



Newham London

# The London Borough of Newham Efficiency Plan, 2016-2020

## 1. Introduction

- 1.1. Local Government is facing an unprecedented set of challenges with severe financial reductions and increasing service demands. Despite being an area of high need, Newham has suffered heavily and disproportionately from government cuts. Since 2010/11, we have faced annual funding cuts amounting to over £97m, or 39%, and we face further reductions each year adding up to £42.6m by 2020.
- 1.2. Despite these challenges, we remain an ambitious, proactive, and interventionist council, determined to deliver high quality services and go above and beyond our statutory duties to build resilience in our community. We could achieve much more without the limitations imposed by severe government cuts. However, we have a sound record of providing strong, robust financial management and control, and we have worked hard to successfully deliver balanced budgets in tough times without raising Council Tax or cutting frontline services.
- 1.3. This efficiency plan is based on our Medium Term Financial Strategy (MTFS), and sets out how we will continue to transform the way we deliver services, generate income, build our independence, and create efficiencies in order meet the challenges ahead and continue to deliver for our residents.

## 2. The Council's Vision

- 2.1. Resilience is Newham's blueprint for creating a fairer, more equal society. It is about building the capacity of our residents and our community to help people take control of their lives and seize the opportunities that come their way. Resilience is also an agenda for proactive local government, and means fulfilling more than our core statutory duties in order to address the biggest challenges facing residents in the coming years. To deliver this ambitious agenda and meet the financial challenge that we face, we know that this Council must also be a resilient and efficient organisation.
- 2.2. We have placed residents at the heart of our approach to meeting this challenge. In the summer of 2015, the Council undertook its biggest ever budget consultation, including a representative survey asking residents for their views on how the Council could manage cuts in government funding over the coming years. These findings guided the Council in its financial planning, and were used as a foundation for a new deal for the borough, with commitment for additional investment in key priorities such as roads, environment and jobs.
- 2.3. The 2016/17 Budget and Medium Term Financial Strategy (MTFS) has been developed with reference to the priorities identified by residents and in line with the Council's ambition to:
  - build resilience and empower residents to help them transform their life chances
  - actively take the initiative and develop new programmes and new ways of doing things to help and support residents
  - seek out opportunities to generate resources, nurture business and investment that provide jobs and wealth.

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<sup>1</sup>The Mayor's Final Budget Proposals, Medium Term Financial Strategy and Council Tax Setting Proposals 2016/17 is available here: <https://www.newham.gov.uk/Documents/Council%20and%20Democracy/BudgetReport2016-17.docx>

See: <https://www.newham.gov.uk/Pages/Services/budget-challenge.aspx?l1=100004&l2=200110>

2.4. The MTFS sets out to support the delivery of the Council's resilience agenda and is underpinned by the following sound, strategic financial objectives:

- To provide strong, robust financial management and control in order to deliver a balanced budget and a sound financial framework
- To continue to generate savings and secure value for money through measures aimed at greater efficiency in service delivery and management, including invest to save interventions.
- To ensure that the allocation of resources is research, policy and commissioning led, based on the most robust evidence available and strongly influenced by local residents' concerns and aspirations and that it supports local residents and businesses through the current challenging economic climate
- To keep local taxation increases as low as possible
- To maintain balances at or above the minimum prudent level as determined by the Chief Finance Officer and to add to balances whenever the opportunity arises
- To comply with the prudential borrowing limits as set in the Treasury Management Strategy
- To undertake investment where a value for money case can be demonstrated

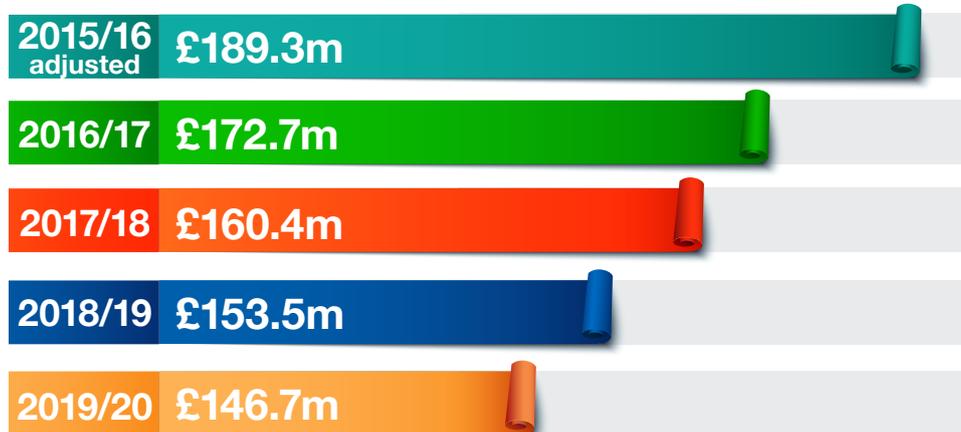
### 3. The Finance Settlement

3.1. The Financial Settlement announced in December 2015 and confirmed in February 2016 presents a continuation of the deep funding cuts faced by Newham over the last five years. Since 2010/11, annual funding cuts have amounted to over £97m, or 39%, and we face further reductions each year adding up to £42.6m, or 22.5%, by 2020. Providing sustainable budgets beyond 2016/17 in light of continuing government spending cuts and the need to maintain a prudent level of balances remains a significant challenge for the Council.

**“ Since 2010/11, annual funding cuts have amounted to over £97m, or 39%, and we face further reductions each year adding up to £42.6m, or 22.5%, by 2020. ”**

3.2. The settlement also announced the Government's intention of making an 'offer' to local government regarding the certainty of the SFA figures up to and including 2019/20, subject to publication of an efficiency plan. This efficiency plan enables us to qualify for this four year funding settlement, providing greater certainty and enabling us to further strengthen financial management and efficiency.

## Reduction in government grant funding



### 4. Managing Government Cuts - How are we doing it?

4.1. When the Government instigated funding cuts, Newham suffered heavily and disproportionately despite being an area of high need. However, the Council has a sound record of providing robust financial management and control in order to deliver balanced budgets, and we take pride in our proactive approach to ensuring that our finances are managed in an effective and efficient way.

4.2. Proof of the Council's record is evidenced by the fact that since 2010/11, £117m in efficiencies and savings have been identified without having to cut frontline services or increase Council Tax. Newham has made a concerted effort not to make piecemeal cuts, but instead look at how we operate with a focus of increasing both efficiency and quality. Even before the cuts were announced in 2010/11, Newham had a programme to drive fundamental and radical system reform which delivered £68m in savings.

“ Since 2010/11, £117m in efficiencies and savings have been identified without having to cut frontline services or increase Council Tax. ”

4.3. The principles that guide us in achieving the ambitions of the Council's political leadership while meeting the funding challenge are:

- An unwavering commitment to value for money, making sure services are delivered in the most efficient manner with an emphasis on quality
- A solid and consistent approach to finance, which includes generating profit through investment in areas that deliver a social impact and a return to the Council
- Constant testing of what we are doing against the evidence, ensuring that if something is not working we change it or stop it
- A willingness to innovate and think beyond conventional wisdom

4.4. Continuation of the Council's innovative and proactive approach to savings and efficiencies are evidenced by the level of savings already built into the MTFs under a variety of initiatives, as shown in table 1 below.

**Table 1: Savings**

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Income Generation	(9,319)	(11,825)	(11,189)	(10,807)
Innovation	(18,271)	(11,544)	(13,149)	(15,217)
Efficiencies not affecting Service Delivery	(6,946)	(9,986)	(10,186)	(10,186)
Options Appraisal Savings/Council Services to Small Business (CSSB) Review	(1,596)	(2,374)	(2,830)	(2,979)
Service Transformation	(1,470)	(2,180)	(2,980)	(2,980)
<b>Total Savings</b>	<b>(37,602)</b>	<b>(37,909)</b>	<b>(40,334)</b>	<b>(42,169)</b>

\* details of these efficiency savings can be found in appendix C of the “Mayor’s Final Budget Proposals, Medium Term Financial Strategy and Council Tax Setting Proposals 2016/17” as approved by Full Council on 22nd February 2016.

4.5. However the budget gap facing the Council in the years ahead is significant (see table 2 below).

**Table 2: MTFS position – Bridging the Gaps**

	Budget Gap 2017/18 £m	Budget Gap 2018/19 £m	Budget Gap 2019/20 £m
Budget Gap as per Mayor’s Final Budget Proposals Approved by Council February 2016	20.0	28.3	35.8
Changes in Assumptions	1.3	2.8	4.3
New Pressures*	4.0	4.0	4.0
Transformation Team Potential Savings	(12.0)	(15.0)	(15.0)
<b>Revised Budget Gap</b>	<b>13.3</b>	<b>20.1</b>	<b>29.1</b>
Further Savings and Efficiencies to be found from:			
• Options Appraisal Savings			
• Service Reductions (as a last resort)	(13.3)	(20.1)	(29.1)
• One-Off Use of Reserves			
<b>Forecast MTFS position</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* This is a “to-date” position. New pressures will invariably emerge across the years thereby increasing the need for efficiencies and savings

## Council Tax

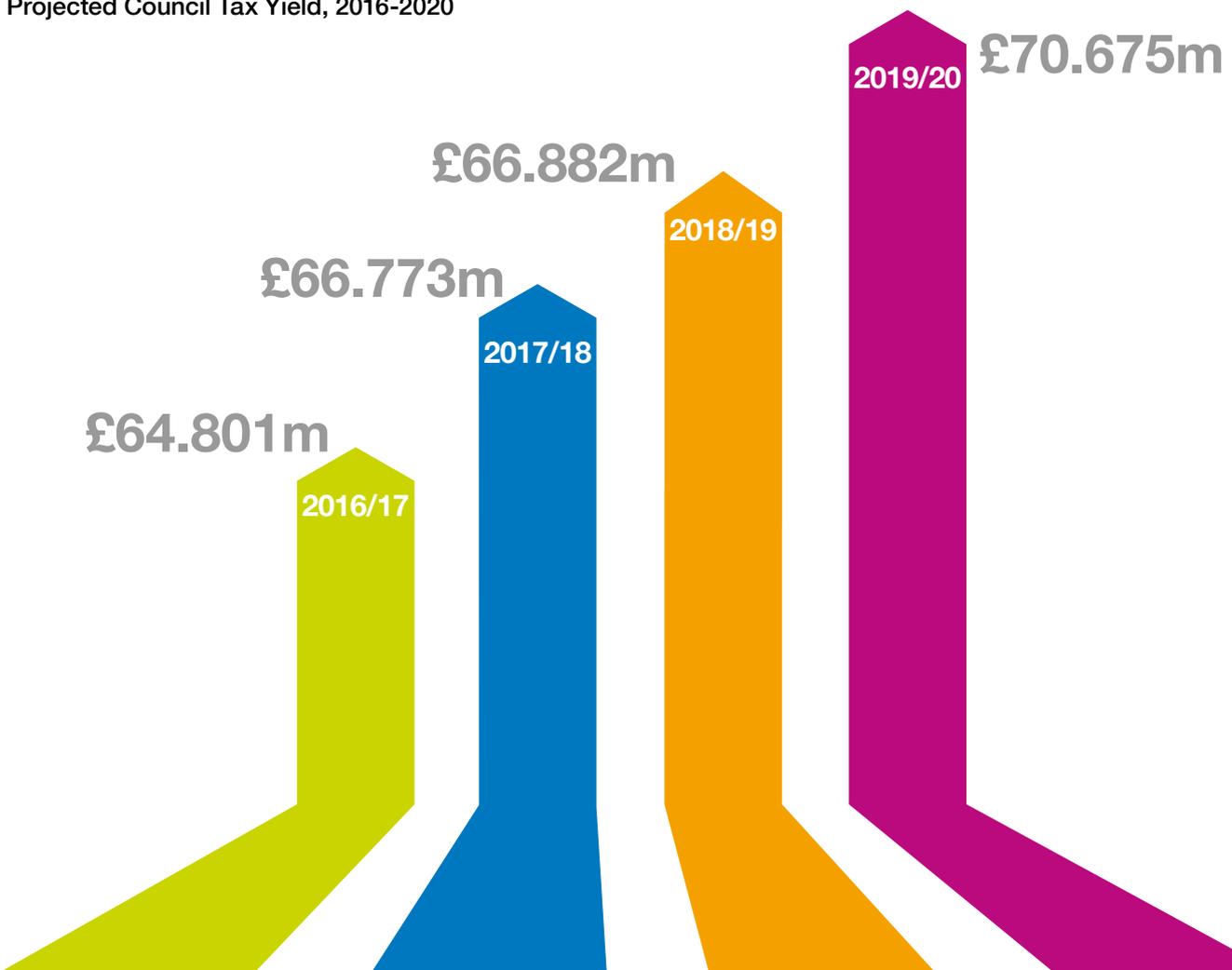
4.6. Newham's increasing Council Tax base is evidence of the success of our wider regeneration vision, and our determination to increase provision of new quality housing - the bedrock of people's lives. Correspondingly the increased tax base has seen an increase in Council Tax yield providing essential revenue funding in a very challenging economic climate.

**Table 3: Increase in Council Tax Base**

	2016/17	2017/18	2018/19	2019/20
Collection rates	95.88%	95.91%	95.95%	95.97%
Band D Council Tax	£945.63	£945.63	£945.63	£945.63
Taxbase*	68,527	70,612	72,842	74,739
<b>Council Tax Yield</b>	<b>£64.801m</b>	<b>£66.773m</b>	<b>£68.882m</b>	<b>£70.675m</b>
Increase in Taxbase and Yield	2.1%	3.0%	3.2%	2.6%
Monetary Increase in Yield	£1.352m	£1.972m	£2.109m	£1.793m

\* Using latest figures from Planning and allowing for non-collection rate

Projected Council Tax Yield, 2016-2020



## 5. Addressing the Budget Gaps

5.1. Despite substantial savings already accounted for in the MTFs, the regime of ongoing funding reductions means there are still budget gaps that need to be addressed. As of February 2016 Newham was faced with budget gaps of:

- £20m in 2017/18
- £28m in 2018/19
- £36m in 2019/20



5.2. We are continuing to drive efficiencies and meet these gaps by transforming the way the Council operates, so that it becomes more entrepreneurial and less reliant on central government to deliver the services that its residents need. Our transformation programme focuses on the following principles:

- Support the externalising of entrepreneurial business units which are able to generate resources and become self-financing through the value they offer locally and beyond
- Grow local resources, through commercial principles and investment which remove dependence on Government funding.
- Organise around the customer, providing a point of access through which all council, and eventually partner, services can be accessed;

5.3. Key initiatives underway are set out below.

### The Council Service to Small Business (CSSB) programme

5.4. The CSSB programme underpins our approach, working with existing services to turn them into independent business units. The programme is based on an analysis which questions the effectiveness of bureaucratic management, and instead seeks to create a structure where people have the incentives and the freedom to deliver services in a more efficient and effective way.

5.5. The programme considers a wide range of options, from setting up staff mutuals on cooperative principles, small businesses, looking at payment by results, or simply making improvements to business processes in order to deliver efficiencies within the Council budget and drive up quality. Rather than outsourcing, we are transforming our services in a way that will:

- Nurture innovation – with workers empowered and incentivised to increase efficiency and improve outcomes for residents by having a stake in the business

- Reduce bureaucracy – devolving decision making and freeing businesses from Council processes
- Increase revenue – through greater flexibility to reach out to new customers in the public and private sectors
- Strengthen accountability – by removing tiers of management and making it easier for the Mayor and councillors to hold businesses to account for performance.

5.6. The CSSB programme has a forward plan which includes 27 proposed business units and 35 others where Options Appraisals are continuing. Proposed business units include Street Cleansing, Early Start Nurseries, Landlord Licensing and a Central Accommodation Agency, while Newham's translation service the Language Shop has already been successfully externalised as a small business and is reaching new customers. It is anticipated that these CSSB programmes will deliver £8m of savings in addition to the £12m savings delivered as at April 2016. This will bring total CSSB savings to £20m.

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### **Income Generation**

- 5.7. Newham continues to explore different ways of raising income as an essential part of tackling the budget challenges ahead and reducing our dependence on government funding. As well as generating income through the CSSB programme set out above, our substantial property portfolio is currently being reviewed to assess how best it can contribute to revenue streams, while our increasing Council Tax base and improved collection rate are also increasing Council Tax yield.
- 5.8. Crucially, we are also taking a proactive approach and investing to build our asset-base in ways that deliver both a return for the Council and social benefit. For example:
- Our new Council-owned housing company Red Door Ventures (RDV) aims to become the leading provider of private-rented sector housing in the borough. As the major shareholder in RDV, Newham will enjoy the benefits of significant dividend returns as profits are generated, as well as providing much needed high-quality private rented accommodation. Over time, RDV will also contribute to our developing fairer rents model.
  - Newham has also made an important investment in the Olympic Stadium, which will generate profit for the Council and enable residents to access world-class sporting, cultural and community events. The stadium is operated via E20 Stadium LLP, a partnership between London Legacy Development Corporation and Newham Legacy Investments (a London Borough of Newham owned enterprise).

### **Partnership working & shared services**

5.9. We are committed to exploring a wide range of partnership working opportunities, in order to strengthen services and address residents' priorities in the most effective and efficient way.

Through the Local London partnership we are working with seven of our neighbouring authorities to achieve greater devolution at a sub-regional level, and also exploring opportunities to join-up more efficiently in key areas. We also pursue opportunities to partner with other organisations, such as our deal with the Metropolitan Police which enables us to match fund 40 police officers working alongside our council enforcement team, delivering shared community safety priorities and ensuring value for money.

- 5.10. We have also driven efficiencies through OneSource, the shared back office support service for Havering, Newham and Bexley Councils. It covers a range of transactional, operational and strategic services such as HR, finance, payroll, legal and ICT.
- 5.11. Since its inception, oneSource has made and continues to make significant savings and improvements to service delivery by:
- Cutting management costs
  - Reducing duplication
  - Making efficiency gains by re-engineering processes
- 5.12. In the first year of operation, oneSource achieved savings of £5.4m, exceeding its original target and in April 2016, Bexley Council's Financial Services joined the two founding councils. The three councils are estimating to achieve approximately £40m in savings by 2018/19. Other Council are also now purchasing from OneSource.

**“ In the first year of operation, oneSource achieved savings of £5.4m, exceeding its original target. ”**

### **Digital Enablement**

- 5.13. Digital enablement plays an important role in our wider transformation programme, creating opportunities to work smarter and organise around residents, customers, and priority outcomes. This includes making greater use of agile digital solutions, including mobile technology and applications, to support lean and efficient operations, alongside a focus on greater automation of simple processes, better use of our data, and greater self-service options. We are also working to identify digital system changes that will improve the way the council operates as part of wider Options Appraisals in the CSSB programme outlined above.
- 5.14. Our vision is for Newham Council to share data intelligently and use digital innovation to offer better services for residents. A key part of this is our data warehouse and business intelligence programme, which brings together data on people and properties from over 20 core council systems into a central database. That data is then matched in a single view of each person and property.

- 5.15. The data warehouse enables us to use predictive analytics to help make better use of our resources and generate savings, while improving services and outcomes. For example, when we launched the nation's first borough-wide landlord licensing scheme, we needed to identify unlicensed privately rented properties to make the scheme enforceable. Combining data from across the Council through data warehouse enabled us to pinpoint likely offenders, and the model has helped us to effectively target rogue landlords while reducing levels of aborted enforcement visits from 50% to around 5%.
- 5.16. From fraud detection to homelessness prevention, using this data analysis to enable prevention and improve service design has already helped us to deliver savings. We have also mainstreamed data warehouse tools with frontline staff, and we are continually exploring further opportunities to make use of predictive analytics to allow members to make the right decision and prioritise actions.

### **Changes to the Application of Capital Receipts**

- 5.17. The Spending Review 2015 makes changes to the rules regarding the application of capital receipts. In summary, the recent Spending Review 2015 announced that for the financial years 2016/17, 2017/18 and 2018/19 the government will allow local authorities to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects.
- 5.18. It is feasible that Newham could take advantage of this new power to contribute to the delivery of balanced budgets in the coming years. An inventory has been carried out to identify surplus properties which provide an indication of the potential assets and their value on the Newham asset register.

### **6. Reserves**

- 6.1. The Council has always considered the establishment and maintenance of reserves as an integral part of its Medium Term Financial Strategy. Reserves are held for three main purposes:
- As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of a general reserve.
  - To hold funds for specific purposes or to meet known or predicted liabilities – these are generally known as earmarked reserves. Schools' balances and insurance reserves are examples of these.
  - As a contingency to cushion the impact of unexpected events or emergencies, including budget overspends – this also forms part of a general reserve.
- 6.2. Generally reserves will need to be higher as financial risk increases and they play an important part in the management of risk. They are crucial when change is being implemented with authorities more able to introduce change with adequate reserves and sound financial health in place.
- 6.3. Although the Council is currently undergoing a challenging savings programme in a difficult and increasingly uncertain economic climate, it is the aim to always keep net expenditure within budget without having to use general fund balances. The risk associated with drawing

on balances is that they are one-off fixes rather than permanent efficiencies. Failure to achieve savings targets would put the Council in a position of having to use balances; which would impact on the following financial year.

- 6.4. A schedule of the current reserves can be found within note 8 of the Statutory Statement of Accounts.
- 6.5. General reserves at the end of the current financial year are forecast to be £19.2m. This level of balances represents 7.9% of the Councils forecast budget requirement, which is within CIPFA guidelines and represents an appropriate level given the challenging financial climate that the Council now faces.

**Table 4: General Fund Reserves**

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
<b>Budget Requirement</b>	<b>241.926</b>	<b>249.839</b>	<b>254.662</b>	<b>258.642</b>
<b>Forecast General Fund Balance (as at 1st April) Taxbase*</b>	<b>19.200</b>	<b>19.200</b>	<b>19.200</b>	<b>19.200</b>
<b>General Fund Balance as a percentage of the Budget Requirement</b>	<b>7.9%</b>	<b>7.7%</b>	<b>7.5%</b>	<b>7.4%</b>

## 7. Opportunities and further powers

- 7.1. We have strong plans in place to ensure we are an efficient Council, able to meet the challenges ahead and continue to deliver for our residents. However, a number of constraints limit what we are able to achieve – not least the level of continued cuts proposed under the financial settlement. The new Government’s announcement that they will no longer target a budget surplus by 2020 presents an opportunity to revisit this settlement, and provide greater support to councils such as Newham seeking to achieve long-term change.
- 7.2. We are also calling for Government to devolve further powers and allow greater flexibility so that we can go further in transforming services, generating income, and driving long-term efficiencies. This includes greater flexibility in the Housing Revenue Account (HRA), ending unnecessary restrictions on borrowing for investment in housing, as well as the retention of business rates in a way that gives London the freedom to develop its own approach, including in key areas such as distribution and valuation.
- 7.3. As noted above, we have also joined with seven of our neighbouring boroughs to form the Local London partnership, working for devolution of key powers and funding at a sub-regional level. Greater devolution in key areas such as skills, employment support, and health and social care would enable us to boost local growth and drive greater efficiency through whole system reform, and we call on the Government to go further in its devolution plans.

## **8. Conclusion**

- 8.1. Newham's approach is based on the principle that local government is about changing lives. Newham has set a bold vision for what it believes the local community should look like and the Council is working with residents and partners to make this happen by delivering quality services in line with our statutory responsibilities, but also going beyond our core duties to build resilience and deliver lasting change.
- 8.2. To achieve this the Council has to be brave, proactive and interventionist, always focussing on building the capacity of our people and community rather than simply delivering services to them. Despite the significant financial challenges ahead, this ambition is what continues to drive Newham. The Council is confident that this vision will enable us to continue to successfully deliver balanced budgets and strategies that aim to address residents' priorities and deliver the programmes that have the biggest impact on outcomes.