January to discuss its budget position. It has also circulated to the major businesses and business associations copies of these reports for comment. In addition the individual service budgets have been considered by the relevant Overview and Scrutiny Committee.

5 FINANCE AND EFFICIENCY IMPLICATIONS

5.1 These are set out in the report.

6. POLICY IMPLICATIONS/CONSIDERATIONS

6.1 There are none arising directly from the report although the level of budget resources available is a major influence on the delivery of Council policy in all areas. The Council's budget is part of the Policy Framework and, therefore, requires the approval of Council.

7. RISK ASSESSMENT

7.1 The risks faced by the Council in relation to financial planning and budget setting are set out in the MTFS (Appendix C) and in paragraph 3.11 of this report (The Director of Finance and Corporate Services' comments on Section 25 (2) of the Local Government Act 2003).

8. EQUALITY IMPLICATIONS /CONSIDERATIONS

- 8.1 The Council is currently in the process of seeking recognition at level 4 of the Equality Standard. This involves the Council auditing each of its major policies and service areas and carrying out further assessments each time any major changes are made. Some of those changes will also be reflected in major budget changes shown in this report.

9. LEGAL IMPLICATIONS

- 9.1 There are none arising directly from this report.

10. ENVIRONMENTAL STATEMENT

- 10.1 The level of budget available for different services has a direct impact on service delivery. The Council has made available both one off and ongoing funds in areas such as sustainable building, green business advice, waste and recycling which are aimed at improving the environmental impact of the Council and its partners.

11. BACKGROUND DOCUMENTS:

- 11.1 Accountancy Estimate Working Papers

Correspondence from GLA, DCLG and other Government Departments

Local Government Finance Settlement information on DCLG website at:
<http://www.local.communities.gov.uk/finance/1011/grant.htm>

Medium Term Financial Strategy

12. CONTACTS

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Council Tax Bands 2010/11

Band	Richmond Council Tax Requirement (2010/11) £	Greater London Authority (2010/11) £	Total Council Tax (2010/11) £
A	858.26	206.55	1,064.81
B	1,001.30	240.97	1,242.27
C	1,144.34	275.40	1,419.74
D	1,287.39	309.82	1,597.21
E	1,573.48	378.67	1,952.15
F	1,859.56	447.52	2,307.08
G	2,145.65	516.37	2,662.02
H	2,574.78	619.64	3,194.42