



Cabinet

On 26 January 2009

Report title: **Financial Planning 2009/10 to 2011/12**

Report of: **The Director of Corporate Resources and Chief Financial Officer**

Ward(s) affected: **All**

Report for: **Key Decision**

1. Purpose

1.1 To consider the Cabinet's proposed budget package for 2009/10 and later years.

2. Introduction by Cabinet Member for Resources

2.1 I am pleased to commend the report to Cabinet with the proposed council tax for 2009/10 financial year. This is a very tight budget with key investments for the benefit of the people of the borough to deliver the Council's objectives.

2.2 We have taken into account the current economic climate and applied a prudent approach in the setting of this budget – I would like to thank all those who participated in the budget process.

2.3 I commend the report for approval.

3. Recommendations

3.1 To agree the changes and variations set out at paragraph 9.3 and appendix B.

3.2 To note the outcome of the consultation processes set out at section 11.

3.3 To agree the new investment proposals set out in appendix D.

3.4 To agree the revised and new savings proposals set out in appendix E.

3.5 To agree the proposals for the children's services (DSG) budget set out in appendix F.

- 3.6 To agree the proposals for the HRA budget set out in appendix G.
- 3.7 To approve the housing rent increases at an average of £4.78 per week (6.1%).
- 3.8 To approve the housing tenant service charge increase at an average of £1.94 per week.
- 3.9 To agree the proposals for the capital programme and funding set out in appendices H and J and the capital resource allocation policy at appendix I.
- 3.10 To agree the treasury management strategy and policy and prudential limits set out in appendix K.
- 3.11 To agree the proposed general fund budget requirement of £408.834m, subject to the decisions of precepting and levying authorities, and the consequences for council tax levels
- 3.12 To agree the way forward in respect of additional resources required for investment in children's services as set out in paragraphs 12.2 and 12.3.
- 3.13 To note that this budget report will go to Council on 9 February 2009 with the final decision on the budget and the council tax for 2009/10 to be considered at the Council meeting on 23 February 2009.

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



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4. Executive Summary

- 4.1 The report sets out the Cabinet's budget package for recommendation to Council. Based on this the council tax increase for 2009/10 will be 1.95%. The additional investment requirement for children's services arising from the joint area review inspection will be considered in the budget report to Council.
- 4.2 The report proposes a budget for the schools element of children's services within the ring-fenced dedicated schools grant (DSG).
- 4.3 The report proposes a balanced budget for the HRA based on an average rent increase of 6.1%.
- 4.4 The report proposes a capital programme based on the existing policy framework for capital expenditure.

4.5 The treasury management strategy and policy is recommended for approval and includes a revised annual investment strategy.

5. Reasons for any change in policy or for new policy development (if applicable)

5.1 The budget is designed to deliver the Council's existing policy framework.

6. Local Government (Access to Information) Act 1985

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

- The provisional local authority revenue support grant settlement 2009/10 issued 26 November 2008
- Report of the Chief Financial Officer and Director of Corporate Resources to Cabinet on 18 November 2008 – Financial Planning 2009/10 – 2011/12
- Report of the Chief Financial Officer and Director of Corporate Resources to Cabinet on 15 July 2008 – Financial Planning 2009/10 – 2011/12

7 Background

7.1 The reports to the Cabinet on 15 July and 18 November set out the key financial planning issues facing the Council and follow the agreed process for the detailed consideration of the Cabinet's business planning process and budget package. This report sets out the medium term financial strategy for the three-year period of the current administration and this will be reviewed on an annual basis. The initial financial planning report in July identified a budget gap of £7.6m over the four year period. The business planning process this year has aimed to close this gap as well as reviewing the pre-agreed savings totalling £12.8m.

7.2 This report proposes a budget package for the period 2009/10 to 2011/12 and is in 12 sections:

- government support;
- changes and variations;
- strategic approach;
- consultation;
- savings options;
- investment options;
- the children's service budget within the dedicated schools grant;
- the housing revenue account budget;
- the capital programme;
- the treasury management strategy;
- council tax, and;
- key risk factors.

7.3 The report is supported by various appendices as follows:

- appendix A sets out the gross budget trail;
- appendix B tracks the resource shortfall over the planning period;
- appendix C is the budget report of Overview and Scrutiny Committee and the Cabinet response;
- appendix D sets out proposed investments;
- appendix E sets out proposed efficiency savings;
- appendix F is the proposed budget for children's services within the dedicated schools grant (DSG);
- appendix G is the Housing Revenue Account budget;
- appendices H, I and J relate to the capital programme, and;
- appendix K is the treasury management statement.

7.4 The Council will consider the budget package and the limits under the prudential code on 9 February and the final council tax (including the GLA precept) and the policy and decision on reserves on 23 February.

8 Government support

8.1 The budget for 2009/10 is the second year of a **three year grant settlement** that provides some certainty and allows for a reasonable amount of stability for service planning over that period. There have been a number of significant changes in the formula grant system in recent years and the debate on the financing of local government is set to continue further.

8.2 There were major changes to grant distribution in 2003/04 when Standard Spending Assessments (SSA) were replaced by Formula Spending Shares (FSS). Those changes removed significant sums from the Council's base allocation and meant that we received the grant floor increase for 2003/04 onwards.

8.3 There were then a number of significant changes in the **formula** that provided a two year settlement position for 2006/07 and 2007/08. The key changes were as follows:

- the transfer of schools' resources from formula spending shares (FSS) to a ring-fenced dedicated schools grant (DSG);
- an alternative grant system based on separate blocks for relative needs, resources, a 'basic amount' and damping, replacing the previous formula spending shares by service (FSS);
- three-year settlements for individual local authorities based on frozen or projected data and linked to government spending review periods;
- use of projected population and tax base information, and;
- reduced weighting for deprivation in the formula for Children's and Younger Adults Social Care resulting in a significant shift of resources away from Haringey and London generally.

8.4 Separate damping floors within the formula were introduced for the Social Services blocks above to minimise disruption with redistribution.

8.5 For the 2008/09 budget and following two years the **government consulted** on changes to the formula in which Haringey had particular interest in two aspects:

- **area cost adjustment** – provide a new geographical banding for East Inner London to include Haringey, Newham and Barking & Dagenham to reflect more accurately the actual labour costs in the area – this was not implemented and no changes were made, and;
- **removal of the separate damping floors** for Children’s and Younger Adults Social Care introduced after significant changes were made in 2006/07 – this was removed and saw a shift in formula resources away from Haringey and London.

8.6 The settlement provided indicative figures for the following two years as part of the government’s proposal to move to three-year settlement announcements for individual local authorities. This is based on frozen or projected data and linked to spending review periods and therefore this time matches the Comprehensive Spending Review 2007 (CSR07) issued in October 2007.

8.7 The figures for 2009/10 were re-confirmed in the **provisional grant settlement** announcement issued on 26 November 2008. The three year grant settlement has set overall floors for the three year period. The settlement for Haringey is shown in the table below:

Formula grant	2008/09	2009/10	2010/11
National average increase	3.7%	2.8%	2.6%
London average increase	2.4%	2.1%	2.0%
Floor increase	2.0%	1.75%	1.5%
Haringey increase	2.0%	1.75%	1.5%
Haringey grant increase (£m)	£2.7m	£2.4m	£2.1m

8.8 Haringey has received a **floor increase** for all three years. The majority of London boroughs are now on the grant floor. Haringey is calculated at being approximately £7.5m below the grant floor in 2008/09. This is mainly as a result of the removal of the separate floors for Children’s and Younger Adults Social Care after the change in the formula as mentioned above.

8.9 The Council continues to produce a medium term three year financial strategy and this year includes rolling further a year to include 2011/12 although the grant settlement for this year is not known. The current assumption is a continuation of the 1.5% floor increase.

8.10 The **population** projections used in the grant settlement show a reduction over the next three years. Last year it was the Council’s view that this was under-enumerating the true position in Haringey and it is believed that there are still underlying issues with the data that the Office of National Statistics use, including the impact of not counting short term migrant movements. The government and ONS are planning reviews of the data and methodology before the next census in 2011.

8.11 The **dedicated schools grant** (DSG) is the money that goes directly to fund schools and the pupil led services in support of an authority's dedicated school's budget. Education services continue to receive higher increases than other local government services although the increases over the three year period are below that previously received. Haringey has received an increase of 3.5% per pupil for 2009/10, which is the minimum increase available.

DSG per pupil	2008/09	2009/10	2010/11
National average increase	4.6%	3.7%	4.3%
London average increase	4.4%	3.8%	4.3%
Haringey increase	4.1%	3.5%	3.9%

8.12 The 3.5% increase represents a 2.9% basic increase plus funding for other priority areas. This higher level of resources is designed to fund the minimum funding guarantee per pupil for all schools of 2.1% although the final cash sum available for each school will depend on the number of pupils as recorded in the January 2009 count. The implications for children's services budgets are explored later in the report.

8.13 Under the Council's policy on capital expenditure, increases in grant in relation to **capital financing** are earmarked to fund the revenue consequences of supported borrowing. The estimated increase in this part of the formula is £0.6m and this will be required to fund the increased costs of borrowing. However, due to the way the grant floors operate, the Council will not receive any actual additional cash grant to support this cost. The significant majority of the approvals relate to the capital programme in the Children's Service for schools.

8.14 The draft settlement for 2009/10 provides the level of **specific grants** largely as reported previously. A significant amount of grant is now paid through the **area based grant** (ABG), which is not ring-fenced for any specific purpose, but is to be used for agreed local priorities. The adjusted base for 2008/09 is £22.28m. This is planned to increase by £1.8m in line with the three year strategy announced in 2008. £1.2m of this increase relates to Children's Services and it is recommended that this is allocated to those services. The allocation of this will need to be agreed in conjunction with our partners in the Haringey Strategic Partnership (HSP) as part of the Local Area Agreement (LAA).

8.15 The level of **supporting people grant** continues to reduce by approximately 5% each year. The grant is estimated at £19.65m in 2009/10, a reduction of £1.03m (5%) from 2008/09. A review is taking place to manage this grant reduction with the least amount of impact on services. This will help to inform the further reduction of £0.98m (5%) planned for 2010/11 when the grant will reduce to £18.667m. It has been confirmed that the grant will be included within the ABG from 2010/11

8.16 There are some smaller changes on other elements of the grant, including the **working neighbourhood fund** (WNF). These will be managed within the overall position for each theme board under the HSP and as they are largely unchanged will not have a significant impact on achieving the priorities within

the LAA. The proposed allocations to the theme boards is set out in the table below:

Area based grant – proposed theme board allocations	2008/09 £m	2009/10 £m	2010/11 £m
Better Places Partnership	1.944	2.019	2.019
Children & Young People's Partnership	9.910	11.149	11.149
Enterprise Partnership	1.200	1.556	1.431
Integrated Housing Board	0.223	0.223	0.223
Safer Communities Executive Board	2.066	2.166	2.166
Neighbourhoods and Capacity	1.793	1.793	1.793
Well Being Partnership Board	5.143	5.143	5.143
Sub total	22.279	24.049	23.924
Supporting People			18.666
Total	22.279	24.049	42.590

- 8.17 It is assumed that there will be net financial impact arising from the planned **transfer of resources from Primary Care Trusts** to Local Authorities in respect of non-health care related expenditure for people with learning disabilities. This will be effective from April 2009 and money will be transferred by local agreement for the next two years. Further work will be done for the funding arrangements from 2011 onwards.
- 8.18 The pre-budget report stated that additional funding for local authorities was being set aside in the form of housing / council tax **benefits administration grant** to assist Council's respond to the economic downturn and meet increased demands for benefit in an effective way. The amount allocated for Haringey is not yet known.
- 8.19 The Leader wrote to the Minister in **response to the provisional grant settlement** by the 7 January deadline and incorporated the key points as set out in this section of the report.

9 Changes and variations

- 9.1 The 2008/09 budget was set as part of a process, which covered the first year of a three year planning period that follows the government spending review period. A number of budget changes and variations were recognised in the previous budget process and these are brought forward in the approved financial plans. During this year financial planning reports to the Cabinet in respect of 2009/10 onwards have agreed further changes and variations.
- 9.2 The changes and variations already agreed by the Cabinet are as follows:
- an update on inflation and assumptions for formula grant and council tax as the medium term financial strategy is rolled on a further year for 2011/12;
 - the actuary's triennial valuation of the **pension fund** up to 2007 was completed in November 2007. The next valuation will be available in late 2010 for the preparation of the 2011/12 budget. The interim deficit position

is likely to worsen and so an assumption for increased employer contributions of £1m has been made on this basis;

9.3 The additional changes and variations reported now are as follows:

- the latest budget projection for the apportioned costs for the **waste disposal** levy are based on the December report to the North London Waste Authority (NLWA). An estimated increase of £0.5m in 2009/10 and 2010/11 followed by a further £0.8m in 2011/12 is included. A review is being carried out by a Member Panel of the NLWA before this is formally approved in February. There are a number of reasons for this projected increase in costs, including increased tonnage, higher landfill tax and some preparatory costs for the new procurement. Some risk allowance has been made for next year in respect of market prices of recyclables. The full financial impact of the long term procurement process as reported to Cabinet in October 2008 is outside of this current planning timeframe;
- the **London Pension Fund Authority** (LPFA) are proposing a significant increase in the levy in relation to pension deficits for staff at the former Greater London Council (GLC) and other related bodies including the Inner London Education Authority (ILEA). Inner London authorities are being asked to pick up a higher level of costs because of the direct link to ILEA. This follows a high increase that was notified late in the 2008/09 budget process. The budget in 2007/08 was £252k and increased by 42% to £359k in 2008/09. This year the LPFA are proposing a further 72% increase of £259k to be phased in by 2011/12 and this is included in the Council's budget proposals. London Council's are challenging this levy increase;
- a saving of £300k on annual **insurance** premiums paid into the Council's self-insurance fund can be made following an external review of the fund position. This follows improved risk management practices, particularly in the highways service, and also delivers a one-off reduction in the level of the fund against known and projected liabilities that can be used for other purposes;
- the basis for allocating the cost of the **concessionary fares** levy under the new national scheme was reviewed by London Councils last year. The proposal agreed was to move towards actual usage data, but that this should be phased in over a period of time to allow for refinement of the collection of such usage data. It was subsequently agreed that the increase would be phased in over three years on a 40:30:30 basis. A further factor is that 2009/10 is the final year of the transport provision contracts so there is some uncertainty on the cost estimates after that year. The impact of moving to usage data for Haringey is estimated to be an increase of over £2m per annum. This was allowed for in the budget last year, however, this is now not fully required over the planning period and an adjustment has been made for this based on the latest figures from London Councils;

- recent economic conditions have had a consequent impact on inflation impacting across a number of areas and has led to a certain amount of instability. Significant increases in oil and **energy prices** have been followed by increases in food and other general prices. The Council has seen significant increases in its own contracted energy prices through the wholesale market and recently predicted falls in prices have not yet flowed through, therefore an allowance of £0.5m is added to the base to provide for the current position. On **general inflation** the November position shows inflation at 4.1% and a reduction to 3.1% for December. It is predicted to fall significantly next year to within the government's target of 2%. The Bank of England has predicted it may fall to below 1% some time in 2009. The Council's current budget assumptions allow for 2.5% generally on costs (including pay) and fees and charges income. It is proposed to reduce this to 2% in line with the government target for 2009/10 and 2010/11 reducing the budget requirement by approximately £1.2m each year;
- the downturn in **economic conditions** may have an impact locally on services although this may take a while to feed through. This may take the form of increased demand for Council services (such as higher volumes of housing benefit applications) or a loss in fees and charges income (such as building control). A general **contingency** sum of £1.1m is proposed for the two years to 2010/11 to allow for this although initially any pressures will be contained within approved existing budgets. The previously agreed contingency sum of £1.5m for 2009/10 can be released;
- the Chancellor's pre-budget report proposed an increase of 0.5% in employer's **national insurance** rates from April 2011. This is estimated to cost the general fund approximately £0.7m per annum with a further £0.5m being a cost to schools, and;
- the government have previously reduced subsidy thresholds in respect of **homelessness** by 5% in 2007/08 and 10% in 2008/09 for London authorities only. The Department of Work and Pensions (DWP) had planned to carry out a more fundamental review of how funding is allocated for implementation in 2009/10. It was expected that this would have a further detrimental impact on the Council and a provision of £3m was made for this year. The DWP recently announced that the review would not be completed in time and that it would be deferred one year. It also announced a cash freeze in subsidy levels for London authorities in 2009/10 with all other authorities receiving a 5% increase in thresholds. This has an impact on Haringey as there will be inflationary pressures on costs without a related increase in subsidy income. It is proposed that the £3m base provision is re-phased over the planning period with the bulk of the additional cost coming in 2010/11. This allows £750k to be retained to assist the service in meeting its reduction targets with some of the inflationary pressures to be contained within the service.

9.4 These changes and variations are summarised at appendices A and B.

10 Strategic approach

10.1 The key drivers for the strategic context in business planning process have been derived from the current jointly agreed Community Strategy, the majority party Manifesto and the approved priorities within the Council Plan as follows:

- Making Haringey one of London's greenest boroughs
- Creating a Better Haringey: cleaner, greener and safer;
- Encouraging lifetime well-being at home, work, play and learning;
- Promoting independent living while supporting adults and children when needed, and;
- Delivering excellent, customer focused, cost effective services.

10.2 The Council Plan for 2007/10 has a set of key short and medium term actions that contribute to meeting the above priorities, which in turn will contribute to the Community Strategy as agreed by the Haringey Strategic Partnership. The financial plans arise from the business planning process, through Pre-business plan reviews (PBPR) and allocate resources to priorities as well as delivering efficiency savings and contributing to the value for money agenda. Local needs information including the borough profile informs the service planning at this stage. The final budget proposals will form the medium term financial strategy and will be aligned to the Council Plan. Individual annual business plans will be published in April 2009.

11 Consultation

11.1 Consultation on budget options is as follows:

- consideration of financial strategy and the pre-business plan reviews (PBPRs) by the Overview and Scrutiny Committee;
- a discussion of the Council's medium term financial plans with partners within the Haringey Strategic Partnership;
- consideration of the Children and Young People's Service budget issues by schools at the School's Forum;
- consultation with tenants and leaseholders via Homes for Haringey on rent increases and budget proposals;
- a presentation of the Council's strategic plans at an event for local businesses;
- separate focussed consultation sessions with residents;
- trade union representatives; and,
- other stakeholders.

11.2 Scrutiny

11.2.1 The Overview and Scrutiny Committee met during December and January to consider the Council's financial strategy and the general fund revenue savings and investment options included in the PBPR's for each of the business units. The conclusion and comments of the Overview and Scrutiny Committee are attached in their report at appendix C2.

11.2.2 The Cabinet has given careful consideration to the specific budget issues that have been raised as part of the process and the responses are set out in appendix C1. The Cabinet concur with many of the recommendations made by Overview and Scrutiny Committee and some changes have been made to the budget proposals attached as noted. The capital investment bids for corporate resources were considered by Overview and Scrutiny Committee on 6 January 2009 and a summary of their comments are also included.

11.3 Haringey Strategic Partnership

11.3.1 Key partners have been consulted individually through this budget process. It is also proposed that the Council will report to the Haringey Strategic Partnership (HSP) in February to discuss the Council's medium term financial strategy in the context of the wider review of the funding, commitments and targets included in the Local Area Agreement and the allocation of the area based grant and other funding streams.

11.4 Schools

11.4.1 The School's Forum has a key consultative role in the agreement of the budget strategy for the dedicated schools budget. Budget planning issues and the detailed report on the dedicated schools budget were considered by the Schools Forum at its meeting on 11 December 2008. The recommendations extracted from the minutes of that meeting are attached at appendix F and these are included in the proposed budget plans.

11.4.2 It was recommended that Cabinet consider reducing the estimated provision for pre-opening costs for Heartlands school. This has been done and is reflected in the revised budget attached.

11.4.3 The recommended budget changes together with the grant settlement position result in £0.7m of 'headroom' being available above the minimum funding guarantee. The Forum has recommended that this should be distributed to schools through additional educational needs (AEN) factors. This is in line with the agreed policy of increasing the AEN/deprivation funding in the formula agreed last year.

11.4.4 Further details on schools funding and the proposed budget are set out later in this report.

11.5 Tenants and leaseholders

11.5.1 Homes for Haringey held a meeting of the Residents Finance Panel during the budget process and discussed the budget proposals in detail as part of the consultation process. Tenant and leaseholder representatives are members of the group.

11.5.2 The rent increase is driven by the government's rent restructuring guidance. A formal consultation process is conducted on the options for implementing the rent increase including through the Residents Finance Panel and direct tenant communication. The consultation period began on 4 December and closed on

12 January. The response rate to the consultation was low. In terms of the three options for dealing with the rent increase no particular one emerged ahead of the others. A number of individual comments were received, and although some were suggesting that the increase should not be so much, others stated that rents need to increase to maintain housing services.

11.5.3 A consultation exercise has also been carried out in respect of tenant's service charges. The increase has been discussed with the Residents Finance Panel and through direct communication. The end of this consultation period has been extended beyond the original deadline of 17 January. The general feedback so far is of concern about the increases in heating costs.

11.5.4 Leaseholder's service charges are charged the actual costs of providing the service with large charges being consulted through the formal Section 20 process. The recommendations in this report for service charges therefore do not apply directly to leaseholders.

11.6 Business event

11.6.1 Business consultation events are being held on 22 and 28 January 2009 at which presentations will be given on the Council's financial strategy and the increase in business rates by the government. Feedback will be included as part of the report to full Council in February.

11.7 Residents

11.7.1 This year the Council year engaged with residents on the main budget process in a more proactive way than has been undertaken in the past. This is in line with the government agenda of participatory budgeting. The consultation was based on information giving and asking for comments through Haringey People, a web-based questionnaire and a consultation exercise with groups of invited residents at facilitated workshops. This is in addition to the already well-established publication of the pre-business planning review documents on the website.

11.7.2 Focussed workshops were held and the participants were drawn from existing lists of residents who had taken part in the Annual Resident survey and had agreed to take part in further research, as well as people who had expressed an interest in coming to a budget workshop session.

11.7.3 Five workshops were held, two spread geographically across the borough, two with young people at youth clubs/schools and one workshop with a group of disabled people. A survey was also carried out with groups of disadvantaged young people. Just under one hundred people's views were obtained overall.

11.7.4 The content included an explanation of the Council's funding sources and spending plans along with a view of how increases in council tax impact of the Council's budget making process. Participants were asked about which services they use or have used. This was followed by round table facilitated discussions about a series of questions designed to ascertain which areas of

the budget residents would rather support financially. The sessions were closed with a vote on the questions posed.

11.7.5 A summary of the findings and main comments are as follows:

- residents were pleased to be invited to comment and take part in this budget process and felt it was a good initiative from the Council;
- participants were interested and surprised when taken through the presentation of how the Council was funded, especially how little the council tax pays for;
- almost everyone who took part would like more detailed information in the future;
- many participants commented that it is a difficult job making the necessary decisions for the budget;
- the main service priorities that came through were; social care for children and vulnerable adults; recreation facilities including parks and open spaces; youth services and education (the last two the highest priority amongst young people surveyed), and;
- in terms of council tax, the majority of participants said they would rather see current levels of service maintained or improved knowing that it may mean an increase in council tax.

11.8 Trade unions

11.8.1 Meetings on 5 December and 7 January have been held with representatives of the trade unions to discuss the financial strategy and the pre-business plan reviews at a high level. Written responses have been received on the detailed proposals and these are being discussed at departmental levels where appropriate. The key overall views expressed are set out in the following paragraphs.

11.8.2 “The trades unions in Haringey Council are aware that the Council’s finances are significantly determined by the level of Central Government support that it receives and by political considerations bearing on the level of council tax. At a national level, all three of the unions recognised in Haringey have pressed the government for greater investment in the public sector and a greater commitment to public services. Our comments on Haringey’s proposals, therefore, reflect our perception of how the Council proposes to handle the constraints within which it must work.”

11.8.3 “We welcome the fact that there is no section 188 notice in prospect this year and that effort has been made to minimise the level of redundancies. There appear to have been improvements in the effectiveness of the redeployment procedure over recent years and we hope this will contribute to the avoidance of redundancies. We welcome the fact that the pre business plan reports contain proposals to reduce the level of use of agency staff and replace such staff with directly employed staff. We would encourage the Council to continue scrutinising its employment practices to maximise the use of directly employed staff.”

11.8.4 “We recognise that the recent inspection in the children and families service will necessitate a fresh look at the Council's handling of child care and welfare issues and that this may have implications for spending in that area. Should these budget plans require revision in light of that, we will expect to be included in the consultation process.”

11.9 Other stakeholders

11.9.1 Views of other stakeholders have been sought and received as part of the budget process including specifically with partners such as the Primary Care Trust, the Mental Health Trust and voluntary organisations.

12 **Investment options**

12.1 The PBPR process has identified new investment opportunities which align with the Council's strategic agenda. These are set out in appendix D together with some other unavoidable growth items and are recommended for acceptance. The new proposals total £3.5m in the general fund revenue budget over three years in addition to the £1.3m of pre-agreed investments. The **Council's priorities** provide the rationale for the allocation of investment resources via the business planning process and are set out in the appendix. The key areas for investment are as follows:

- learning disability services – provision for additional demand;
- children's social care – provision for increase number of looked after children;
- increase in investment in direct payments for children's social care;
- provision of free swimming for under 16's and over 60's;
- additional resources for anti-social behaviour services, and;
- additional and expanded recycling services to increase coverage.

12.2 The investment requirement for **children's services**, following the joint area review inspection, is not yet fully known. It is envisaged that a significant level of additional resources will be required to implement the action plan and to embark on a programme of transformational change with the aim of becoming an exemplar for safeguarding and modern social work practice. The action plan is due to be finalised and submitted to the Secretary of State by the end of February. This sits outside the current budget process.

12.3 It is proposed that the net budget requirement for this additional level of resource be funded from reserves for 2009/10 and that this will form part of the Council's consideration of the budget in February. The ongoing impact on future years can be incorporated in the business planning process in the coming year.

13 **Savings options**

13.1 Proposed savings totalling £12.8m over the next two years were agreed as part of the previous budget processes. This excludes the separate savings

targets of £2m for each of the next two years for the Achieving Excellence programme. These savings have been reviewed through the PBPR process and either confirmed as sound and achievable or deemed as not achievable and replaced with new items. Some savings proposals have been re-phased to reflect a more realistic delivery profile. The changes to the **pre-agreed savings** are set out in appendix E and this shows a net shortfall against the original plans of £1.1m.

- 13.2 Through the PBPR process new savings options have been identified against agreed targets and these are included at appendix E. The appendix sets out those **new savings** proposals in respect of the general fund, which are recommended by the Cabinet for agreement, and total £5.4m over the next three years.
- 13.3 Members are aware of the government's agenda to generate **efficiency savings** throughout the public sector. Originally set out in the Gershon review and more latterly in the Comprehensive Spending Review 2007 (CSR07). Local government has been set a target of £4.9bn, which equates to 3% of the net base budget and achievement of this has been taken into account in the grant settlement as being delivered in cash. Each local authority currently reports progress on efficiencies to the government in the new national performance indicator set where one is for value for money. The government have also instructed local authorities to include efficiency information directly on to **council tax bills** for residents from this year onwards.
- 13.4 The Council's ability to deliver budget savings is confirmed as a key aspect of the response to the strategic agenda in order to re-allocate resources to priorities and maintain essential services. The plans set out in this report include significant identified savings which can be summarised as follows:

Budget	2009/10		2010/11		2011/12	
	£m	%	£m	%	£m	%
General fund	9.582	3.9%	5.783	2.3%	3.408	1.3%
DSG (excl ISB)	0.000	0.0%	0.000	0.0%	0.234	0.1%
HRA	1.192	1.3%	2.000	2.1%	0.000	0.0%
Total	10.774	2.1%	7.783	1.5%	3.642	0.7%

- 13.5 The **Achieving Excellence** programme is a key part of the overall strategy for delivering savings. An update was recently reported to Members that showed progress is being made broadly in line with expectations and that the £5m savings target will be delivered. The key streams for the efficiency part of the programme are the value for money reviews and Smart Working/accommodation strategy. As this is an evolving programme further focus and consideration is being given to strategic commissioning and the cost of central functions, which may assist in delivering additional savings beyond 2010/11 with the appropriate level of investment.

13.6 The **staffing implications** of the savings proposals include the deletion of a number of posts as highlighted through the PBPR's. All efforts will be made to minimise the impact on permanent staff. The Council has a well established process for managing workforce reductions, which will apply. Redeployment, retraining, and the review of vacancies/temporary employment will assist to minimise the impact of reductions in the staffing establishment. The Council's trade unions have been consulted during the budget making process and will be closely involved in the actions described here. It may transpire that some redundancies will be unavoidable and the due statutory process will be followed. In the closing of accounts process last year a one-off corporate **provision for redundancy** costs was set up for £2m. This will be utilised only where the redundancies relate to savings proposals approved as part of the budget process and can not be funded from revenue underspends in the service. It is the Council's aim to minimise the use of this provision and progress will be reported back to Members in due course.

14 Children's services budget - dedicated schools grant (DSG)

14.1 In November 2007 the government announced the latest multi-year settlement information for the DSG covering the period 2008/09 to 2010/11. Members are reminded that this information set out a guaranteed unit of funding together with an estimate of pupil numbers for each of the three years covered by the settlement to give indicative cash amounts of grant.

14.2 The headline position for Haringey in 2009/10 is an **increase per pupil** of 3.5%. This compares unfavourably with a 4.1% increase in 2008/09 and the London average of 3.8% for 2009/10.

14.3 Schools are guaranteed a minimum funding increase based upon the government's assessment of inflationary pressures, although for each of the years covered by the multi-year funding settlement, a 1% efficiency saving has also assumed to be achieved. The **minimum funding guarantee** (MFG) has been set at 2.1% per pupil in 2009/10 and the same for the following year.

14.4 The final cash amount of DSG is set by reference to the actual pupil numbers recorded at the January census immediately prior to the financial year in question, i.e. for 2009/10 the January 2009 count. However, because of concerns over the accuracy of estimated numbers produced by the Department for Children's Schools and Families (DCSF) previously, the authority has adopted a more prudent view of pupil numbers in budgeting for DSG.

14.5 The guaranteed unit of funding and the estimated pupil numbers used to set DSG for 2008/09 as reported to the Council in February 2008 was 32,207 pupils at £4,987 giving a total estimated cash figure of £160.617m (after rounding).

14.6 In actual terms (at the January 2008 count) the 2008/09 **final pupil numbers** were marginally lower still (at 32,084) and a budget adjustment of £620k was implemented in this year. In continuing to adopt a conservative approach to

the setting of the DSG this lower pupil number has been reflected in setting the 2009/10 assumptions.

- 14.7 Whilst DSG allocations are not announced by the government on a rolling three year basis, data for 2011/12 has been added based on a continuation of pupil numbers and an assumed 3.5% increase in the guaranteed unit of funding.

Year	Per pupil guaranteed unit of funding £	Increase over previous year %	Estimated pupil numbers	Estimated DSG £m
2008/09 (final)	4,986.83	4.1	32,084	159.997
2009/10	5,160.66	3.5	32,084	165.575
2010/11	5,364.29	3.9	32,084	172.108
2011/12*	5,552.04	3.5	32,084	178.132

**2011/12 figures are indicative and based upon the assumptions stated.*

- 14.8 The total DSG position as proposed is balanced. The School Forum considered a three year strategy in 2008 and this has been updated to reflect the changes in pupil numbers set out above and the continuation of the policy agreed at Cabinet on 18 December 2007 of allocating any **residual headroom** towards AEN/ Deprivation factors within the Haringey Formula for Financing Schools.

- 14.9 Appendix F1 sets out the position on the DSG for the three year planning period within which there is provision for resources to be retained centrally in order to fund the following items:

- the estimated cost of inflation attributable to central budgets (£470,000);
- the pre-opening costs associated with the new Heartlands High School (£122,000) reduced significantly from earlier proposals reflecting the views expressed by the School's Forum;
- the delegation of £264,000 to Moselle School to enable increased autism provision to be created and, allied to this proposal charging the corresponding transport costs (£116,000) for these pupils against central expenditure within the DSG to recognise the efficiency of using in-house provision;
- the need to provide for possible budget pressures in SEN placements (£225,000 covering both demographic and inflationary pressures), and;
- the provision of personalised learning services to pupils within central provision, e.g. the Pupil Referral Unit (£31,000).

- 14.10 In the near future it is proposed to consult with schools on changes to the 2009/10 Haringey **Scheme for Financing Schools** in respect of two issues:

- the operation of a **sustainable investment fund** for schools to improve their energy efficiency based on repayable loans from school balances, and;
- the insertion of requirements for **audit work** to be carried out by schools that choose to operate payroll services outside of the Haringey payroll Service. This is to ensure that the Authority's own statutory audit requirements in connection with the Teachers Pension Scheme can be sufficiently met.

14.11 The DSG is currently allocated by government on a 'spend-plus' basis, derived from authorities' spending in 2005/06 plus uplifts for inflation and ministerial priorities. The previous **DSG methodology**, which underpins the 2005/06 spend, included an area cost adjustment (ACA) element to estimate the additional costs associated with high cost areas. Under this formula Haringey was classified as an outer London authority, even though it pays its teachers inner London allowances and displays many characteristics akin to inner London authorities. This results in Haringey's DSG funding being substantially below that of the borough's inner London neighbours. The Department for Children, Schools and Families (DCSF) is carrying out a **review** of the DSG with the expectation of a return to formula funding in 2011/12.

14.12 Haringey has already made representations to the DCSF for a more equitable ACA formula to be developed and, in conjunction with the Haringey Schools Forum, will continue to make concerted effort to lobby for the improvement of the formula to more accurately reflect Haringey's costs.

15 Housing revenue account

15.1 The housing revenue account (**HRA**) is a self-financing account and therefore cannot be subsidised by the general fund i.e. council tax. The strategy for the HRA must therefore show sustainable resources available to provide the service and remain in balance in conjunction with maintaining the working balance at a prudent level. The income for this account is largely through government subsidy and tenant rents.

15.2 The final HRA **subsidy determination** was received on 18 December 2008. The rent restructuring formula changes result in a recommended average **rent increase** for Haringey of 6.13% equating to an average of £4.78 per week. The draft subsidy position issued on 28 October 2008 gave two options for determining the guideline rent:

1. based on the original assumption that guideline rents are increased to incorporate the 5% retail price index increase at September 2008 with adjustments to achieve a convergence with formula rents by 2011/12, and;
2. based upon a fixed increase of 6.2% in guideline rent. To achieve this, the convergence with formula rent would need to be extended to 2024/25. The proposed guideline rent increase for 2010/11 would be 6.1%.

- 15.3 The final subsidy determination from the government is adopting the second option. The first option would have meant an average rent rise for Haringey tenants of 7.5%.
- 15.4 The proposed rent increase for each individual property is therefore determined by the application of the government's rent restructuring formula, which aims to align HRA rents to the average Housing Association rent levels. The Council consulted with tenants on the rent increase based on the draft determination in order to meet the statutory deadlines. Although the average increase is 6.1%, rents are calculated on an individual property basis and the large majority of changes will be affecting the 1 to 3 bedroom properties and the range of variations in rent would result from below 4.5% to over 9.0%. The **consultation process** therefore sought views on three different options of implementing the rent increase as follows:
1. set the rents as per the government's rent restructuring formula - this means that increases will be calculated according to the size and value of the home. Generally, tenants with a high rent will have higher increases although the rent increase will be different for each dwelling;
 2. set the rents as per the government's formula, but limiting any individual rent increases to no more than £6.00 per week. This option may require some tenants to receive a higher % increase than under the rent restructuring formula although it offers greater protection against higher cash increases, or;
 3. set the rents by adding 6.1% to all dwellings. This means that everyone's rent will increase by the same flat rate percentage. Homes with higher rents will increase the most in value terms.
- 15.5 The consultation had a low response and was inconclusive in terms of a preferred option. It is therefore recommended that **option 1** is implemented as this adheres strictly to the government's rent restructuring formula.
- 15.6 A review of **service charges** was carried out in this budget process. Since 2003/04 local authorities have been required to disaggregate service charges to tenants from rent. Service charges have generally risen in line with general inflation, however, it is clear that some costs have risen at a faster rate and therefore some service charges are out of line with the Council's general external income policy to recover full costs. This budget proposes to raise those charges, which will result in an average increase of £1.94 per week. The range will be from reductions of £0.52 to increases of £21.16 per week. The higher end of the range of these increases affect just over 600 households out of a total of 16,000 and the reason for these higher increases are in respect of heating charges where energy costs have risen significantly this year. The cost of all tenant service charges other than heating can be taken into account in the assessment for housing benefit and approximately 70% of tenants are currently in receipt of benefits.

- 15.7 In addition to the above, the **HRA medium term financial strategy** includes the following:
- efficiency savings of £1.1 million have been identified by Homes for Haringey following the re-tendering of the contracts for gas maintenance;
 - investment bids of £1.771 million proposed for 2009/10 that are detailed in appendix G;
 - savings of £444,000 were built in to the current budget based on this being delivered with a review of the tenancy management service, as this review is still on-going these savings may now not be achieved in the coming financial year, but will be included in the strategy to identify further efficiencies in the HRA;
 - further efficiency savings of £2 million are to be identified by Homes for Haringey in future years after 2009/10;
 - Supporting People Grant is forecast to be £566,000 below budget for 2008/09 with an ongoing financial impact into future years;
 - saving from the expiry of long leases is forecast to be £600,000 in 2008/09 and in future years, and;
 - delivery of rent collection at the agreed performance levels at 99% with a void rate of 2% on general stock.
- 15.8 The government **housing subsidy** position continues to worsen on an annual basis. The final subsidy determination for 2009/10 shows an overall decrease for Haringey in respect of management and maintenance subsidy of 0.9%, which is considerably lower than inflation. Management and maintenance allowances are increased by 0.68% to £2,163.37 per dwelling. Taking into account the reduction in dwellings due to disposals, this represents a reduction in overall allowances of £307,000. The major repairs allowance however has increased to £12.407m in 2009/10 and this is used to fund the capital programme.
- 15.9 The government have been carrying out a **review of the HRA subsidy system** including utilising some authorities as pilots. The details of the review so far appear to be inconclusive and it is expected that further work will be required before consulting on any permanent changes to the system to possibly inform the next spending review.
- 15.10 The current approved HRA budget position in 2008/09 is set out in the table below, together with the proposed changes to give an overall position for the HRA. This table is shown in more detail in appendix G. The target level of balances for the HRA is £5m and this is broadly achieved over the three year planning period. The planned opening balance for 2008/09 of £4.690m has been revised to £4.724m as a result of the closing of the 2007/08 accounts.

£000	2008/09	2009/10	2010/11	2011/12	2012/13
Planned opening balance	(4,724)	(5,255)	(5,925)	(5,526)	(5,915)
In year budget	(531)	(670)	399	(389)	1,302
Proposed closing balance	(5,255)	(5,925)	(5,526)	(5,915)	(4,613)

16 Capital programme

- 16.1 A capital programme has been developed, driven by the Council's agreed policy framework for capital expenditure, the approved capital strategy and underpinned by asset management plans across the Council. The overall proposed programme is attached at appendix J.
- 16.2 The existing resource allocation strategy adopted by the Executive on 21 October 2003 uses the Community Strategy and Council's Corporate Plan as its framework for determining priorities and is delivered through the Council's business planning process. This is updated and attached at appendix I.
- 16.3 The main resources for capital expenditure are provided through borrowing approvals, i.e. supported capital expenditure (revenue) or SCE (R) and through grant, mainly supported capital expenditure (capital) or SCE (C). Both forms of funding can be ring-fenced by the government. Corporate resources comprise non-housing and education borrowing limits, non-ring-fenced grant and all capital receipts. The estimated resources available for capital investment are set out in the table below over the next three years. The estimates for the investment for decent homes and BSF are shown separately.

Capital Programme - Resources Utilisation Estimates	Original 2008/09* £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	3 year Total £'000
Housing (Housing Revenue Account)					
SCE® Single Capital Pot	6,233	6,233	6,233	6,233	18,699
SCE® Separate Programme Element (Decent Homes)	*36,105	30,000	40,000	44,000	114,000
Major Repairs Allowance (MRA)	11,855	12,407	12,407	12,407	37,221
	54,193	48,640	58,640	62,640	169,920
Children & Young People's Services					
BSF (SCE®, SCE® & other finance)	47,871	98,822	34,560	3,228	136,610
Other SCE® (excluding BSF)	6,479	5,253	6,510	4,612	16,375
Other SCE® (excluding BSF)	6,245	12,417	16,181	12,514	41,112
Other Grants & Contributions	250	1,274	200	200	1,674
	60,845	117,766	57,451	20,554	195,771
Urban Environment					
TfL Capital Grant (Local Implementation Plan)	5,337	3,815	6,000	6,000	15,815
Other SCE®	2,406	1,550	0	0	1,550
	7,743	5,365	6,000	6,000	17,365
Adult, Culture & Community Services					
SCE® (Disabled Facilities Grant)	600	749	749	749	2,247
Application of Corporate Resources					
SCE®	0	100	100	0	200
Capital Receipts - Bids for Corporate Resources	18,167	9,837	7,772	8,255	25,864
Capital Receipts - Accommodation Strategy		0	0	5,650	5,650
	18,167	9,937	7,872	13,905	31,714
Other Grants & Contributions & Reserves	3,885	13,126	13,035	7,950	34,111
Prudential Borrowing	962	3,422	11,812	0	15,234
Total Capital Programme	146,395	199,005	155,559	111,798	466,362

* 2008/09 Original budget figures shown for comparison purposes

* The £36.105m for Decent Homes was estimated prior to the notification from government

- 16.4 It should be noted that under the previous formula grant system the translation of SCE (R) into a revenue stream in the formula and then cash grant does not reflect the actual **cost of borrowing**. This is partly because a notional rate of interest of 5.4% is used compared to the actual average Haringey rate of 7.09% and the figures are also scaled down to the national total resources available. Under the new formula grant system, the capital financing element is included in the Council's relative needs factor and there is now less certainty about the amount of grant that finally finds its way through to the Council. This is particularly true for authorities on the grant floor in that the revenue grant support for capital borrowing will be added to the formula but will not result in any actual additional cash being received by the Council. As the table above shows for Haringey this is largely in respect of spending within the Children's Services and the capital programme for schools. The additional revenue cost of this in 2009/10 is approximately £0.6m. The funding of capital by government grant is the most preferred.
- 16.5 The strategic context for **housing** is the investment gap to deliver against the **decent homes** target. Homes for Haringey successfully achieved two stars in the inspection last year and duly a letter from DCLG announcing the release of decent homes funding was received a year ago. This amounts to a total of £198.579m against a bid of £231m above existing funding streams. This includes £11.4m for environmental improvements. Confirmation was received that the funding would be in place for the first three years of £59.99m (up to 2009/10) and that subsequent years were indicative allocations:

Year	Allocation £m
2007/08	6.990
2008/09	23.000
2009/10	30.000
2010/11*	40.000
2011/12*	44.000
2012/13*	41.589
2013/14*	13.000
	198.579

**indicative*

- 16.6 The **procurement framework agreements** were set up in advance of the notification last year and this has enabled significant progress to be achieved in the contractor partners delivering the decent home works in accordance with the funding profile. The government announced in the pre-budget report that some decent homes funding is to be brought forward, although details of this and the implications are not fully known as yet. The contracts the Council has in place would enable Haringey to bring this work forward fairly easily as well as add to the promotion of economic activity during this difficult economic period.

- 16.7 Works to **leaseholder** properties are above the funding figures set out above. These will be funded by leaseholder contributions in accordance with the policy recently approved by Cabinet on 15 July 2008 in respect of major works charging arrangements. This may require some temporary financing by the Council the revenue impact of which will be met by the HRA.
- 16.8 The other elements of the housing capital programme include substantial sums for aids and adaptations for Council properties, lift improvements and boiler replacements. The programme for housing also includes a higher proportion of works on planned and preventative maintenance works. The subsidy determination includes an increase in the major repairs allowance of £0.826 to £12.407m as a result of the three year average building cost adjustment.
- 16.9 For **children and young people's services**, the key strategic issues are in respect of the **Building Schools for Future (BSF)** programme (including the new 6th form centre) and the primary capital programme. A total of £212m is planned to be spent on BSF (made up of £188m of mainstream central government resources, £10m from the Learning Skills Council contributing towards the cost of the new 6th form centre, schools contributions towards the ICT contract, a specific capital receipt and revenue contributions from the DSG).
- 16.10 The new **6th form centre** has already been successfully delivered, on time and on budget, as an early part of the BSF programme. The final capital cost of this project is £28m. Nearly £73m is planned to have been spent by the end of this financial year with a further £99m in 2009/10 thereby delivering a significant proportion of the improvements in that time.
- 16.11 The funding announcements for 2009/10 and beyond are known following the CSR07 and final notification in November 2007. The basic need **formulaic funding**, plus funding for modernisation and access is included in the programme at £5.855m in 2009/10.
- 16.12 In previous years the major capital investment in the primary estate has been arising from the new places funding and allocated to **pupil place expansion** schemes at Coldfall, Tetherdown and Coleridge schools. The works for Coldfall and Tetherdown have been completed in 2008/09 with the final elements for the Coleridge expansion to be finished in early 2009/10. These investments are within the revised budgets approved for the schemes.
- 16.13 In future the government plans to invest differently in the primary estate under its new **Primary Capital Programme (PCP)** and investment will be guided at a local level by the development of a Primary Strategy for Change (PSfC). The DCSF approved the Council's PSfC 'with modifications' recently thereby releasing the £12 million of resources in 2009/10 and 2010/11. A response on the modifications is required by DCSF by March 2009.
- 16.14 The PSfC demonstrates a joined up approach to capital investment and includes considerable pooling of the PCP resources with those for extended schools, children's centres, targeted capital financing, harnessing technology and devolved formula capital. Resources will also be targeted via the

Education Asset Management Plan (AMP), which is due for review in the very near future. It is proposed the main elements of the £12m will be targeted towards:

- contribute towards the inclusive learning campus at Broadwater Farm;
- improvements at Mulberry School;
- suitability and condition works at Rhodes Avenue, and;
- autism provision in the West of the borough.

16.15 In respect of the planned **inclusive learning campus** at Broadwater Farm, in December 2007 Cabinet agreed the school organisation proposal that allows Moselle and William C. Harvey special schools to be reorganised into a primary and secondary special school. The secondary special school is under development as part of BSF at the Woodside High site. This is now included in the provision outlined above.

16.16 The requirements for **streetscene** were set out in the Local Implementation Plan, which was agreed by the Cabinet on 20 March 2008 as a draft (final version delegated to the Cabinet Member for Environment and Conservation and Director of Urban Environment) and submitted to the Mayor as a bidding document. A letter from **Transport for London** (TfL) on 20 November confirmed the grant approval of £3.77m compared to the total bid for 2009/10 of £7.96m. The grant approval is a reduction of £1.59m (30%) on 2008/09. The overall resource increase across London was 4.3%. Some of the reductions against the actual position last year reflect the one-off nature of some bids last year including sums for town centre schemes and bridge assessment and strengthening. There are also reductions against schemes for cycling and school travel plans where increases were achieved last year, but this was not sustained for 2009/10. A general sum of £100k has been allocated to all boroughs to be spent on the transport priorities of their choice. TfL are also going to consider using a funding formula rather than the current annual submission and assessment process.

16.17 The **regeneration** strategy is supported by growth area funding from the government. The Council has been successful in securing £6.912m of capital resources for 2009/10 and 2010/11 in addition to the £4.0m already achieved in 2008/09. Bids to the DCLG were over-subscribed by 3.5 times, the Council's bid for this round was £16.7m. Further bids have also been made to the Community Infrastructure Fund the results of which will be available sometime in February 2009. These resources are not included in this original capital programme, but a report will come to Members in due course.

16.18 The utilisation of **corporate resources** for capital investment has been considered through the pre-business plan reviews. The process for appraising bids for corporate resources include how investments support the community strategy priorities and the asset management plan. The proposed schemes, attached in detail at appendix H will give an overall utilisation of corporate resources as follows:

	2009/10 £'000	2010/11 £'000	2011/12 £'000	Total £'000
Estimated resources available	(14,800)	(7,120)	(10,100)	(32,020)
Proposed expenditure	15,537	7,872	8,255	31,664
In year (surplus)/deficit	737	752	(1,845)	(356)

16.19 The position for **capital receipts** is difficult to predict in the current economic conditions. Although 2007/08 ended with a surplus of receipts above the target the situation in the property market have worsened significantly in the last year with property values reducing and likelihood of sales also diminishing. In the current year usable receipts from right to buy sales is likely to be £0.5m, which is substantially below estimate of £2m. In overall terms the 2008/09 position will balance, but in future years the predictions are more uncertain. The estimated position includes:

- right to buy receipts of £2.25m over three years, down from £6m previously;
- strategic sites to deliver £8.75m compared to £16m over the previous three year period, and;
- other receipts of £12m including the sale of a number of surplus hostel properties.

16.20 In overall terms the amount of capital receipts predicted over the planning period amounts to £26m. This is significantly reduced when compared to the £43m estimated to be available a year ago. This is due to the difficult economic conditions and their impact on the property market. This is highlighted in the strategic disposal for Hornsey depot where the developer has not being able to follow through with the original offer and the scheme is being reviewed.

16.21 **Other corporate resources** have been identified as follows:

- approved revenue contribution for capital financing from the 2008/09 budget process of £2.6m, and;
- a one-off contribution from the excess available in the insurance reserve of £3m.

16.22 The commitment to the proposed programme of investment relies on achieving these disposals at the required values and any significant variation to this may require a review of the spending commitments at the appropriate time. It is proposed the shortfalls in the first two years shown in the table above that add up to £1.5m can be managed through the financing reserve.

16.23 The capital investment package delivered from corporate resources as proposed will contribute significantly to the **Council's priorities**. The process for proposing these investments has considered the respective asset

management plans as well as the improved service outcomes. A number of projects are also providing match funding to lever in significantly more external funding, subject to those external processes. In addition, significant capital expenditure will have regard to the Council sustainable procurement policy agreed in 2008. The priorities supported most by this programme are:

One of London's greenest boroughs

- additional investment in expanding and improving recycling services;
- the continuation of the tree planting programme.

Better Haringey: cleaner, greener and safer

- bringing forward of significant investment in street lighting (£2m in 2009/10 - £1m above previous levels);
- increased investment in roads, footways, bridges and structures;
- new investment in green flag parks and open spaces.

Encouraging lifetime well-being, at home, work and play

- continued investment in the strategic renewals of leisure centres, and;
- new investment in outdoor sports facilities.

Promoting independent living while supporting adults & children when needed

- significant ongoing capital investment to provide aids and adaptations to support vulnerable people living at home.

16.24 Although there are significantly less resources available the programme that is recommended provides a balanced approach to investment and achievement of the Council's priorities.

16.25 There is an assumption of a small amount of **prudential borrowing** in the proposed programme. This is mainly in respect of the previously approved scheme for investment in Leisure facilities where the borrowing costs are offset by additional income or expenditure savings. Investment options in other schemes that rely heavily on increasing fees and charges significantly have been withheld at this time (cemeteries and allotments) and will be the subject of further review in due course. In all cases any proposals need to meet the approved Council's policy on passing the affordability test where the cost of borrowing is being met by additional revenue income and or expenditure savings.

16.26 A number of schemes the Council is progressing are reliant on capital receipts being delivered near the end of the process. It is proposed that some short term temporary prudential borrowing is undertaken to facilitate this and to ensure that receipts are maximised when market conditions are improved. The revenue costs of this borrowing will be contained within the project budgets and therefore will not be a call on the level of council tax. This relates to a limited number of projects that Cabinet have already approved plans to progress, namely:

- the accommodation strategy;
- Hornsey Town Hall, and;
- Marsh Lane strategic waste depot.

17 Treasury management strategy

- 17.1 The Council is required to consider an annual Treasury Management Strategy under the CIPFA Code of Practice on Treasury Management, which was adopted by the Council in May 2002.
- 17.2 The Local Government Act 2003 requires the Council to have regard to the Prudential Code and to set prudential indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The CIPFA Prudential Code came into effect on 1 April 2004. The key objectives of the code are to ensure:
- capital investment plans are affordable, prudent and sustainable;
 - treasury management decisions are taken in accordance with good professional practice; and,
 - fulfilment of the above objectives by setting out prudential indicators that must be set and monitored.
- 17.3 In line with the suggestion in the ODPM's investment guidance we have combined the Treasury Strategy Statement and Annual Investment Strategy into one document. This is set out in full in Appendix K and includes the proposed prudential indicators for 2009/10 to 2011/12.
- 17.4 The strategy is based upon the Council's Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's external treasury advisor, Sector. The strategy covers:
- treasury limits for 2009/10 to 2011/12, which will limit the treasury risk and activities of the Council;
 - prudential indicators
 - the current treasury position and borrowing requirement;
 - prospects for interest rates;
 - the borrowing strategy;
 - the extent of debt rescheduling opportunities;
 - the Annual Investment Strategy 2009/10;
 - the Minimum Revenue Provision (MRP) strategy;
 - any extraordinary treasury issues.

Capital Financing

- 17.5 The proposed authorised limits for external debt in 2009/10 to 2011/12 are consistent with the authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of the most likely forecast position, but with sufficient headroom over and above this to allow for operational cash flow management.
- 17.6 In the Council's 2009/10 to 2011/12 budget plans the capital programme is mainly based on the amount of supported borrowing and grant from central government and a projection of potential capital receipts. There is an

assumption of a small amount of prudential borrowing in the proposed programme that will be funded within available resources. There is no increase in council tax or housing rent to fund a higher level of expenditure above the level of resources available.

- 17.7 The **capital financing requirement** (CFR) is planned to increase in 2009/10 by £36m as a consequence of the capital programme proposed. The net borrowing will be funded within the supported resources available.
- 17.8 The increase is mainly as a result of the additional supported investment in respect of **decent homes** – £59.99m up to and including 2009/10. The capital investment in housing stock, which could potentially release £199m from central government, is assumed to be financed by supported borrowing. The impact of supported borrowing in revenue terms will be charged to the housing revenue account. The cost of borrowing should be met by actual government support through housing subsidy although this will be kept under close review.
- 17.9 For children and young people's services, the key strategic issues are in respect of the **Building Schools for Future** (BSF) programme (including the new 6th form centre) and the primary capital programme. A total of £212m is planned to be spent on BSF (made up of £188m of mainstream central government resources, £10m from the Learning Skills Council which contributed towards the cost of the new 6th form centre, schools contributions towards the ICT contract, a specific capital receipt and revenue contributions from the DSG).
- 17.10 In future the government plans to invest differently in the primary estate under its new **Primary Capital Programme** (PCP) will be guided at a local level by the development of a Primary Strategy for Change (PSfC). The DCSF approved the Council's PSfC 'with modifications' recently thereby releasing the £12 million of resources in 2009/10 and 2010/11. It is assumed this will be funded by grant.
- 17.11 There is a new statutory duty and new guidance from the government requiring local authorities to agree a statement on the Council's policy for its annual **minimum revenue provision** (MRP) and that this should be submitted to the Council for approval before the start of the financial year to which the provision will relate. This is in respect of the revenue financing of capital expenditure and making a prudent provision to redeem its debt liability over a reasonable period. The proposed policy is included in Appendix K.

Investment policy and strategy

- 17.12 Local authorities are required to agree an **investment policy and strategy** and this is included in appendix K. Council's like all other large organisations have to manage their cash-flow position and this provides the guidance framework for that. The Council's cash inflow of government grant, fees and charges, capital receipts, council tax and business rates does not always match the expenditure requirement and therefore at times the Council holds significant cash surpluses. The Council will also be holding sums in reserves and balances at any one time. Interest is earned on these cash deposits in line

with the investment policy and strategy and contributes to keeping council tax rises lower than they would otherwise be. Like other Council's credit rating agency information is utilised in investment decisions as well as the use of external advisers. The Council uses Sector for its treasury management advice, but has also consulted with other advisors in considering this revised policy.

17.13 The recent events in the banking and financial sector has had a dramatic impact on investment issues as well as the overall economic outlook. These issues have been referred to as the **credit crunch**, which began in the United States housing market as significant levels of sub-prime mortgages defaulted in a falling housing market that lead to repossession of assets worth significantly less than the loans. Banks became reluctant to lend to each other as concerns rose to their levels of exposure to these bad assets. Lending restrictions spread globally as banks became more aware of their exposure to this, either directly or through more complex financial instruments. This also started to filter through to general economic conditions with credit being squeezed. A number of bank failures in the autumn, including the Icelandic banks, led to governments stepping in to provide guarantees and additional capital to protect the banking sector from total collapse.

17.14 Following the Icelandic bank position in October 2008, an immediate review of external advice and internal procedures was carried out and a number of changes were made. A **risk assessment of existing deposits** was also carried out and it was agreed that no further deposits would be made in non-UK banks. This would reduce further short term exposure to foreign markets even where there were government guarantees or funding support in place. An independent **external review** of treasury management arrangements has also been carried out by Price Waterhouse Coopers.

17.15 A number of changes are now recommended to the annual **investment policy and strategy**. The proposed changes are designed to protect the Council from further exposure in the current market conditions by restricting and lowering risk in the strategy. Additional external advice has been taken in revising this strategy as well as using contributions from Price Waterhouse Coopers who are close to finalising their review. The key measures are in terms of:

- restricting the use of fixed term deposits to only the main UK banks and one building society on the UK Government Guarantee scheme;
- increasing the minimum long term and short term ratings for these individual institutions (AA- and F1+, from A and F1);
- increasing the use of AAA rated government backed securities and bonds.

17.16 In addition a number of process improvements will be implemented. These are designed to strengthen capacity and procedures in this area given the current and continued volatility in market conditions. These include the consideration of additional wider market information when making investment decisions include data such as capitalisation levels and credit default swaps; and the development of additional in-house capacity supplemented by additional

independent advisors, thereby not relying fully on rating agency information and current levels of external advice.

- 17.17 Institutions on the rating agency lists sometimes get placed on 'negative rating watch' or 'outlook'. Whilst a blanket approach to not placing deposits with institutions with this flag is preferable, it is proposed that individual assessment and consideration is carried out at a senior level before any investment decision is made. This will apply to the individual rating of the institution too. This will take into account other factors such as government support and level of existing rating. The Chief Financial Officer will consider these assessments.
- 17.18 The details of the strategy are shown in appendix K. The operation of the strategy by officers is guided by the treasury management practice and procedure documents, which will be updated in line with the revised policy.

18 Council tax

- 18.1 The planning assumption following the conclusion of the 2008/09 process was that the **council tax** would increase by 3% in 2009/10 and each year thereafter. This is within the majority group Manifesto commitment of council tax increases not being more than 3%. Members will be aware that Ministers wish to see council tax increases of 'substantially below 5%' as stated with the announcement of the draft revenue support grant settlement.
- 18.2 Ministers made use of **capping powers** in respect of the budget decisions of a number of authorities for 2008/09. The powers are framed in terms of both tax and budget increases and can take account of a number of years. The specific criteria for application of capping powers is within Minister's discretion and the Minister has written to all authorities reiterating his willingness to use these powers again this year if necessary.
- 18.3 The position with regard to the Council's **tax base** for 2009/10 has been considered and approved by Council on 19 January 2009. This is broadly in line with the government return. Changes have been made to the discount for second homes in the borough reducing it to the minimum allowed of 10%. It was also agreed that the collection rate remains unchanged at 96%. In respect of the position on the collection fund it is considered that any projected surplus or deficit at this stage is not significant enough to impact on the levels of council tax.
- 18.4 Appendix A to this report shows a **general fund budget requirement** generated by the various factors set out in this report and the Cabinet's budget package at £408.834m. The final budget requirement is subject to:
- changes in resources arising from the finalisation of the local government finance settlement;
 - the determination of funding requirements by the various precepting and levying authorities.

The council tax for 2009/10 will be set formally by Council on 23 February. Members have expressed a wish to minimise council tax increases for local

residents, particularly in light of the current economic conditions, which are predicted to last all through 2009/10.

- 18.5 The proposed budget for 2009/10 assumes a **council tax increase of 1.95%**. The financial strategy continues to assume 3% in future years although this will be reviewed again next year in line with Members' priority to reduce this if possible.
- 18.6 The Council's current plans usually assume that any increase in the GLA precept will be passported through to taxpayers. The Mayor is consulting on a nil increase in the precept for 2009/10, which would give an overall band D increase of 1.5%. The GLA base precept includes £20 at band D from 2006/07 for 10 years to contribute towards the 2012 Olympics. There is no further addition to this in 2009/10.

19 Key risk factors

- 19.1 The management of risk is a key part of the Council's business and budget planning processes and is fully reflected in the pre-business plan reviews. The risk management strategy together with the cascading risk registers are reviewed on a regular basis and the budget management process linked to performance and people management needs to remain challenging and robust in order to be able respond effectively to any issues that arise. The consideration of the financial impact of risks is a key part of the budget setting process and the consideration of reserves are an important part of setting out how well the Council can deal with risk issues as they arise.
- 19.2 The Council's **financial reserves** are a key determinant of financial strength and standing. Our reserves position remains strong, continuing to attract a good assessment by our external auditors. This financial strength plays a vital part in enabling the Council to respond vigorously to the strategic and performance agendas whilst managing the financial risks inherent in the operation of a large and complex organisation without immediate disruption to services or future plans. The current policy and plans allow for general balances to be maintained at the target level of £10m over the period and there is a separate risk reserve of £10m. Planned use of the general balances in 2008/09 will be reimbursed in 2009/10. Formal reporting on the adequacy of reserves, as part of the Chief Financial Officer's statutory duty, will be done as part of the final tax setting report to Council on 23 February 2009.
- 19.3 The most significant financial risk factors are:
- the review of **Children and Families Services** and its recommendations must be responded to by the end of February. The requirement is to report to the Secretary of State with an action plan addressing the recommendations. The new Director for Children and Young People's Services will lead a corporate project team to take this work forward. The full implications of the resource requirements net of any new government resources being available will need to be factored into the budget process at the Council meetings in February;

- managing the demand for **adult social care** is a challenge and current budget plans already include growth for increasing volumes. It is planned to review the current arrangements for commissioning strategies in the near future including the joint arrangements with our partners in the health service, however, the position on demand remains a relatively volatile one and therefore is still considered a high risk area;
- the position in respect of **homelessness** direct costs is set out in paragraph 9.3 of this report. The high number of clients is starting to reduce, however there is still significant demand for housing in Haringey and there is still a need to meet the government reduction targets. There is still considerable uncertainty associated with the subsidy regime in the future and this will remain a key financial risk for the Council. Previous year's underspends on this service have been set aside in an earmarked reserve to assist in dealing with any significant impact;
- the funding arrangements for **asylum seekers** still remains unsatisfactory in respect of adults without recourse to public funds effectively relying on local authorities to provide accommodation and subsistence where all other claims have failed. This issue may increase in size as previously grant attracting child asylum cases become adults who attract less or no grant at all. This is at the expense of the local taxpayer and although some authorities have tried to mount legal challenges against this position these have not been successful. Special arrangements are now in place with officers from the Home Office working directly with Council officers to resolve a back log of asylum cases and the current budget plans assume a saving in costs in 2009/10 as a result of these actions;
- **waste disposal** costs are budgeted to increase over the next three years in line with NLWA projections including known tax increases. The plans for the major procurement to secure new long term recycling and environmentally sound disposal facilities are underway with an outline business case for PFI now having been submitted. As reported to Cabinet this will have significant cost implications for all of the member boroughs within the next decade. There are still immediate risks as the balance of costs favours moves towards those with better recycling performance and that the costs of the long term procurement needs to be contained within the existing plans;
- the budget position in respect of the **pension fund** reflects the 2007 actuarial review and although the Council is on target with its recovery plan, the investment returns are subject to considerable volatility given the current situation in the financial markets. A provision has been added in these plans and the governance arrangements for monitoring investment performance will play an important part in maintaining the current stability in respect of this;

- the **economic downturn** and likely recession is likely to impact on the council in a number of ways. This may be in the form of higher demand for Council services, such as homelessness or housing benefits; to reductions in revenue income for demand led services, such as building control or leisure centres. If service departments are unable to manage these pressures within their existing resources then they may call on the general contingency that has been set aside in the base budget. If this is not sufficient then this could be supplemented on a temporary basis by using reserves if necessary;
- one of the known areas of impact of the current financial climate is on **interest earnings** from cash deposits. The Council has exposure to the deposits made in Icelandic banks and the recovery of this is being managed through the respective administration processes now underway. The global banking sector is under significant pressure and governments around the world are attempting to prop up their main national banks. The Council's revised treasury management strategy incorporates measures aimed at lowering risk. The Council's interest earnings in respect of this will also be reduced, but the recent dramatic and significant reductions in the bank base rate (5% to 1.5% in the space of a few months since October 2008) will have a much more marked effect. The estimated impact of this is to reduce earnings on deposits by about £2m in a full year. It is envisaged that this can be managed within the overall treasury management budget in 2009/10 and from surplus earnings in the current year, which would need to be put in the financing reserve, however, if these rates are sustained over a long period or there are further significant rate reductions then this position will need to be reviewed;
- there is a significant level of planned **savings** that underpin the medium term financial strategy, the delivery of which will need to be specifically monitored through the budget management process and through the existing risk management strategy and project management framework. The project management framework will also be used to deliver the Achieving Excellence programme. The target £5m budget savings over this year and the next two years will require significant corporate effort to ensure this is delivered and will need to be managed closely through these project governance arrangements;
- the **supporting people** programme is a key area of service delivery for the Council with grant funded expenditure of £20.7m in 2008/09. Haringey's allocation is being reduced by £1m (5%) each year for the next two years. Such reductions were not unexpected, and plans are in hand to manage the impact on the level of services which can be commissioned. This will need to be managed through the area based grant from 2010/11 onwards. There is a risk of larger reductions in later years as the consultation on allocating grant on a formula basis continues;

- the long term future of **Alexandra Palace** will be the subject of further consideration and consequently the Council's financial support to the Charity. The commercial operations have now been re-invigorated with a more business like approach although the economic downturn may have some impact in the coming year. The issue of dealing with the long term future of the palace will also need to be resolved and any one-off resource requirements for this will need to be considered in due course;
- the position on **capital receipts** is of significant risk in the coming year as the property market conditions continue to worsen. Although the proposed programme takes a prudent view of receipt income Members will need to be ready to respond to any further significant downturn by reviewing the programme in year if necessary;
- the **HRA** medium-term strategy requires further significant revenue savings to be delivered together with some new demands for repair services. This will need careful planning and delivery by Homes for Haringey and the Council's client function. The timing and final quantity of capital resources being secured for the decent homes investment following the achievement of two stars in the inspection is still a risk as only the first £60m is confirmed. The arrangements for implementation of the this investment is also a key factor that will require close monitoring and control against the approved plans, and;
- the **BSF** programme is entering a critical phase with many of the designs now coming to fruition and contractors prices being crystallised through the procurement process. Contingency has been set aside within the BSF programme to allow for variations that arise and delivery of these projects will need to be carefully and effectively managed to ensure value for money and delivery within time and budget.

20 Summary and conclusions

- 20.1 This report sets out the Cabinet's general fund budget proposals for 2009/10 and the plans for the subsequent two years. The budget is balanced with plans for significant levels of savings proposals, the draft grant settlement position and a council tax increase of 1.95% in 2009/10.
- 20.2 The plan for the HRA is balanced within the ringfenced resources available.
- 20.3 The DSG financial plans, as agreed with the School's Forum, provides an overall balanced position that includes a number of policy led changes.
- 20.4 A reduced capital programme is proposed in line with asset management plans and the existing policy framework for resource allocation.

21 Equalities Implications

- 21.1 Equalities implications are considered through the business planning process and are a specific consideration within the pre-business plan reviews. A detailed equalities impact assessment has been carried out on the final recommended budget package and the issues and mitigating actions will be incorporated in the final individual detailed business plans for April 2009.

22 Comments of the Head of Legal Services

- 22.1 The Head of Legal Services confirms that this financial planning report is part of the budget strategy and fulfils the Council's statutory requirements in relation to the budget.