

**Matter being dealt with by**

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11 November 2009

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

Dear Member,

Cabinet - Tuesday, 17th November, 2009

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

**7. FINANCIAL PLANNING 2010/11 – 2012/13 (PAGES 1 - 10)**

(Report of the Chief Financial Officer – 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 the pre-business plan reviews.

Yours sincerely,

Richard Burbidge  
Cabinet Committees Manager

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Haringey Council

Agenda item:

**Cabinet****17 November 2009**Report Title: **Financial Planning 2010/11 to 2012/13**

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 for Resources**

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**  
**Telephone 020 8489 5972**

#### **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 21 July 2009 – Financial Planning 2010/11 to 2012/13

#### **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 will be a severe constraint in **public spending** given the current recession and the public borrowing requirement. The budget for 2010/11 is the third year of the three year settlement following the last comprehensive spending review in 2007 and is not expected that the grant position will change significantly. The significant impact is expected the following year, i.e. 2011/12 the second year of this budget process. The Chancellor is expected to produce a pre-budget report in November, which is likely to set out the new spending limits across the public sector and will give an indication of the level of contraction of funding in overall terms. The more detailed government spending plans are likely to follow in 2010.

5.3 The Cabinet on 21 July 2009 considered a comprehensive report on **financial strategy** for the period 2010/11 to 2012/13 and agreed a business planning and budget-setting process. At that time an overall net additional savings targets of nearly £23m was reported over the full three year planning period. This assumes the achievement of pre-agreed savings proposals of nearly £15m in the first two years. The budget for 2010/11 is the last one for the current administration and three year spending period and this shows a savings target requirement of £2m subject to any additional growth pressures and investment requirement. In terms of resources for next year the grant settlement figure is the final one of the three year agreement with an increase of 1.5%. The previous planning assumptions for council tax were increases of 3.0% in each year. This was varied last year (2009/10) with an increase of 1.95%. The budget plans are now being prepared on the basis of aiming for a council tax freeze for 2010/11 so this planning assumption is built in to the projections.

5.4 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 set out the **national spending limits** over the three years in order to achieve the government's priorities. The revenue support grant for Haringey is set within this for next year at 1.5%. 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 next year, the final year of the three year settlement, 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:

- review of concessionary fares calculation methodology;
- area cost adjustment and different tier and geographical models;
- capital finance funding included or excluded from the formula;
- review of the four-block formula model, and;
- impact of differences in council tax base assumptions.

6.2 The current assumption for planning purposes is that the grant floor will reduce by 1% each year for the following three years and this was included in the report to Cabinet on 21 July 2009. This will result in a reduction of grant of approximately £3.6m per annum below the assumption of 1.5% increase in 2010/11.

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 2010 prior to the census in 2011. The Council will need to consider its own response to these matters in due course as well as participating fully in the support to the ONS on preparation for the census. The latest mid-year population estimate for 2008 issued by the ONS this year showed an increase of 1,500 (0.67%) to 226,200, broadly the same at the national average increase, although considerably lower than the projected figure used in the formula grant settlement for 2008 of 222,900. It is extremely unlikely that the grant settlement will be re-opened in light of this information.

6.4 The government continues to consider the future of the **adult social care** system through the discussion document 'The Case for Change – why England needs a new care and support system'. The initial engagement findings were released in July 2009. A number of views were expressed with a balance of opinion in terms of where responsibility for care should rest as well as different funding models in terms of allocation of resources to need or ability to pay. The consultation process on this is due to continue over the next few months, however, in overall terms the government re-iterated its principle that there would be no new resources for the care system.

- 6.5 The consultation on the review of the Council housing finance system and the **Housing Revenue Account** (HRA) closed in October 2009. Although in principle the proposals allow more local freedom to manage resources, there are some key issues that will need to be resolved such as how significant capital housing debt will be dealt with going forward for individual authorities. The outcome of the review is likely to require further consideration in the new year.
- 6.6 The review of the dedicated **schools** grant (DSG) is looking at moving towards a formula system that may have a further impact on the individual schools budgets. Any revised formula will take effect from April 2011. It is anticipated that proposed consultation will be taken to Ministers in December 2009 with detailed stakeholder consultation being undertaken in 2010. The Council is further developing its arguments to support a more equitable treatment of Haringey particularly in respect of the area cost adjustment (ACA) element of the new formula. Additionally an **early years funding formula** is due to be introduced from April 2010, which is attempting to reflect more accurately funding for actual costs, particularly in the private and voluntary sectors. Any impact of this on Council nursery provision will need to be managed within the overall DSG allocation.
- 6.7 The allocation of specific grant to fund **concessionary fares** nationally did not impact significantly in London as boroughs have been providing free travel for older people for a number of years previously. There have been some funding issues with authorities outside of the capital and the Department of Transport is looking at ways to address this impact and is currently consulting on re-distribution of a special grant. The proposal, if agreed, would reduce a long-standing specific grant, which contributes to the cost in London by £28m. London Councils are lobbying against this possibility in the strongest possible terms.

## 7 Local update

- 7.1 The Council's **accounts** for 2008/09 were agreed as planned in June. The final position is in line with that previously anticipated and general balances are now at £7.5m, which is below the medium term target level of £10m. The current approved medium term financial strategy assumes balances are increased in 2009/10 by £4m.
- 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 £1.9m 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:
- safeguarding children – it was anticipated that there would be a level of ongoing higher costs, over and above the JAR action plan resources, driven by increased numbers of children in care and other related costs;
  - adult social care – a higher demand for services, particularly in learning disabilities, and;
  - housing and temporary accommodation – investment in service improvement and focus on reducing numbers in temporary and emergency accommodation.

- 7.3 The **Local Area Agreement** (LAA) is guided by the Community Strategy and delivered by the Haringey Strategic Partnership. A review of the use of the **area based grant** and the performance outputs and deliverables will need to be carried out to inform the final budget allocation process across themes and outcomes.
- 7.4 Current assumptions on **inflation** are set at 2.0% in the existing budget plans for 2009/10 and 2010/11 and revert to 2.5% after that. This is a net position including income and therefore assumes that fees and charges will be raised by at least 2.0% from April. The actual rates of inflation have been steadily reducing for a year now and the latest annual figures are considerably lower than this budget assumption. The figures as at September 2009 are that the consumer prices index (CPI) is 1.1% and the retail prices index is negative at -1.4%. This is reflected in the **pay award** settlement for 2009/10, which was agreed at 1% for the majority of staff and with no increase for chief officers and senior managers. This delivers a saving of approximately £1.5m in 2009/10 from the base budget going forward. It is proposed that the same assumption is made for 2010/11, which is still a prudent position given the recent public statements around public sector pay freezes in the future.
- 7.5 The market for **energy prices** continues to be relatively volatile. A year ago wholesale prices for gas and electricity experienced annual rises in excess of 100% although since then the markets have seen continuous falls. The Council's procurement process for energy, a model adopted by the majority of other London boroughs, has achieved an average price reduction of 40% for the year commencing October 2009. The impact of this will need to be assessed during the budget process together with the possibility of future fluctuations for the second half of 2010/11 and future years.
- 7.6 A new package of pay and conditions in respect of **equal pay / single status** was agreed in September 2008. The pay arrangements in terms of the back-dated compensation were resolved and paid last year and an estimate of the potential on-going costs going forward was included in the budget. A number of variations are arising as the new job-evaluation scheme is implemented with some cost pressures probable over and above the budget provision. This will be assessed in the coming months so that, if required, a further budget provision can be made in due course.
- 7.7 The position on **temporary accommodation** remains a significant financial risk for the Council. As reported to Members in July 2009, the Department of Work and Pensions (DWP) are proposing to implement a new subsidy system that will greatly reduce the grant that, in particular, London authorities will get to fund temporary accommodation. Haringey and other London boroughs through London Council's have strongly objected to this change. It has been recognised that the financial impact in Haringey would be particularly severe because of the higher concentration of people in emergency accommodation (licensed annexes) as these are based on nightly rates and therefore are significantly higher cost than the local housing allowance rates upon which the new subsidy will be based. In July Cabinet agreed to utilise £2.2m of the reserve set aside for this particular subsidy risk, to resource a project focussing on reducing emergency accommodation by March 2010 as part of an integrated approach to delivering reductions in the overall temporary accommodation figure. The latest position on emergency accommodation as at the end of October is a reduction of 370 from 1,652 to 1,282 from the start of the year.

- 7.8 As previously agreed future budget plans include further increases in employer's contributions to the **pension fund** to coincide with the next triennial valuation by the Council's actuaries the results of which are due to be reported later in 2010. The last interim annual valuation at March 2009 showed a significant fall in the value of the fund, in line with general economic and stock market conditions. The Department of Communities and Local Government have been informally consulting on measures to reduce the impact of this fall in pension fund values nationally, one of the main aims being to achieve stability in employers contributions in the medium term. In recent months, with the stock market values have increased significantly and if maintained this should have a positive impact on the formal actuarial valuation for March 2010.
- 7.9 The Council approved additional resources of £4.2m in 2009/10 for the implementation of the JAR action plan in respect of **safeguarding children**. This year has also seen a significant rise in the numbers of children taken into care and the associated care and legal process costs of dealing with this. The business planning process includes sums for ongoing investment in this area and will be subject to further refinement in the final budget presentation.
- 7.10 **Adult social care** budgets are increasingly under significant pressures nationally and this is reflected locally too as evidenced by the current year cost pressures. There are increasing numbers of transition care as children enter adulthood and require care particularly in the learning disability service. There are projections of further increasing demand over the coming years and strategies are being developed to find the most cost effective way of dealing with this alongside the national policy direction of choice and personalisation. The Council is also aiming to improve its strategic commissioning role in this respect.
- 7.11 The arrangements for **waste management and public realm** services, including street cleansing and recycling, are becoming increasingly important both nationally and locally and improving the Council's recycling rates is a key priority for the greenest borough strategy. Cabinet previously agreed to extend the current waste management contract to allow for a more holistic approach to the commissioning and procurement. The procurement process for this is progressing along the competitive dialogue route with the aim of delivering improvements in service delivery and achieving the planned efficiency savings from a combined contract.
- 7.12 The future strategy for **waste disposal** is based on the current procurement exercise and the PFI case for government support being managed by the North London Waste Authority (NLWA). There are medium term cost increases above inflation as part of existing plans and these are not expected to increase further. Members are aware of the longer term position on the increased costs of waste disposal and the progress of the outline business case for PFI, which is due to be finalised this December. Cabinet received a report on this in October 2008 together with an agreement to the affordability case for the expected additional costs, which are built into to future plans.
- 7.13 The government have been consulting on a **carbon reduction commitment** trading scheme whereby large organisations, both public and private, have to purchase credits to cover their carbon emissions and then, dependent on their carbon reduction



performance relative to others, they may be able to sell excess credits or will need to purchase further credits. The full details of the scheme are not yet confirmed. A detailed assessment of the financial impact of the scheme for Haringey is not feasible at this time.

- 7.14 The continuation of a very low Bank of England base interest rate at 0.5% is predicted for some time to come. A revenue consequence of this is a reduction in **interest earnings** on cash balances. The budget plans already predicted a fall in interest earnings for 2009/10 and set aside some reserves to deal with this. A further assessment of this will be completed for 2010/11 in conjunction with the potential to make savings in the cost of new borrowing and refinancing of some loans where the redemption premium will allow. A sum is included for future years for additional **capital financing** costs as a result of the Council taking up the borrowing credit approvals available mainly for schools capital expenditure.
- 7.15 Planned savings from the **Haringey Forward** programme have been reviewed as part of the financial planning process and it is expected that in overall terms the £5m of additional efficiency savings will be delivered by 2010/11 as per the original target.
- 7.16 A number of investment bids have been made to the Council by **Alexandra Palace and Park Charitable Trust** for both additional revenue and capital support. The Council currently has a budget of £1.7m to fund the net revenue deficit.
- 7.17 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.
- 7.18 The draft **housing subsidy** determination last year was for two years so included 2010/11. This was on the basis that an average guideline rent increase of 6.1% would be implemented from April 2010. The DCLG have written to local authorities saying that this is now under review and that a further determination will be issued in due course. This follows an original average rent increase of 6.1% in 2009/10, which was later amended by DCLG and the Council implemented a revised average rent increase of 2.94% from July 2009.
- 7.19 The position on resources for the **capital programme** is being reviewed carefully, particularly in light of a significant contraction in the flow of **capital receipts** to the Council. Consideration may need to be given to temporary borrowing in order to maintain a sensible level of capital investment, whilst in line with the Council's capital strategy, maximising external resources where possible.

## 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 £2.0m for identification of new savings was set for planning purposes for 2010/11. Pre-agreed savings of nearly £15m 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.
- 8.4 The strategy for dealing with the considerable budget gaps in 2011/12 onwards is being formulated and work is already underway in order to meet this challenge. It is proposed that the three key strands to this will be:
- Support functions review – key project to deliver efficiencies in support functions, reduce processes and bring together common work areas to benefit from economies of scale;
  - Strategic commissioning – developing a strategic commissioning function that is able to deliver efficiencies in the market supply and carry out effective de-commissioning, and;
  - Strategic service reviews – review existing service models and levels; possibly reconfiguration, shared services, social enterprises, externalisation, re-prioritisation, reviewing policy options and discretionary areas of spend.
- 8.5 Consideration will need to be given to the business cases for these work streams including the up front investment required to deliver such change.

## 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 last year will be repeated 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 next year and therefore only essential investment and growth should be considered as part of this process. The Council has a significant challenge ahead in terms of producing a balanced budget over the following two years and beyond with the expected reduction in overall public spending.

**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 carrying out detailed equalities impact assessments on significant items 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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<b>Gross Budget Trail</b>	<b>2010/11 £'000</b>	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>
<b>Budget brought forward</b>	<b>408,833</b>	<b>417,471</b>	<b>428,687</b>
<u>Changes and variations</u>			
Inflation	7,310	8,900	9,300
Changes agreed in previous years budget process	4,850	3,759	
Changes and variations reported 21 July 2009	0	5,116	6,134
Changes and variations in this report (see appendix b)	(3,000)	400	400
<u>Investments</u>			
Up to 2008/09 process	570	(300)	0
2009/10 process	129	54	0
Proposed investment fund		1,000	1,000
	699	754	1,000
<u>Savings</u>			
Up to 2008/09 process	(6,467)		
2009/10 process	(1,316)	(7,130)	
	(7,783)	(7,130)	0
<u>Dedicated schools grant (DSG)</u>			
Passporting of DSG	6,533	6,024	6,692
Prior year adjustment for actual pupil numbers			
	6,533	6,024	6,692
<u>Balances</u>			
Contribution to / (from) balances 2007/08 process	(2,645)		
Contribution to / (from) balances 2008/09 process	696		
Contribution to / (from) balances 2009/10 process	2,000		
<b>Gross Council budget requirement</b>	<b>417,493</b>	<b>435,294</b>	<b>452,213</b>
Less dedicated schools grant (specific grant)	(172,108)	(178,132)	(184,824)
<b>Net Council budget requirement</b>	<b>245,385</b>	<b>257,162</b>	<b>267,389</b>
<b>Funding</b>			
Council tax (see below)	100,738	103,760	106,873
Government revenue support grant & redistributed NNDR	144,625	146,795	148,997
	<b>245,363</b>	<b>250,555</b>	<b>255,870</b>
<b>Resource shortfall/(excess)</b>	<b>22</b>	<b>6,607</b>	<b>11,519</b>
<b>Council tax</b>			
	<b>£</b>	<b>£</b>	<b>£</b>
Council tax (LBH)	1,184.32	1,219.85	1,256.44
Council tax base (after provision for non-recovery)	85,060	85,060	85,060
<b>Precept</b>	<b>100,738,259</b>	<b>103,760,441</b>	<b>106,872,786</b>
Rate of council tax increase (Haringey element)	0.0%	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)	£0.00	£0.68	£0.70

<b>Resource Shortfall Tracker</b>	<b>2010/11 £'000</b>	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>	<b>Total £'000</b>
<b>Position at end of 2009/10 process</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<u>Update for 2010/11 process</u>				
- inflation			9,300	<b>9,300</b>
- assumed formula grant increase at current 1.5%			(2,202)	<b>(2,202)</b>
- assumed increase in council tax at 3%			(3,206)	<b>(3,206)</b>
	0	0	3,892	3,892
<u>Changes and variations 21 July 2009</u>				
- pension fund employers contribution		500	1,500	2,000
- estimated formula grant reductions - 1% below 2010/11		3,616	3,634	7,250
- NLWA - waste disposal		1,000	1,000	2,000
	0	5,116	6,134	11,250
<u>Investments</u>				
- new investment fund		1,000	1,000	2,000
<b>Position as at 21 July 2009</b>	<b>0</b>	<b>6,116</b>	<b>11,026</b>	<b>17,142</b>
<u>Changes and variations now reported</u>				
- reduced pay award inflation 2009/10	(1,500)			(1,500)
- reduced pay award inflation 2010/11	(1,500)			(1,500)
- capital financing planned SCE [R]		400	400	800
	(3,000)	400	400	(2,200)
<u>Council Tax</u>				
Proposed freeze on council tax (previously assumed 3%)	3,022	91	93	3,206
<b>Position as at 17 November 2009</b>	<b>22</b>	<b>6,607</b>	<b>11,519</b>	<b>18,148</b>