



Council

On 23 February 2009

Report title:	Financial planning 2009/10 to 2011/12
Report of:	Chief Financial Officer and Director of Corporate Resources
Wards affected:	All
1. Purpose 1.1 To agree the final budget and council tax for 2009/10.	
2. Introduction by Cabinet Member for Resources 2.1 Having regard to various reports which were subsequently approved by Council and the budget debate at Full Council on 9 February, this report finalises the budget for 2009/10 and the Council Tax as set out in the relevant appendix. I commend the report and recommendations as set out to Council for final noting and adoption.	
3. Recommendations 3.1 To note the final settlement and agree the way forward as outlined in the report in respect of the budget changes agreed at Council on 9 February, the position on levying authorities and the late additional specific grants. 3.2 To agree the proposal and provision in respect of children and families as set out in paragraphs 8.16 and 8.17. 3.3 To agree the business unit cash limits set out in appendix C. 3.4 To note the Greater London Authority precept. 3.5 To agree the reserves policy attached at appendix E. 3.6 To pass the budget resolution in the specified format as set out in appendix F and the consequent increase in council tax of 1.95%.	

<p>Report authorised by:</p> <p style="text-align: center;">Gerald Almeroth, Chief Financial Officer</p>
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<p>4. Executive Summary</p> <p>4.1 This report finalises the 2009/10 budget and council tax. The budget is recommended as previously approved. The Haringey element of the council tax is proposed to increase by 1.95%.</p>
<p>5. Reasons for any change in policy or for new policy development (if applicable)</p> <p>5.1 The budget is designed to deliver the Council's existing policy framework.</p>
<p>6. Local Government (Access to Information) Act 1985</p> <p>The following background papers were used in the preparation of this report:</p> <ul style="list-style-type: none"> • Report of the Director of Corporate Resources and Chief Financial Officer to Council on 9 February 2009 • Final Local Authority Finance Revenue Support Grant for 2009/10 <p>The final local authority finance settlement is accessible at:</p> <p>http://www.local.communities.gov.uk/finance/0910/grant.htm</p>

7 Background

7.1 Council on 9 February 2009 agreed the general fund budget and a total budget requirement of £408.834m including dedicated schools grant. This was subject to the decisions of levying and precepting authorities.

7.2 This report considers:

- the final settlement and other changes;
- decisions of levying and precepting authorities;
- the robustness of the Council's budget process, and;

- the adequacy of the Council's reserves.
- 7.3 The report concludes by presenting the budget resolution to set the council tax for 2009/10.
- 7.4 The report is supported by five appendices:
- appendix A sets out the gross budget trail;
 - appendix B tracks the resource shortfall over the budget process;
 - appendix C sets out the service cash limits;
 - appendix D estimates the potential financial impact of known risks;
 - appendix E sets out the reserves policy, and;
 - appendix F is the formal budget resolution.

8 Key developments

8.1 Final settlement and other changes

- 8.1.1 The final settlement was announced on 21 January 2009. It confirms the proposals as per the consultation in the provisional settlement announcement on 26 November 2008. The formula based revenue support grant figures are the same as previously reported in the three year settlement issued in 2008/09. There are a number of changes in specific grants that have a small impact and the most significant items are in the following two paragraphs.
- 8.1.2 The Local Authority Business Growth Incentive (LABGI) scheme was in its third year in 2008/09 and was the final year of any significant grant payments. An amount of £100m was held back following legal challenges by a small number of local authorities on the methodology used for the first two years. The government announced the provisional release of this sum on 4 February 2009 and the Council's allocation from this is £270k. The consultation period on this ends on 19 February. It is recommended that this is added to the contingency on a one-off basis for 2009/10.
- 8.1.3 The Chancellor's pre-budget report 2008 announced that the government were setting aside resources over the next two years to ensure support services for the unemployed can still be delivered effectively during the economic downturn. This included funding for additional administration costs to respond to additional work load of council tax and housing benefit claims. The Department of Work and Pensions have stated that this must be used solely for this purpose. The amount of additional grant for Haringey in 2009/10 is £310k. This has been added to the contingency budget to be allocated in due course.
- 8.1.4 At the Council meeting on 9 February 2009, Members agreed two amendments to the budget. These were investments for Environmental Enforcement of £160k per annum and a continuation of the £100k for 2009/10 in respect of investing in the Child Poverty strategy. These are added to the budget and funded from the contingency line. Overall, the contingency line remains at over £2m in the base budget over the next two years.

- 8.1.5 As previously reported the final cash amount for dedicated schools grant (DSG) will not be known until the formal January pupil count is completed. Early indications are that this shows a slight reduction in pupil numbers. A budget adjustment will be proposed when the final figures are confirmed.
- 8.1.6 Members are aware of the special circumstances in respect of the service for children and families and the need to consider additional resources at a late stage in the budget process as reported to previous meetings of the Cabinet and Council. A provision is set aside in the 2009/10 budget in this report to meet the estimated resource requirement of implementing the draft children and families action plan following the joint area review inspection. This is an estimated provision based on the initial work done to date and represent figures towards the top of the range. The final action plan is due to be submitted to the Secretary of State by the end of February. A provision of £4.2m is included, partially offset by an assumption of use of external grants and contributions, giving a net cost of £2m to be funded by a one-off contribution from balances in 2009/10. In 2010/11 and onwards savings will need to be identified to offset this additional cost.
- 8.1.7 When the final action plan is agreed it will be necessary to review the detailed resource requirements against the timescales and plans. The provision also includes an increased element for a higher level of looked after children in 2009/10 based on the latest estimates.

8.2 Levying bodies

- 8.2.1 The Board of the North London Waste Authority met on 11 February 2009. The levy for household waste plus the non-household waste disposal cost has increased for Haringey by 18% in overall terms for 2009/10. The overall cost of the NLWA funded by the boroughs has increased by 15%. This is slightly below the level previously reported in the budget process. The NLWA budget proposals report further above inflation increases in the following years again slightly below the provisions set aside in the Council's financial planning. It is recommended that no adjustments are made at this time and the position will be reviewed in the budget process next year.
- 8.2.2 The levy from the London Pensions Fund Authority in respect of residual employer liabilities is to increase by an estimated £110k (27%) in respect of the pension fund deficit as reported previously. There is a consultation being carried out on this, which will report later this month. A prudent approach has been adopted and the full provision is included. Other levies have not increased significantly above inflation. It is proposed that overall the increases in levies can be managed within the proposed agreed budget.

8.3 The Greater London Authority precept

- 8.3.1 The Greater London Authority (GLA) set its precept on 13 February 2008. The band D rate set by the GLA is £309.82, which represents a freeze on the precept for the current year and is in line with the GLA consultation as reported to Members previously.

8.4 Consequential changes

- 8.4.1 The overall impact of the above factors is that the Council's total budget requirement is amended slightly to £408.833m. Of this it is estimated that £165.575m of this will be funded by the dedicated schools grant leaving a net budget requirement of £243.258m.
- 8.4.2 The Haringey element of the band D council tax is £1,184.32 (an increase of 1.95%) and the overall band D council tax, including the GLA precept, is £1,494.14 (an increase of 1.5%). The final budget trail and resource shortfall tracker are at appendices A and B respectively.
- 8.4.3 The Council operates a medium term financial planning process and therefore considers draft budgets and council tax levels for the years 2009/10 to 2011/12. Those budgets are shown as balanced, but include a significant level of target savings, which will need to be delivered over the period.

9 **Robustness of the budget process**

- 9.1 The Chief Financial Officer is required by section 25 of the Local Government Act 2003 (the 2003 Act) to report on the robustness of the estimates made for the purposes of final budget calculations.
- 9.2 The Council's budget process is defined at the strategic level by the Council's key priorities aligned to the Community Strategy. These priorities are given effect in the Council Plan through the business planning process. The business planning process is underpinned at the detailed level by a pre-business plan review (PBPR) for each business unit.
- 9.3 In the planning process this year the PBPR's covered:
- vision and progress on current objectives;
 - financial and service performance in the current year, including where services stand on demonstrating value for money in line with our matrix of performance, efficiency and perception;
 - progress on the implementation of agreed efficiency savings and impact of previously agreed investments;
 - monitoring of risks through our risk management process;
 - external factors and influences, including new legislation, national policy or demographic changes;
 - other key management issues, including customer focus and SMART working issues around people planning, technology and physical assets;
 - new strategic service objectives for 2009/10 and the following two years against Council priorities, and;
 - new efficiency savings and investment proposals.

The draft documents were subject to detailed review at officer and Cabinet Member level including at internal budget challenge meetings before the wider public consultation process.

- 9.4 The PBPR's were considered in the budget scrutiny process at Overview and Scrutiny Committee and were the basis for wider consultation on the budget options. They were then used to derive the Cabinet's budget proposals for 2009/10.
- 9.5 The PBPR process is complemented by the regular cycle of budget management and performance review. This involves detailed monthly evaluation of budget and performance information at both officer and Cabinet Member level. The Council's risk management process also underpins, and is reflected in, all the above activities. The final budget package was the subject of an equalities impact assessment the results of which will feed into the final business plans for implementation from April 2009.
- 9.6 The product of these analyses and review activities were summarised in the report to the Council on 9 February, which agreed the Council's budget (subject to the final matters set out in this report). That report also set out the major financial risk areas, which needed to be taken into consideration. The Chief Financial Officer is satisfied that the above constitutes a robust process for the derivation of the calculations set out in this report.

10 Adequacy of reserves

- 10.1 Section 25 of the 2003 Act also requires the Chief Financial Officer to report on the adequacy of proposed reserves. To ensure that resource decisions are soundly based and consistent, the reserves policy is appended for approval.
- 10.2 In consideration of the reserves position, it is first necessary to consider budget management information in respect of the current year. The report of the Chief Executive to the Cabinet meeting on 24 February 2009 is projecting a net overspend of £1.2m for general fund revenue services, a projected underspend of £0.4m on DSG and a balanced position on HRA. There was also a projected capital underspend of £8.4m mainly in relation to Building Schools for the Future. The general fund revenue overspend relates mainly to Children's Services and this has been taken into account in the budget plans.
- 10.3 The report to Cabinet also notes that the Council is performing well with 84% of the 94 indicators achieving or close to target at the end of December.

10.4 The following paragraphs comment on each of the reserves:

10.5 General fund general reserve

10.5.1 The judgement on the adequacy of the general fund general reserve needs to reflect the risk management and financial control processes that are in place, and the residual risk of emergencies or unexpected events. For this purpose identification of the key risks is done in three ways:

- identification of risks during the financial planning and budget setting process as set out in the report to Council on 9 February 2008;

- risk assessment of the agreed investment and savings proposals in the agreed budget package, and;
- key risks identified, monitored and managed through the Council's risk management strategy and included in the latest corporate risk register.

10.5.2 The calculation of the potential financial impact of these assessed risks has been done and in the light of this, it is regarded that £10m is an appropriate target level for the general fund general reserve over the three-year financial planning period combined with the £10m risk reserve as shown below. The risks set out in appendix D assess a potential financial impact at £19.6m; the Chief Financial Officer therefore regards the £20m as a prudent level to set aside.

10.5.3 The £10m target balance for this reserve represents 4% of the Council's net budget requirement for 2009/10.

10.6 HRA reserve

10.6.1 The judgement on the adequacy of the HRA general reserve needs to reflect the risk management and financial control processes that are in place, and the residual risk of emergencies or unexpected events.

10.6.2 In the light of this, £5m is regarded as an appropriate target level for the HRA general reserve over the three-year financial planning period. There is significant growth of nearly £2m in 2009/10 and a future year target of £2m of savings to be identified. The Chief Financial Officer therefore considers this reserve target to be a prudent level. This represents approximately 5% of the HRA turnover for 2009/10, broadly the same as last year.

10.7 Schools reserve

10.7.1 The amount in the schools reserve is a consequence of the funding and spending of individual schools. A proportion of it reflects earmarked funding for future schools projects. The current level of the reserve represents 5% of the schools core funding. The projection for 2009/10 will not be known until individual schools budgets are finalised, which is subject to the pupil count data.

10.8 Services reserve

10.8.1 It is Council policy that service under and over spends are retained by the relevant service subject to approval by the Cabinet in the year end financial outturn report. This reserve earmarks those funds to be carried forward to the following financial year.

10.9 Insurance reserve

10.9.1 The insurance reserve is kept under review by the Head of Audit and Risk Management with the assistance of the Council's insurance adviser. A key variable is the split between this reserve and the level of insurance provision held elsewhere in the balance sheet. An actuarial review was carried out on this reserve and it concluded that this reserve was over-provided. A release

of £3m has been reported to Members in the previous budget reports. The Chief Financial Officer is satisfied that the reserve constitutes adequate protection in respect of the self-insured risk. This self-insurance reserve is in addition to the separately procured insurance with the London Authorities Mutual Limited and other smaller external insurance provision.

10.10 PFI reserve

10.10.1 The PFI reserve reflects the new arrangements following the suspension of services within the PFI contract. The opening figure reflects the remaining element after taking into account the pre-payment previously included elsewhere in the balance sheet. The reserve will be used to manage the lifecycle fund requirements for schools during the suspended services period.

10.11 Infrastructure reserve

10.11.1 The infrastructure reserve is a key financing resource for the programmes of renewal of assets for IT and property. This assists in spreading the costs of core replacement of assets as well as managing asset improvement programmes. It is current policy that revenue and capital underspends in these services are transferred to this reserve for future use. The table below reflects in particular the current phasing of the accommodation strategy.

10.11.2 The infrastructure reserve will remain in place to spread the cost of future infrastructure renewal programmes.

10.12 General fund risk reserve

10.12.1 The risk reserve is specifically earmarked for managing potential risks in light of the product of the Council's risk management process.

10.12.2 This reserve is managed alongside the general fund general reserve as set out above and guards against the financial consequences of the residual risk of emergencies or unexpected events. Future consideration will be given to any potential losses arising from the Council's exposure to Icelandic banks as the administration processes progress. At present there is insufficient information to determine the impairment, but the Chief Financial Officer considers that the level of the overall reserves the Council has as being at a prudent level.

10.13 Financing reserve

10.13.1 The financing reserve is a key tool for managing the impact of financial plans from one year to another. This reserve requires balances to be at different levels year to year depending on the demand as identified through previous and current budget plans. The current year budget process identified requirements for capital financing in 2009/10 in particular. The balance on the financing reserve at 1 April 2009 is estimated to be £12m.

10.14 Debt repayment reserve

10.14.1 This reserve is used to set aside money that the Council has for repaying outstanding debt in the future. The decision on whether this is used to repay debt or utilised for other purposes will be made by Members. The sum included here largely reflects early repayment of a debt to the Council by Middlesex University.

10.15 HRA major repairs reserve

10.15.1 The balance on this reserve represents the amount unspent of the major repairs allocation (MRA) and will be used for future housing capital spend.

Overall

10.16 The estimates of the opening and closing position of the general, HRA and other earmarked reserves for 2009/10 are as follows:

	At April 2009	Change 09/10	At March 2010
General:	£m	£m	£m
General fund general reserve	8	4	12
HRA general reserve	5	1	6
Earmarked:			
Schools	6	0	6
Services	0	0	0
Insurance	12	(3)	9
PFI	4	0	4
Infrastructure	2	(1)	1
General fund risk	10	0	10
Financing	12	(6)	6
Debt repayment	10	0	10
Housing repairs	2	(2)	0
Total	71	(7)	64

The table reflects the planned use of balances for the general fund and HRA as agreed in the financial strategy. The general fund general reserve (balances) is estimated to be £10m in March 2010 and £10m at March 2011. In overall terms the Chief Financial Officer considers the level of reserves for the Council to be adequate in light of the overall arrangements as set out in this report.

11 **Cash limits and budget resolution**

11.1 The net service cash limits for 2009/10 and the formal budget resolution are at appendices C and D respectively. The cash limits shown are before capital charges and overhead allocations.

12 Summary and conclusions

- 12.1 This report finalises the 2009/10 budget and proposes a council tax rise of 1.95%. The level of reserves is also reported and considered to be adequate.

13 Comments of the Head of Legal Services

- 13.1 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.