

Matter being dealt with by

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12 November 2008

To: All Members of the Cabinet
c.c. All other persons receiving Cabinet papers

Dear Member,

Cabinet - Tuesday, 18th November, 2008

I attach a copy of the following reports for the above-mentioned meeting which were not available at the time of collation of the agenda:

9. FINANCIAL PLANNING 2009/10 – 2011/12

(Joint Report of the Chief Financial Officer and the Director of Corporate Resources - To be introduced by the Cabinet Member for Resources): To provide an update on the financial and business planning process and to propose the release of pre-business plan review (PBPR) documents for consultation and budget scrutiny.

Yours sincerely,

Richard Burbidge
Cabinet Committees Manager

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Haringey Council

Agenda item:

Cabinet**18 November 2008**Report Title: **Financial Planning 2009/10 to 2011/12**

Forward Plan reference number:

Report of: **Chief Financial Officer and Director of Corporate Resources**Wards(s) affected: **All**Report for: **Key decision****1. Purpose**

1.1 To provide an update on the financial and business planning process.

1.2 To propose the release of the pre-business plan reviews.

2. Introduction by Cabinet Member

2.1 This is a key part of the Council's financial and business planning process to ensure that our plans and priorities are being met and that value for money is being delivered. The report provides an update on the key national and local issues and proposes the release of the pre-business plan review documents for consultation.

3. Recommendations

3.1 That the national and local updates are noted.

3.2 That the pre-business plan reviews are released for consultation and budget scrutiny.

Report Authorised by: **Gerald Almeroth, Chief Financial Officer**

Contact Officer: **Gerald Almeroth**
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4. Local Government (Access to Information) Act 1985

4.1 The following background papers were used in the preparation of this report:

- Report of the Chief Financial Officer and Director of Corporate Resources to the Cabinet on 15 July 2008 – Financial Planning 2009/10 to 2011/12

5. Strategic Implications

5.1 The Council's integrated financial and business planning process is the key mechanism by which plans and strategies are reviewed to ensure the performance and priorities are being met and that resources are allocated effectively to underpin their achievement. The process culminates in changes to the budget and medium term financial strategy that delivers a revised **Council Plan**. The plan reflects the Council's own priorities and contributes to the wider Sustainable Community Strategy delivered in conjunction with the Haringey Strategic Partnership.

5.2 The prospects for future local government grant settlements are that there is likely to be a severe constraint in **public spending**. This will particularly affect Council's in year three of this budget process. The Chancellor is expected to produce a pre-budget report in November (last year this was in early October). There have been significant changes since the budget in March this year when there were still predictions of economic growth although slightly below the output trend level. Since then there have been two key changes to the Treasury sums; firstly some concessions have been provided on tax plans, and secondly the economic conditions have changed considerably.

5.3 The predictions of **lower economic growth**, and possibly recession, will reduce tax receipts further and lead to increases in the costs of on welfare support. This is likely to push up the need for public sector borrowing and in order for the Chancellor to meet the 'golden rule', i.e. borrow for investment only and balance the budget over the economic cycle, other public sector spending would have to be curtailed significantly. Therefore the outlook for local government grant settlement overall looks bleak.

5.4 The Cabinet on 15 July 2008 considered a comprehensive report on **financial strategy** for the period 2009/10 to 2011/12 and agreed a business planning and budget-setting process. At that time an overall net savings targets of £7.6m was reported over the full three year planning period. This assumes the achievement of pre-agreed savings proposals of £14.8m in the first two years. The previous planning assumption for council tax was an increase of 3.0% in each of the three years although noting that Members may wish to reconsider this assumption in light of the overall financial position later in the process. The grant settlement figures for the first two years are known (1.75% and 1.5%) as part of the multi-year settlement received last year.

5.5 This report provides an update on financial planning issues and proposes that the pre-business plan reviews, including the investment and savings options, are released for consultation and the scrutiny process.

6. National update

6.1 The Comprehensive Spending Review 2007 sets out the **national spending limits** over the next three years in order to achieve the government's priorities. The revenue support grant for Haringey is set within this for the next two years at 1.75% and 1.5% respectively. The third year in this planning period will be the subject of the next spending review in 2010. This grant settlement includes an assumption of 3% cashable efficiency savings per annum. Haringey, like the majority of London boroughs, are on the **grant floor** and are likely to remain there for a number of years. For the next two years the grant formula system is likely to remain fundamentally unchanged, however, there are a number of key elements that are the subject of discussion by the local government finance settlement working group:

- area cost adjustment – review of methodology including geographical smoothing;
- younger adults relative needs formula – review of whether formula reflects costs accurately, and;
- capital finance – assessment of the minimum revenue payment provisions.

6.2 The current assumption for planning purposes is that the grant floor increase will remain at 1.5%; however this may need to be reviewed downwards at some stage. A cash freeze for Haringey will reduce resources by an estimated £2.2m.

6.3 The grant formula relies heavily on the **population** projections produced by the Office for National Statistics (ONS). A considerable work programme is being taken forward by the ONS to review the migration statistics and other elements following criticism from a Treasury Select Sub-committee earlier this year. It is envisaged that this will be completed in the next two years prior to the census in 2011. The Council will need to consider its own response to these matters in due course.

6.4 On **adult social care** the government has launched a green paper to consult on reform of the system of funding of social care. This is in response to the predicted numbers of older people increasing over the next two decades and will review costs and funding across all parts of the public sector. In addition the service emphasis remains on increasing **personalised care**, continued investment in prevention and promotion of independent living at home. The Council will need to respond to this by formulating its own local strategy to meet this challenge in conjunction with partners.

6.5 Planning has begun on the transfer of funding for **16-19 years** in schools from the Learning Skills Council to local authorities. This will be an opportunity for local authorities to enhance the whole service offer on a strategic basis and it will be important to ensure that sufficient relevant resource flow through the system to enable this to be achieved.

- 6.6 In addition the review of the dedicated **schools** grant is looking at moving towards a formula system that may have a further impact on the individual schools budgets. This may be a further way to lobby government on the significant differences in grant currently being provided when compared with our inner London neighbours.
- 6.7 A consultation has been carried out on reform of the **local authority business growth incentive** (LABGI) scheme. This is broadly a technical change following the government receiving a number of challenges to the allocations last year. The scheme is still likely to be based on business rates growth, but in overall terms there is considerably less grant in the pot than in previous years.
- 6.8 Work has also started on a joint review of the **Housing Revenue Account** by the Department of Communities and Local Government (DCLG) and the Treasury. Some early pilot work has already been conducted and it is expected that the full report will be finalised in 2009.
- 6.9 A national strategy document was launched by DCLG in September 2008 '*Giving more people a say in local spending, **Participatory Budgeting***'. The strategy promotes the engagement of local people in the budget decision making process. Haringey has already been promoted as a model of good practice for its well established 'Making the Difference' budgets allocated through Area Assemblies. In addition to this a separate resident consultation process is being conducted as set out later in this report.
- 6.10 The national outlook for economic conditions suggests that the country is entering a recession. The recent turbulence in the financial markets following the credit crunch is starting to feed into the real economy and this will impact on the local community and the **demand for local services** in a number of ways. The Council will need to be ready to respond to such demands in a cost effective way and this will need to be built into the planning process.

7 Local update

- 7.1 The Council's **accounts** for 2007/08 were agreed as planned in June. The final position is in line with that previously anticipated and general balances are now at £11.9m slightly above the medium term target level of £10m. The current approved medium term financial strategy assumes balances are reduced in 2008/09 by £4.4m, but that this is repaid the following year.
- 7.2 The Council's latest **budget management** position is reported elsewhere on the agenda. Members will note that based on the latest position a net overspend of £1.0m is anticipated. Although management action is being taken to reduce this to a balanced position by the year end, some variations are underlying issues that will need to be considered in the final budget package including:
- looked after children – higher costs driven by numbers of children remaining higher than the budget assumptions;
 - adult social care – a higher demand for services, particularly in learning disabilities and mental health, and;
 - land charges income – shortfalls in income arising from the continued downturn in the housing market over a long period.

- 7.3 The **Local Area Agreement** (LAA) is guided by the Community Strategy and delivered by the Haringey Strategic Partnership. A six month review of the use of the **area based grant** and the performance outputs and deliverables was carried out and this will inform the final budget allocation process.
- 7.4 Commitments in the Community Strategy made by the Haringey Strategic Partnership include: people at the heart of change, that Haringey will have an environmentally sustainable future, have economic vitality and prosperity shared by all, be safer for all, have healthier people with a better quality of life and be people and customer focused. Our delivery against these will be tested in the CAA and through the monitoring of the **Local Area Agreement**, which includes our top 35 local priorities for improvement.
- 7.5 From April 2009 the **Comprehensive Area Assessment** (CAA) will be a joint assessment of the local area, assessing the contribution of the Council and its partners to improving the quality of life. The experience of citizens and service users will be at the centre of the new assessment framework, which will focus on outcomes for local people.
- 7.6 Current assumptions on **inflation** are set at 2.5% in the existing budget plans. This is a net position including income and therefore assumes that fees and charges will be raised by at least 2.5% from April 2009. The pay award for 2008/09 still has not been agreed it is expected that the final settlement will not be significantly different to the 2.5% budget provision. The current indices for actual price inflation are at the highest for some time and exceeded 5% in September. This has been fuelled by high oil and **energy prices**. In particular the wholesale markets for gas and electricity have seen price rises in excess of 100% following recent falls earlier this year. The energy price increases will need to be assessed during the budget process alongside the other inflationary pressures that may arise in due course. Current market predictions are that headline inflation will fall back sharply in the near future.
- 7.7 The position in respect of '**equal pay / single status**' pay arrangements incorporating former manual staff is resolved in terms of the back-dated compensation and an estimate of the potential costs going forward was made in the budget process last year. The position will require close monitoring as the job evaluation process is implemented and the financial implications become more certain.
- 7.8 The position on **homelessness** remains a significant financial issue. In the last two years the Department of Work and Pensions (DWP) have implemented across the board reductions in housing benefit subsidy, for London authorities only, of 5% in 2007/08 and 10% for 2008/09. It was the intention of the DWP that there will be more fundamental change to the subsidy arrangements for 2009/10 onwards, however, the work required to carry out this review will not be completed in time for local authorities to plan their budgets and therefore this change has been delayed to at least 2010/11. London Council's have urged the DWP not to resort to further across the board reductions and on 11 November it was announced that there will be a cash freeze on the caps for 2009/10 for London authorities. All other local authorities are to receive a 5% increase in line with current inflation. The budget plans include an assumption of a reduction in subsidy in 2009/10, which will now need to be reviewed together with the impact of the projected position on meeting the temporary accommodation reduction

targets. Retention of resources in the earmarked risk reserve will be a key part of the prudent approach to managing this budget.

7.9 As previously agreed budget plans include further increases in employer's contributions to the **pension fund** in the third year of the planning period to coincide with the next triennial valuation by the Council's actuaries. The current value of the fund is severely affected by the current global financial market situation; however, in accordance with the actuary's advice a long term approach to the funding position is required.

7.10 The London Pension Fund Authority has indicated to boroughs that there may be a significant increase in the **levy** over the next three years. This is in respect of mortality improvements and other actuarial assumptions for the pensioner base of former employees of the residual London bodies (GLC, ILEA, and LRB etc). London boroughs have challenged the validity of the assumptions in the recovery plan and further assessment work is being carried out.

7.11 There is a concurrent report on the agenda in respect of the **Achieving Excellence** programme. This shows that progress is being made broadly in line with expectations and that the £5m savings target built into the approved budget plans is on target to deliver. The programme is being delivered in line with the three underlying principles of performance, efficiency and perception. The key streams delivering savings in the current planning period are the value for money reviews and Smart Working/accommodation strategy, although it is an evolving programme and further focus is being directed to strategic commissioning and the cost of central functions. Consideration will need to be given to extending this programme beyond 2010/11 including additional costs and savings in due course.

7.12 **Adult social care** budgets are increasingly under significant pressures nationally and this is reflected locally too as evidenced by the current year projected overspend. There are projections of further increasing demand over the next three years and strategies are being developed to find the most cost effective way of dealing with this situation including providing a sound base for the Council's **commissioning** role and exploring more opportunities for joint commissioning with external partners and across boundaries.

7.13 An announcement by the government was made earlier this year on the provision of **free swimming** for the over 60's and under 16's. A limited grant was available to partially offset income losses. Cabinet agreed to take part in this initiative on 15 October and the likely net cost of participation is £115k per annum. This is included in the pre-business plan review proposals.

7.14 Opportunities for additional separate **specific grant** funding still exist to support services. A recently successful bid was made in partnership with Rainer Crime Concern to the Home Office for £650k over the next three years including the current year. This is for an intensive intervention and support project with young people to prevent anti-social behaviour and crime. Haringey is one of only two London boroughs that have been successful in this bidding process. A further bid for £700k over the next two years has recently been made to the Youth Task Force. This is a joint bid with the Police and similarly will be resources prioritised towards young people and the prevention of anti-social behaviour and crime.

- 7.15 Although it is not possible to measure **child poverty** at the borough level using the government's preferred measure (children living in families with incomes below 60% of the median), using DWP figures, between 2004-2007 the percentage of children living in families who are in receipt of out of work benefits has declined by 4% to 36.4%. Although this downward trend is projected to continue for the next four years, there will still be an estimated 35% of children living in poverty by 2011. The Council aims to continue to develop its anti-child poverty strategy and deliver the action plan to improve this position.
- 7.16 The arrangements for **waste management and public realm** services, including street cleansing and recycling, are becoming increasingly important both nationally and locally. Cabinet previously agreed to extend the current waste management contract to allow for a more holistic approach to the commissioning and procurement. Improving the recycling rates is a key priority for the greenest borough strategy.
- 7.17 The cost of **waste disposal** continues to increase based on the September report by the North London Waste Authority (NLWA). There are medium term increases above inflation predicted and these will need to be included in the budget process after the NLWA report back again in December. Members are aware of the longer term position on the increased costs of waste disposal and the progress of the procurement project. An outline business case for PFI credits was submitted last month and further reports on this will come to Members in due course.
- 7.18 The position on **concessionary fares** in London was unresolved in the budget process last year. The allocation between London boroughs is administered by London Councils and final agreement was not reached in terms of the proposal to move to a usage basis and possible methods for damping any financial impact. The proposal went through a number of iterations including arbitration and a final methodology is now in place. The consequent cost impact for Haringey is an increased cost of over £2m by the end of year three, which was included in overall terms in the budget process last year. The phasing for this has now been agreed at 40:30:30. A re-profiling of this will be required later in the budget process when the 2009/10 estimates are provided by London Councils.
- 7.19 As a result of improved risk management practices, particularly in the highways service, a reduction in the contributions to the **insurance** fund can be made on an ongoing basis. This will be included in the budget variations in due course. A review is also being carried out on the overall level of the fund against known liabilities with a view to securing a further one-off reduction in the reserve.
- 7.20 Any impact of the Council's exposure in the Icelandic banks will have to be assessed as the budget process develops and as the respective receivership processes progress. A revenue consequence to consider is the loss of **interest earnings** together with the recent significant base rate reduction although this may take time to filter through to the money markets because of continuing liquidity issues. The budget plans already predicted a fall in interest earnings for 2009/10 and this will have to be re-assessed in due course. The cost of new borrowing will also fall and this will need to be taken into account. Information on the recovery of the capital deposits will also be considered as part of the budget process.

- 7.21 Consideration will need to be given to the revenue support in respect of **Alexandra Palace**. Although the trading position has improved over the last year one off resources for the future options appraisal may be required.
- 7.22 As the budget package is formed the provision set aside for unavoidable **redundancy costs** will need to be reviewed in light of the levels of savings that are required. The Council will wish to minimise any levels of redundancies by reducing levels of agency staff or utilising the existing redeployment process.
- 7.23 The achievement of the targeted **HRA** level of balances of £5m over the planning period will need to be reviewed carefully in light of the demand pressures on housing repairs, performance on rent income collection and the continued trend of reductions in government support through housing subsidy. The current year is showing a balanced net position, however, the underlying position is considerably more challenging and identification of sufficient savings proposals will be required by Homes for Haringey for the budget process.
- 7.24 The draft **housing subsidy** determination was issued recently and the date for convergence with formula rents has been extended to 2024 in order to limit the housing rent increase for next year. The average increase for Haringey, based on the formula for restructuring is 6.1% (£4.78 per week) and this would have been significantly higher had the convergence date not been extended. This broadly keeps Haringey in line with average local authority rents in London. The government consultation process requires comments to be returned by 9 December.

8 Business planning process

- 8.1 The business planning process has been proceeding as planned in the July report. The pre-business plan reviews have been prepared in conjunction with Cabinet Members and can now be released to underpin the consultation and budget scrutiny processes; they have been circulated separately. The reviews have been prepared in light of the **Council Plan** and the **Community Strategy** and also in the context of the **manifesto** of the majority group.
- 8.2 All new **savings and investment** proposals are, of course, **options** at this point and the budget package to be proposed to the full Council will be developed in the light of the consultation process and **Overview and Scrutiny** responses. A target of £7.6m for identification of new savings was set for planning purposes over the three year period. Pre-agreed savings of £14.8m were also reviewed as part of the process and where changes are proposed then new savings are put forward.
- 8.3 As Haringey is on the grant floor the amount of resource available for investment is severely limited and could be restricted further by any other unavoidable cost pressures that emerge.

9 Consultation

- 9.1 It is proposed that the pre-business plan reviews are released for consultation. Consultation will be carried out with various representatives of tenants, residents, businesses, partners, unions and the Council's own Overview and Scrutiny Committee in the normal way.

- 9.2 An improved consultation on the budget process is taking place with residents this year in structured focus groups. The themes will be educational as well as seeking resident's views on priorities and budget issues. The feedback from these groups will be considered by Members in due course.

10 Conclusions

- 10.1 The climate is one of known restricted resources for the next two years and therefore as expected further efficiency savings will be required to fund any additional investment or unavoidable cost pressures. The Council's own local processes are proceeding as planned. The Council has a significant challenge ahead in terms of producing a balanced budget over the planning period.

11 Recommendations

- 11.1 That the national and local updates are noted.
- 11.2 That the pre-business plan reviews are released for consultation and budget scrutiny.

12 Comments of the Head of Legal Services

- 12.1 The Council is under a statutory duty to set a balanced budget having regard to the report of its Chief Financial Officer as to the robustness of the estimates and the adequacy of proposed financial reserves. This must be preceded by robust and comprehensive financial planning.

13 Equalities Implications

- 13.1 The Council's business planning process is designed to capture all strategic issues including equalities implications. Officers will be reviewing whether it is feasible to carry out a detailed equalities impact assessment as part of the final budget process.

14 Use of Appendices

- 14.1 Appendix A: gross budget trail
- 14.2 Appendix B: resource shortfall tracker
- 14.3 Appendix C: pre-business plan reviews (to be circulated separately subsequent to this meeting including being placed on the Haringey website)

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Gross Budget Trail	2009/10 £'000	2010/11 £'000	2011/12 £'000
Budget brought forward	399,578	410,511	422,208
<u>Changes and variations</u>			
Inflation	8,090	8,510	8,900
Changes agreed in previous years budget process	(1,402)	4,495	0
Changes and variations agreed 15 July 2008	0	0	1,000
<u>Investments</u>			
2007/08 process	0	40	0
2008/09 process	1,030	530	0
Proposed investment fund	1,500	1,500	0
	<u>2,530</u>	<u>2,070</u>	<u>0</u>
<u>Savings</u>			
2007/08 process	(3,847)	(2,745)	0
2008/09 process	(4,512)	(3,722)	0
	<u>(8,359)</u>	<u>(6,467)</u>	<u>0</u>
<u>Dedicated schools grant (DSG)</u>			
Passporting of DSG	5,603	6,538	6,047
Prior year adjustment for actual pupil numbers			
	<u>5,603</u>	<u>6,538</u>	<u>6,047</u>
<u>Balances</u>			
Contribution to / (from) balances 2007/08 process	5,725	(2,645)	
Contribution to / (from) balances 2008/09 process	246	696	
Gross Council budget requirement	412,011	423,708	438,155
Less dedicated schools grant (specific grant)	(166,220)	(172,758)	(178,805)
Net Council budget requirement	245,791	250,950	259,350
Funding			
Council tax (see below)	101,771	104,825	107,968
Government support - formula grant and NNDR	142,520	144,625	146,795
	244,291	249,450	254,763
Resource shortfall / net savings target	1,500	1,500	4,587
Council tax			
Council tax (LBH)	£ 1,196.51	£ 1,232.41	£ 1,269.38
Council tax base (after provision for non-recovery)	85,056	85,056	85,056
Precept	101,770,355	104,823,865	107,968,385
Rate of council tax increase (Haringey element)	3.0%	3.0%	3.0%
GLA rate of council tax increase	n/a	n/a	n/a
Combined council tax increase	n/a	n/a	n/a
£ per week increase (Haringey element)	£0.67	£0.69	£0.71

Resource Shortfall Tracker	2009/10 £'000	2010/11 £'000	2011/12 £'000	Total £'000
Position at end of 2008/09 process	0	0	0	0
<u>Update for 2009/10 process</u>				
- inflation			8,900	8,900
- increase assumption in formula grant at 1.5%			(2,169)	(2,169)
- increase assumption in council tax at 3%			(3,144)	(3,144)
			<u>3,587</u>	<u>3,587</u>
<u>Changes and variations 15 July 2008</u>				
- pension fund employers contributions			1,000	1,000
	<u>0</u>	<u>0</u>	<u>1,000</u>	<u>1,000</u>
Proposed investment fund	1,500	1,500	0	3,000
Position as at 18 November 2008	1,500	1,500	4,587	7,587
Net savings target	(1,500)	(1,500)	(4,587)	(7,587)
Projected balanced position	0	0	0	0