

Cabinet SUPPLEMENTAL AGENDA

DATE: Thursday 21 July 2011

AGENDA - PART I

FINANCE/GENERAL

KEY 13. INTEGRATED PLANNING 2012/13 TO 2016/17 (Pages 1 - 16)

Joint Report of the Interim Director of Finance and Assistant Chief Executive.

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REPORT FOR: CABINET

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| Date of Meeting: | 21 July 2011 |
| Subject: | Integrated Planning 2012/13 to 2015/16 |
| Key Decision: | Yes |
| Responsible Officer: | Julie Alderson, Interim Corporate Director of Finance Tom Whiting, Assistant Chief Executive |
| Portfolio Holder: | Councillor Bill Stephenson, Leader and Portfolio Holder for Finance and Business Transformation Councillor Graham Henson, Portfolio Holder for Performance, Customer Services and Corporate Services |
| Exempt: | No |
| Decision subject to Call-in: | Yes |
| Enclosures: | Appendix 1 – Timetable Appendix 2 – Strategy for closing funding gaps Appendix 3 – Stakeholder Meetings |

Section 1 – Summary and Recommendations

This report sets out the framework for the development of the new corporate plan and medium term financial strategy for 2012-13 to 2015-16.

RECOMMENDATIONS:

That Cabinet

- Notes the timetable (Appendix 1)
- Approves the strategy for closing future funding gaps (Appendix 2)
- Approves the approach to consultation.

REASON (For Recommendations):

To promote effective medium to long term planning.

Section 2 – Report

Introductory paragraph

1. This report sets out the broad framework for the development of the new corporate plan and medium term financial strategy (MTFS) for the four years 2012-13 to 2015-16.

National Context

2. Local Government is facing some of the biggest challenges within the public sector. These are both financial and policy related. From a financial perspective, a key policy of the Government is deficit reduction. The implications for Local Government were set out in the Government's Comprehensive Spending Review in October 2010 which set out average grant reductions for local government of 7.25% p.a. over its four year period. There are several other major policies of the Coalition Government which have a significant impact upon local government which are set out below:

Localism

3. The Localism Bill, which is currently being debated in Parliament, has a central purpose of devolving more power to citizens through councils and in turn to reduce the requirements that central government make of local government. To help achieve this it has introduced a number of concepts

which are meant to hand down more powers to local authorities and their communities which can largely be set out into the four blocks below:

Removal of Bureaucracy, through for example the abolition of Regional Plans and an introduction of a General Power of Competence, which will enable Councils to take any decision which current legislation does not prevent them from making.

Concept of People Power, through the development of Neighbourhood Plans, the Community Right to Buy and the Community Right to Build and the introduction of a 'community right' for communities to be consulted before developers submit large planning applications.

More Local Control on Finances, through for example referendums on Council Tax levels and Housing Finance Reform.

Strengthened Local Accountability, through for example clarifying the law on predetermination to ensure that Councilors may speak or vote on matters on which they have previously spoken or campaigned, local referendums on issues of concern or interest to the public and introducing Elected Mayors in the major cities of England and Wales.

Welfare

4. The Welfare Reform Bill creates the legislative framework for the merging of various means-tested benefits into an integrated working-age social security benefit available to people in and out of work, to be called Universal Credit. Universal Credit will be accessible for claimants aged 18 and over not receiving education until eligible for state pension credit. It is proposed that housing benefit administration will be centralised and be taken out of Council control, while aspects of Council Tax benefit levels will be for local determination.
5. From 01 April 2011, as part of the Government's Welfare Reform, there are some changes to legislation which directly affect the maximum levels which tenants can potentially receive in Housing Benefit. These changes mean that the level of Housing Benefit currently being paid to a tenant may reduce in the future. Harrow is already being impacted by these reforms in terms of a reducing availability of private rented accommodation which is impacting on the number of households being placed in bed and breakfast accommodation.

Education

6. The Government has started a radical reform agenda in education, first passing the Academies Bill in July 2010, with a view that all schools classed as Outstanding under Ofsted are able to apply for Academy status, which in essence gives greater autonomy and freedom for the schools through opt out of local authority control. This legislation is already impacting on Harrow with seven out of the twelve High Schools (including Special schools) in the borough already opting to become Academies.

7. The government is also encouraging local people to set up Free Schools where they feel that the local education provision is not at the standard they would wish.

Housing Revenue Account

8. The Localism Bill proposes the abolition of the housing subsidy system and the introduction of self-financing is the most significant change to the way council housing is financed since the introduction of the 'ring fence' 20 years ago. The reforms are based on a calculation of the individual value of each local authority's housing business, which is compared to the existing housing debt in order to give each a sustainable self-financing settlement. Self-financing will put all local authority landlords in the position where they can support their own stock from their own rental income.
9. In preparation for this change all local authorities will need to have a 30 year business plan which will consider the investment requirements in the stock, the rent strategy and treasury management policy to support the HRA over the life of the plan. This will enable the DCLG assumptions around the valuation to be tested and challenged as appropriate to ensure that the HRA is viable in the longer term.

Health

10. The recent 'pause' and reflection on initial health reform proposals has seen some significant changes to the original proposals from Government. The Government remains committed to abolishing Primary Care Trusts and setting up GP commissioning consortia, which should now include other clinical professionals. However, the previous timetable for completion of the reforms by 2013 has now been relaxed. Councils will still take over responsibility for public health although again the timetable for this has also been relaxed. There is still the intention to set up Health and Wellbeing Boards. Patient views will be represented by a new organisation called HealthWatch which will replace Local Involvement Networks.

Government Reviews

11. The above represents some of the legislative drives of the Coalition Government, but there are some fundamental reviews which will have significant implications for Council services. Key examples are the Munro Review and the Dilnot Commission.
12. The Munro Review has recently published its final findings, setting out 15 recommendations which, taken together, are aimed to shift the child protection system from being over-bureaucratized and concerned with compliance to one that keeps a focus on whether children are being effectively helped and protected. The Government will work closely with a group of professionals from across the children's sector to develop a full response to Professor Munro's recommendations later this year.

13. The Dilnot Commission was set up by Government as an independent body to make recommendations on how a more affordable and sustainable funding system for care and support can be achieved, for all adults in England, both in the home and other settings. Its report, Fairer Care Funding, was published on 4 July 2011 and recommended:

- A cap on individual's lifetime contributions to the cost of social care.
- An increase in the means test threshold
- National eligibility criteria and portable assessments should be introduced to ensure greater consistency
- All those who enter adulthood with a care and support need should be eligible for free state support immediately rather than being subjected to a means test

These recommendations are still to be considered by the Government, but would if accepted have far reaching consequences for health and social care services. .

12. All the above are either likely to or are having significant impact on the Council, both from the perspective of increasing the burden of expectation in a time of reducing funding or the need to radically change the way the Council delivers its services, with minimal if any additional funding to support this.

The Local Government National Finance Picture

13. The Comprehensive Spending Review set out average grant reductions for local government of 29% over four years. In March, the Government published terms of reference for its Local Government Resource Review (LGRR). The purpose of the review is to consider the way in which local authorities are funded, with a view to giving authorities greater financial autonomy and strengthening the incentives to support local economic growth. It also seeks to reduce the reliance of local government on central government funding. It focuses in particular on reforms to the business rate system, including the links with Formula Grant. It is intended that the review will lead to the implementation of a new system of financing local authorities in 2013-2014. At this stage it is not possible to predict the outcome, although there will undoubtedly be significant damping, at least in the early years, to avoid the turbulence from there being major winners and losers from change.

14. The public sector was asked to accept a two year pay freeze, in 2010-11 and 2011-12, with employees paid less than £21,000 receiving a £250 flat rate increase each year. To date the employer offer to employees has been for no increases.

15. The government announced a grant to be payable for 4 years from 2011-2012 to reduce the council Tax increase from 2.5% to nil in 2011-2012. All local authorities in England met the conditions of the grant and for Harrow this is worth £2.58m. There will be no additional grant to enable future year's Council Tax increases to be reduced and there is no indication if the current grant will continue beyond 2014-2015.

16. The assumptions in the medium term plan to date are a 5.2% p.a. cash reduction in Formula grant and of the order of 10% p.a. in other grants.
17. The overall position is one of considerable uncertainty, not least the impact of the Resource Review.

The Local Financial Context

18. When the current MTFs was approved in February the estimated remaining funding gaps were £6.8m, £11.2m, £13.4m over the next three years making a total of £31.4m, and commonly referred to as £30m of savings to find over three years. There is also an indicative gap of £11.6m in 2015-2016. In the coming weeks these figures will be reviewed and revised to reflect the latest information available.
19. It should be stressed that funding gaps in future years move as the national, regional and local policy framework shifts and new information comes to light. The Local Government Finance Settlement in January provided a fair degree of certainty in relation to 2012-2013 as provisional figures were announced for most grants including Formula Grant. For 2013-2014 and 2014-2015 national funding figures for local government were provided in the Comprehensive Spending Review but no details at individual local authority level. A further complication is that the Government has announced that it will be introducing a new system of financing for local government in 2013-2014. Consultation has been commenced but at this point it is not possible to say whether Harrow will gain or lose from these changes. The position in 2015-2016 is less clear as the government has not provided any estimates of funding. The Government's plans assume that the deficit reduction plan will be achieved by 2014-2015. This would imply that the public sector would be back to a 'steady state' of funding from 2015-2016.
20. The key risks and opportunities affecting the funding gaps in future years are set out below:
 - Some of the issues that arose during the closure of the 2010-2011 accounts have an ongoing impact
 - Pressures on Adults Services in relation to demography pressures and potential pressures arising from NHS reforms
 - Inflation assumptions
 - Technical assumptions relating to interest rates, collection performance, and capitalisation
 - The outlook for the next pension fund valuation and the likely impact on employer contributions
 - Adequacy of reserves and provisions
 - The local government provisional finance settlement to be announced in the autumn and specific grant changes
 - The review of local government finance
 - The Comprehensive Spending Review in 2012 and anticipated subsequent review in 2014
 - The ongoing impact of the economic climate

- The growth in demand for and cost/complexity of social care
- Changes in the Council's responsibilities, such as academy status for schools
- New developments at national level, for instance in relation to waste management and carbon trading
- Increasing energy prices
- The need for investment in technology and transformation, to drive out savings in the medium to long term
- Children's Services Integrated Targeted Services
- Civic Centre Modernisation
- Opportunities for efficiencies and savings

21. The position will be changing continually as new issues arise or existing issues are resolved. Given the scale of reductions required there will be some really difficult decisions to make.

The Planning Framework

22. The Council has successfully set balanced budgets in previous years whilst still improving its services to residents. However, the size of both the financial and policy challenges which the Council faces means that the way it sets out its discussions for future service provision is critical. The timetable for producing the new corporate plan and MTFs for 2012-13 to 2015-16 is attached at Appendix 1, and is largely the same as previous years, although in keeping with the new vision and priorities we are increasing the level of engagement and consultation on the choices we will face over service delivery in future years. Members are asked to note the timetable attached at Appendix 1.

Vision and Priorities

23. The key driver of the Council's planning framework is its vision and priorities. The Council agreed its new vision, corporate priorities and priority actions for 2011-12 in February, following the Let's Talk campaign in 2010, which gathered the views of residents against each of these. The new vision and priorities are:

24. Vision

Working together: our Harrow, our community

Priorities:

- Keeping neighbourhoods clean, green and safe
- Supporting and protecting people who are most in need
- United and involved communities: a Council that listens and leads
- Supporting our town centre, our local shopping centres and businesses

25. It is assumed that the vision and priorities will not need any major refreshing during this planning cycle. Directorates will therefore prepare plans setting out how they will deliver the Council's vision and priorities within the national and local policy context, as well as the wider financial constraints which we must operate within. These proposals will then be

shaped into detailed service plans within each Directorate which will set out key projects, performance levels and the specific workforce development requirements. Through these plans a set of Priority Actions for 2012/13 will also be identified, which will be published in the Council's Corporate Plan. Priority Actions are the major activities the Council will undertake in 2012/13 which set out in practical terms how the Corporate Priorities will be delivered and how residents will be able to judge the Council.

26. Given the financial pressures which the Council faces, a key output from these plans will also be some of the 'tough choices' the Council will face over the coming years on which services it should provide and to what level. These 'tough choices' will start to be tested through the Let's Talk campaign which will commence in November. This is covered in more detail in the section on consultation.

Strategy for closing the funding gaps

27. The Strategy for closing future funding gaps has been developed alongside a review of the Council's approach to Business Transformation. The Council has had the opportunity to spend some time reviewing the lessons learned from the Better Deal for Residents Programme in developing its proposals for taking this agenda forward. The development of Business Transformation and medium term budgeting, and financial planning must be treated as a combined activity. It must also include Workforce Development Plans and Service Plans. The aim is for there to be a clear "Golden Thread" linking the vision and priorities to the detailed activities achieving them.
28. Phase 1 of delivering Business Transformation was launched at Cabinet in July 2010 with a paper 'Better Deal for Residents: Shaping Harrow for the Future'. Going forward the Council will review the branding of its Transformation Programme.
29. The strategy going forward will encompass three key objectives:
- Delivering improved outcomes and performance in priority areas for people in Harrow
 - Managing the expectations of Residents as the Council delivers changes
 - Closing the remaining funding gap up to 2014/15.
30. Overall the Council is looking to develop the principles of what the Council will look like in 3 years time with the reduced resources that will be available and to deliver the change that will be required to get there.
31. The Council is looking to deliver a future for Business Transformation therefore that takes forward the vision and priorities that were laid out at Council in March 2011.

32. A set of principles have been developed that will underpin how the vision is developed and the changes are delivered:

- Directors, managers and staff across the Council must be empowered to develop creative solutions to the challenges ahead
- The programme must be outcome based being clear where the Council's activities are making a difference to the end customer
- The approach must recognise difference across services that are transactional, neighbourhood, personal or part of the strategic core
- Quality relationships and engagement will be undertaken to make the change happen
- The role of commercial partners must be recognised
- All areas must be reviewed and challenged

33. To deliver these objectives and within these agreed principles the following streams of work will be undertaken:

- Analysis – this will look at customer needs across services, current cost and performance benchmarking information, and models adopted in other Councils. Capita will also be asked for their external advice on further savings opportunities.
- Cross Cutting – a specific group will be set up to look at cross cutting opportunities across service areas.
- Procurement – it is anticipated that improved procurement will make a major contribution to reduced costs and improved services, through the best practice techniques of Category Management and Supplier Relationship Management.
- Community Engagement – proposals will be developed for how the Council should continue to build on its ambitions for community engagement and involvement to truly be a Council that listens and leads.
- Organisational Development & Staff – this will pull together all work that impacts on staff and review the Council's ambition for the type of employer it is looking to be. It will include a review of the skills the organisation needs to develop going forward
- Property & Place – this will continue existing work to take an overview of all property and place opportunities and the contribution that these can make
- Equalities - identify the key equalities issues for consideration, and ensure these are being considered when new proposals are being developed

- Health – this will continue to look at how the Council works most effectively with the emerging developments in the Health sector.
34. The funding gaps have been modelled across each service area to give an indication of the scale of savings that will need to be delivered and Directorate targets sets for savings proposals over the next three years. An update on the strategy for closing the funding gaps will be presented to Cabinet in October. The proposals developed will then be reported to Cabinet in December as in the draft MTFs.

Capital Strategy and Capital Programme

35. A draft capital strategy to complement the council's Asset Management Plan is being developed and will be consulted on in September. It is anticipated that following consultation this will be approved by Cabinet in December. It is intended that the capital programme is considered during the autumn which will be developed using the methodology of the new draft capital strategy. The strategy will include the linkage between Capital and revenue.

Consultation

36. One of the principal ambitions of the Council is to engage and involve residents more than ever before. The Let's Talk consultation programme on the draft vision and priorities, which took place in October to December 2010 was the beginning of a new way for the Council to strengthen its partnership with residents. Through Let's Talk, the Council genuinely wants to hear resident views and, in return, the Council will listen, act and feedback ensuring that residents become involved in the decisions that will affect them.
37. Over 2,000 people responded to our first Let's Talk programme, and it is hoped more residents will get involved next time. Given the current challenges faced by all, the quality of how the Council relates to its residents and community is more important than ever before.
38. The Council has set out that 2011 will be a year of 'Community Debate' for Harrow and consulting on the draft budget proposals for 2012 to 2016, and the future plans for Harrow will be critical to this. To aid this a further programme of Let's Talk events will be launched in November and December to listen to and involve residents more.
39. A series of specific consultations on service/policy issues is being carried out throughout the year, including a further iteration of Let's Talk which will start in June, considering cultural services and parks and open spaces. A principle of this consultation activity is that any statutory consultation must be completed before any assumptions about the financial implications of the proposal are made in the budget for 2012-2013.
40. The timing of the approach for consultation is to ensure that any matters arising from it can be taken into account before the final budget is produced and published in February. The Council will ensure that it feeds back on the responses to this consultation so that residents genuinely feel

hat the Council has listened and taken their views on board in reaching its decisions.

41. The Overview and Scrutiny Committee which has established a standing review of the budget, designed to look at longer term issues. The Finance and Performance Sub Committee focuses on the in year position. Both of these will provide evidence to support a review of the draft Corporate Plan and budget by the Overview and Scrutiny Committee.
42. A further set of stakeholder meetings will take place after the draft budget has been published in December. These meetings will be linked to the Let's Talk programme of activity and the draft schedule of meetings is attached at Appendix 3.

Financial Implications

43. This report is about the development of the new MTFS and therefore financial issues are integral to the report.

Performance Issues

44. Detailed performance information, which will include the setting of draft targets for future years, will be considered when proposals are being considered during the autumn ahead of the draft budget for December Cabinet and subsequently the development of the Corporate Plan and Directorate level service plans.

Environmental Impact

45. There are no direct environmental implications associated with this proposal. The review of the vision and the Council's planning arrangements will allow consideration to be given on how the use of natural resources (energy and water) could be more sustainably used. In particular the need to address the carbon reduction agenda will need to be fully integrated into the revised documents and the capital spending programme.

The implications of individual proposals will identify the impacts as relevant.

Risk Management Implications

46. As part of the budget process, a separate risk register will be developed to support the decision on the reserves policy.

Equalities implications

47. The Council's commitment to equalities means that equalities impacts are considered in a timely and robust way. To ensure this, an equalities impact assessment will be carried out in relation to all proposals within the transformation programme, and also any other budget proposals that fall

outside this programme but are service developments and changes which may have adverse impact. The importance of this is heightened when we know that the financial challenges the Council faces will mean that difficult choices will need to be made across service levels and provision. This is why equalities is a key strand of the next phase of Transformation.

48. Equality Impact Assessments will follow the updated corporate guidance to fit with the new Public Sector Equality Duty and will therefore ensure that the final decisions for all proposals have due regard for equalities issues.

Corporate Priorities

49. Integrated planning is designed to show how the Council will deliver its priorities and how they will be resourced.

Section 3 - Statutory Officer Clearance

| | | |
|-----------------------|-------------------------------------|---|
| Name: Steve Tingle | <input checked="" type="checkbox"/> | on behalf of the Chief Financial Officer |
| Date: 6 July 2011 | | |
| Name: Stephen Dorrian | <input checked="" type="checkbox"/> | on behalf of the Monitoring Officer |
| Date: 6 July 2011 | | |

Section 4 – Performance Officer Clearance

| | | |
|--------------------|-------------------------------------|---|
| Name: Alex Dewsnap | <input checked="" type="checkbox"/> | Divisional Director Partnership, Development and Performance |
| Date: 5 July 2011 | | |

Section 5 – Environmental Impact Officer Clearance

Name: Andrew Baker



on behalf of the
Divisional Director
(Environmental
Services)

Date: 20 June 2011

Section 6 - Contact Details and Background Papers

Contact: Steve Tingle, Finance Business Partner
Tel: 020 8420 9384

Background Papers: None

**Call-In Waived by the
Chairman of Overview
and Scrutiny
Committee**

NOT APPLICABLE

[Call-in applies]

Timetable for Planning Process

| Activity | Meeting | Date |
|---|-----------------------|-------------------------------------|
| Consultation on specific policy/service decisions (if required) | | June/July/August/September |
| Update on progress on MTFS | Cabinet | 18 October 2011 |
| Let's Talk launched | | November 2011 |
| Scrutiny of draft plans | Overview and Scrutiny | December |
| Draft MTFS approved | Cabinet | 15 December 2011 |
| Information meetings with Stakeholders | See appendix 3 | January 2012 |
| Corporate Plan and Final MTFS approved | Cabinet Council | 9 February 2012 16 February 2012 |

Strategy for Closing the Funding Gaps

| Strand | Objectives |
|--------------------------|--|
| Priorities and resources | <ul style="list-style-type: none"> • Ensure resources are aligned to the new corporate priorities • Decide what is not a priority • Evaluate the scope for investment in priority areas |
| VFM | <ul style="list-style-type: none"> • Consider whether the Council can reduce spending in areas where it does not provide either good value for money or is expensive relative to what the Council can afford • Consider whether the Council should conduct market testing in areas that have not been subject to any competitive or benchmarking process for some time • Challenge services which are provided on an internal trading basis |
| Transformation Programme | Make realistic assumptions about outcome of the transformation programme in the medium term in financial terms |
| Capital Programme | Review the capital programme to ensure that where relevant projects are delivering efficiency savings. Consider the impact of capital investment on the funding gap going forward. |
| Directorate Plans | Each Directorate to develop medium term plans for service transformation/improvement and identify scope for efficiencies. |
| Technical Review | <p>The technical review will cover the following issues:</p> <ul style="list-style-type: none"> • Risk, reserves and provisions • Capitalisation strategy • Collection fund target • Grant changes • Levies • Capital financing costs • Investment income • Concessionary fares |

Stakeholder Meetings

There will be a series of meetings with key stakeholders to share information in December, January and February which will be either under the Let's Talk programme of activity or as discreet consultations. The stakeholders, together with the meetings suggested to pick up their comments, are listed below:

| Stakeholder | Meeting | Date |
|--------------------------|--|---------------|
| Voluntary Sector | Community Cohesion Reference Group | December 2011 |
| | Voluntary and Community Sector Forum | December 2011 |
| Tenants and Leaseholders | Tenants and Leaseholders Consultative Forum | January 2012 |
| Statutory partners | HSP Board | January 2012 |
| Older People | Disability Forum | January 2012 |
| Local Businesses | Harrow Business Consultative Forum | January 2012 |
| Unions | Employees Consultative Forum | January 2012 |
| Older People | Older People's Reference Group | January 2012 |
| Schools | Education Consultative Forum | January 2012 |
| Statutory partners | HSP Summit | January 2012 |
| Overview and Scrutiny | Special meeting of O&S, drawing on standing scrutiny review of the budget and Finance and Performance sub-committee work | January 2012 |
| Public | Cabinet | February 2012 |